



MINORITY SHAREHOLDER WATCHDOG GROUP
Shareholder Activism and Protection of Minority Interest
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia • Company No : 524989-M)

MAYBANK - A TIGER CAGED IN RM8.80 BILLION INDONESIAN JUNGLE

Malayan Banking Berhad (Maybank) announced on 29 July 2008 that Bank Negara Malaysia (BNM) had revoked its approval on the proposed acquisition of PT Bank Internasional Indonesia Tbk (BII). The reason given was due to the latest changes of the regulation on Take-Over Rule by Badan Pengawas Pasar Modal and Lembaga Keuangan (Bapepam) which may result in Maybank potentially incurring material losses from the proposed acquisition. Before any potential material losses will be incurred as highlighted by BNM, Maybank informed that it may lose RM480 million deposits should the proposed acquisition deal fall apart according to its reply to Bursa's query on 1 August 2008.

BNM has its very own reason to revoke the approval given earlier. There are investors supporting the BNM's move and dubbed it a "blessing-in-disguise" to Maybank. There are also investors worrying about the future growth of Maybank should the deal fall apart. No matter which camp they belong, their respective rationales could all be founded on valid premises. Quote a wisdom saying from the legendary Benjamin Graham, "Share market behaves like a voting machine in the short term, however it acts like a weighing machine in the long term". Thus far, it seem like the investment community is in favour of the BNM's move as reflected from the share price upward movement since the announcement was made.

While nobody knows for certain now what will be the cost/benefit to Maybank in the proposed acquisition, it should be highlighted that the market capitalisation of Maybank has been slashed by about RM10 billion from the early part of the year's RM48 billion to RM38 billion as at 31 July 2008. Weak market sentiment since March 2008 election no doubt attributed to the weak market performance of Maybank, but the shopping spree embarked by Maybank since March 2008 was getting more negative result from the investing community. The acquisitions since early this year as announced by Maybank include the proposed acquisitions of An Binh Bank of Vietnam, Pakistan's MCB Bank Ltd and BII for RM430 million, RM2.17 billion and RM8.80 billion respectively. It works out to approximately RM11.4 billion in total. One may wonder how could the market value of an acquirer (Maybank) lose the same amount of value in itself close to the equivalent of the amount it pays to acquire? It is also to be noted that in the recent history, Maybank did give away its crown as the biggest financial institution in Malaysia, in terms of market capitalization to Public Bank Berhad for the first time.

It is always the risk management which counts in the long run. Maybank has been prudent and conservative in previous attempts for any inorganic growth opportunities via Merger and Acquisition route but to no avail. But why out of sudden a series of acquisitions come all at once? If it was not because of the financial meltdown in the US financial market and the regulatory requirements of Indonesia, would there be a chance for Maybank to acquire BII from Temasek Holdings?

According to the audited financial statements for the year ended 31 December 2007 of Sorek, the cost of investing in BII is S\$475.26 million. If 51% stake in BII was valued at 1.9 trillion rupiah in 2003 (with current conversion of RM1 = 2,750 rupiah), then the 100% stake in BII, would theoretically be worth about RM700 million.

Barely 5 years later, the valuation of BII has ballooned from RM700 million to RM8.6 billion, which is RM7.9 billion higher or 1129% increase. The 1129% increase is also equivalent to an annual compound growth rate of 64%. Fullerton and Kookmin Bank must be laughing all the way with their bank accounts if this transaction is consummated.

The likely goodwill arising from this acquisition is RM6.5 billion. To give a perspective of how much RM6.5 billion goodwill is worth, it is equivalent to paying 270,833 university graduates at a monthly salary of RM2,000 for one whole year. That's definitely enough to give Malaysian economy a boost.

Investors are not to be blamed for the current market state of Maybank share. They need to be knowledgeable, alert and careful in their investment. It is the management and board's job to convince the investors the picture they are trying to paint and not otherwise. It is not until the investment community sees the potential accretive profits starting to flow from the new acquisitions that the management and the Board have to continue their painting with cautious stroke.

On 7 August 2008, MSWG reiterated its objection to the proposed BII acquisition for the reasons that (1) the price was too high, (2) laggard in going into the Indonesian market and (3) timing was wrong bearing in mind the world-wide financial meltdown and the economic slowdown. MSWG was also of the view that the board and those responsible for the preparation of the terms of the agreement should be held accountable, including their resignation if the final outcome were to prove detrimental to the bank's shareholders.

In an apparent response to MSWG's reiteration, Maybank said in a statement that its board had conducted itself professionally in the best interest of the bank and its shareholders, adhering at all times to standards of good governance and integrity. The proposed acquisition was evaluated and considered by the board as a strategic initiative to strengthen Maybank as a regional bank. This proposal was presented at an extraordinary general meeting (EGM) where shareholders were said to have voted overwhelmingly in favour.

