



BANK OF THAILAND NEWS

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The Merger of Bangkok Metropolitan Bank and Siam City Bank

The Minister of Finance today approved the merger of Bangkok Metropolitan Bank (BMB) with Siam City Bank (SCIB). There will be no closure of either BMB or SCIB. The SCIB has been assigned to be the core institution in this consolidation due to its larger asset size. All of BMB's assets and liabilities will be transferred to SCIB, effective on April 1, 2002. All BMB branches will be renamed under SCIB. As for BMB employees, they will be transferred to work for SCIB.

The Governor of the Bank of Thailand explained that previous large transfers of BMB's and SCIB's non-performing loans to Petchburi Asset Management Company had left each bank with only about Bt 60 billion of loans. Even though the loan portfolios are of better quality, they are too small for the banks to individually compete with other banks of bigger size and with better asset quality and management. Furthermore, the global trend in banking and corporate consolidation has imposed pressure on Thai banks to merge in order to compete efficiently in both domestic and international markets.

In principle, there are various merger alternatives. One alternative is to create a new banking entity that will receive assets and liabilities of the two existing banks. However, the process is long and difficult because a new company has to be registered and has to apply for a banking license. The transactions costs will be high, and the longer the merger process is, the more confusion there will be. A more suitable alternative is as follows:

The consolidation process has 3 phases:

- Phase 1: The consolidation of financial accounts and the management of the two banks. On April 1, 2002 all BMB's assets, liabilities and obligations will be transferred to SCIB at book value as of March 31, 2002. All BMB's branches

will be converted into SCIB's. All BMB's employees will be transferred to SCIB's payroll but they will continue to work at their original BMB branches which will be renamed as SCIB.

- Phase 2: The operating systems of the two banks will be integrated. There will eventually be a single operating system for wire-transfers, settlements, credit cards and accounting. Some systems can be integrated quickly while others will take longer. In all, this phase should be completed within 1 year.
- Phase 3: The bank's policies and business strategies will need to be improved as well as the business reputation of the merged bank. Preparation for this phase can begin immediately in order to be ready for implementation after certain stages of phase 2 are completed.

It should be emphasized that the chosen mode of combination does not involve closure of any BMB branches or termination of existing BMB services offered to its customers, depositors and creditors. Customers of BMB and SCIB will be able to continue using banking services and undertake financial transactions at any BMB and SCIB branches as normal but under SCIB's name. All BMB employees will be transferred to SCIB's payroll and will continue to work at original BMB branches. After the implementation of the work in phase 2 and 3, the bank will develop to be a financially strong institution able to serve economic development of the country.

Benefits of the merger

- The combined bank will rank 5th in terms of size in the Thai commercial banking sector with total assets around Bt 490 billion. With improvement in quality and efficiency of management, it should be able to raise its capacity to compete with other banks.
- The consolidation will increase management efficiency, economy of scale and save costs from activities such as investment in computer systems. The combined bank will be able to improve and expand the quality and efficiency of services to the public, benefiting its customers.

- The merger is not a closure of BMB. All BMB employees will be employed by SCIB. There will no inconvenience to customers of BMB as they can continue using services at the original BMB branches.
- When the quality and efficiency of the bank's operations improves in the future and should the authorities wish to privatize the bank, it will be easier to find a strategic investor. Share divestment by the Financial Institutions Development Fund (FIDF) will also be easier and yield a better return to FIDF, which will reduce the burden on the government.

Impacts on stakeholders

- **Depositors, Borrowers and Creditors of BMB:** These stakeholders will not be affected by the merger as they can continue to undertake financial transactions using the same account or loan facilities from the original BMB branches. If a BMB's customer wants to move an account to an SCIB's branch, this can be done by contacting the BMB branch that the customer had an account with. SCIB will fully honour all domestic and overseas obligations of BMB. Customers will be able to use BMB's cheques. All Thai financial institutions will accept them into the clearing and payment systems. After the maturity of the original contracts, interest rates and fees charged on BMB's customers will be changed to those of SCIB's.
- **Minority Shareholders of BMB:** In order to protect the interest of 1,818 minority shareholders with share value of Bt 21,600, the FIDF will make a tender offer to buy all those shares for cash at BMB's book value as of March 31, 2002. Alternatively, BMB's shareholders can exchange their shares for SCIB's at the ratio which will be announced, based on book values of the shares of both banks as of March 31, 2002.
- **BMB's employees:** All employees will become SCIB's employees and continue to work as normal for SCIB.
- **Branches and offices of BMB:** They will be open as usual under the name of SCIB.

Conclusion

The merger of BMB into SCIB has many beneficial results. It will enhance the strength and potential of the combined bank to operate in the long run. It also restructures the financial sector thereby promoting greater stability in the system. The consolidation also puts the industry abreast with global financial conditions as the international trend has been moving towards more consolidation as seen in the case of Japan and Europe. Depositors of BMB, SCIB and other banks will not be affected as FIDF will continue to guarantee all deposits in full.

Bank of Thailand

29 March 2002

[Attachment](#)