In view of the above developments, a number of pertinent questions arise including:-

1. Would the Board consider the proposed acquisition of BII a must no matter what the price is given the fact that the premium involved was the highest among similar acquisitions before? *It is always good for one to have lofty ambition but at what price?*
2. Were there concrete discussions with/commitments by the relevant Indonesian authorities, particularly Bapepam prior to the execution of the Share Sale Agreement?
3. What is the pay-back period of the proposed investment?
4. How does Maybank propose to treat the Goodwill on Consolidation of about RM6.5 billion should the acquisition proceed?
5. Was there any exit clause contained in the Share Sale Agreement should the required regulatory approvals be not forthcoming? If not, why?
6. When is the dateline which minority shareholders could know of the outcome of the proposed acquisition, particularly the possible loss of the deposit? *According to the Share Sale Agreement, the immediate possible dateline will be 26 September 2008 whereby the SSA shall lapse.*
7. Why was the deposit of RM483.80 million provided for in the annual audited financial statements for the year ended 30 June 2008 bearing in mind that the share sale agreement would only lapse in the year ending 30 June 2009?
8. Who should bear the responsibilities and be accountable should the deal fall apart even though the shareholders gave their consent on the proposed acquisition of BII during the Company's EGM held on 13 May 2008 after taking into account the recommendation of the Board?
9. It is interesting to note that three (3) long-time non-executive directors who are above the age of seventy (70) are retiring and seeking re-election at the forthcoming Annual General Meeting on 25 September 2008. Why are these directors seeking re-election after being in office for a long time? Is there any succession planning for directors including the non-executive holders at Maybank?

The Significant Milestones include: -

November 2003	Acquisition of 51% stake in PT Bank Internasional Indonesia TBK (BII) from the then Indonesian Bank Restructuring Agency for 1.9 trillion rupiah by Sorak Financial Holdings Pte Ltd (Sorak). Sorak is 75%-owned by Fullerton Financial Holdings Pte Ltd (FFH) and the remaining owned by Kookmin Bank. Fullerton Financial Holdings Pte Ltd is in turn a wholly owned subsidiary of Temasek Holdings (Private) Limited.
December 2007	Temasek Holdings Ltd decided to sell-off BII after its attempt to merge Bank Damon and BII failed.
5 February 2008	1 st draft of new take over ruling from Bapepam, the trigger point of mandatory take over rule was increased from 25% to 35%.
26 March 2008	Share Sale Agreement (SSA) entered into by Maybank to acquire up to 100% of Sorak for a total cash consideration of 13.9 trillion rupiah (or equivalent to RM4.8 billion). Sorak owns about 55.6% equity interest in BII.
15 April 2008	Bank Negara Approval was obtained for the proposed acquisition.
22 April 2008	Legal opinion by Assegaf, Hamzah & Partners on the ownership of title to the securities in the foreign jurisdiction. Legal opinion by Rodyk & Davidson LLP on the ownership of title to the securities in the foreign jurisdiction, the enforceability of agreements, representations and undertakings given by foreign counter-parties under relevant laws of domicile and any other relevant legal matters. Report by BNP Paribas on the fairness of the of the total purchase consideration of the Sorak Group.
30 April 2008	Circular in relation to the proposed acquisition of up to 100% of Sorak, which owned 55.6% equity interest in BII. Contained within the Circular include risks relating to the proposal, i.e. Acquisition Risk and Single Presence Policy.
8 May 2008	MSWG wrote to the Board of Directors seeking clarification on certain points relating to the Proposed Acquisition.
15 May 2008	Extraordinary General Meeting

- 3 June 2008 Maybank replied to MSWG's letter of 8 May 2008, a lapse of nearly 1 month and well after the EGM of 15 May 2008.
- 24 June 2008 2nd draft of new take-over ruling from Bapepam, the trigger point of mandatory take over rule was further increased to 50%, applicable for offer made till 80%.
- 30 June 2008 Enacting of new regulation on Take-Over Rule IX HI by Bapepam. Under the rule, a new controlling shareholder is obliged to divest to public shareholders, a minimum of 20% and at least 300 parties within 2 years after the tender offer is undertaken.
- 29 July 2008 Maybank announced BNM revoked its approval given in relation to the proposed acquisition of BII. The reason being the recent changes of the new regulation on Take-Over Rule by Bapepam. The Proposal may result in Maybank potentially incurring material losses from selling down of the shares and write-down of investment upon the implementation of the New Take-Over Rule. In the announcement, Maybank had indicated that they had earlier met with Bapepam for a waiver from complying with the above mentioned ruling to which Bapepam had informed that the waiver will not be considered.
- 1 August 2008 Maybank replied to query of Bursa Malaysia in relation to the article entitled "Maybank may lose RM480 million". Maybank replied that pursuant to the terms of the Share Sale Agreement (SSA) entered into, in the event Maybank is unable to meet certain conditions precedent of the SSA (which includes, the approval from BNM) by 26 September 2008 or such other date as may be agreed between the parties, the SSA shall lapse. In this instance and subject to the terms of the SSA, FFH and Kookmin Bank may be able to retain the deposit.
- 7 August 2008 According to the Malaysian Reserve, Bapepam Chairman said that the period of sell-down mentioned in the new ruling can be extended but it depends on market condition prevailing at the time. He, however said that that option is not there for now.
- 7 August 2008 MSWG reiterated its objection to the Proposed Acquisition and called for the resignation of all those responsible for the Proposed Acquisition.
- 7 August 2008 Maybank issued a Statement in an apparent response to MSWG's reiteration, citing approval by shareholders, strategy and acting in the best interest of its shareholders.

- 12 August 2008 According to Bloomberg, Management of Maybank flew to Jakarta to discuss the matters of the new take over rulings.
- 29 August 2008 Announcement by Maybank of the Audited Financial Statements for the 4th Quarter and Financial Year Ended 30 June 2008. The Board had made a provision of RM483.80 million for non-refundable deposit arising from the recent revocation of approval by Bank Negara Malaysia on 29 July 2008 for the proposed acquisition.

ABDUL WAHAB JAAFAR SIDEK
Chief Executive Officer
Minority Shareholder Watchdog Group (MSWG)

15 September 2008

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