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9.6%

## **growth for domestic housing loan portfolio**

Maybank is the leader in the Malaysian retail financial services. This business is operating on a loan base in excess of RM31.2 billion, deposit base of RM60.1 billion and a customer base of almost 7 million.

## Retail Financial Services

2053.23 +  
62,221.24 +  
849.46 +  
6,464.61 +  
5,464.61 +  
58,778.44 +  
54,651.51 +  
54,646.15 +  
6,461.61 +  
54,646.46 +  
8,778.44 +  
54,646.15 +





Maybank is the leader in the Malaysian retail financial services. Our vision is to maintain this position and use it as a base to strengthen our banking business in countries where we have a significant presence. This business, excluding automobile financing and credit cards, is operating on a loan base in excess of RM31.2 billion, deposit base of RM60.1 billion and a customer base of almost 7 million. Maybank's retail financial services operate through four major business domains, i.e. daily banking; financial protection services; retail financing; and saving and investment.

**Daily Banking Domain:** This business domain focuses on the daily transactional needs of customers. In Maybank, the customers have a wider choice of service channels to conduct their business. This can be through our newly designed sales and service outlets including bureau de change; multi-functionality electronic channels, including internet banking; phone banking as well as the call centre. The key focus for this business domain is to provide an excellent standard of customer service through a wider range of payment and financial services; contacts with knowledgeable and attentive personnel; reliable and efficient technology; and a modern banking ambience. Indeed, substantial investments were committed to put these in place and they range from investments in people, processes, premises, product development and technology. The outcome of this was the transformation of our branches into sales and service outlets and in some places, specialised share investment centres and private banking centres. The former is to handle share trading business while the latter is for high networth customers. Although the business potential of this domain is yet to be fully explored, the results have been very encouraging. For instance, the number of transactions through internet banking during the year rose 64.4% over the previous financial year. The highest increases were noted for bill payments and third party fund transfers which doubled in volume. Transactions through automated teller machines continue to grow with more functions added to them. The waiting time at the sales and service outlets were substantially reduced, thus providing a suitable atmosphere to introduce customers to the wide range of the Group's financial products and services. In aggregate, revenue from transactional banking services rose by about 10%, a commendable performance considering that foreign exchange business and volume of remittances were impacted by the decline in tourist arrivals during the SARS outbreak and at one stage, the reduction in the number of foreign workers.

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**Financing Domain:** This is the most competitive business domain as key competitors in the market shifted their focus to the retail banking business. The most competitive area during the year was in the financing of residential houses, where the interest margin was under tremendous pressure and marketing costs incurred in acquiring customers rose significantly. Despite this, the Group continued to record a respectable growth of 9.6% for its domestic housing loan portfolio. Indeed, this was lower than the overall industry growth and hence the Group's market share deteriorated slightly to 17.9% from 19.0% a year earlier. Such a reduction in market share was inevitable as our strategy is based on having a mutually profitable relationship with our customers. Growth for

other retail loans was impacted by the overall economic environment. Share financing, including for the purchase of unit trusts, recorded a negative growth of 2.7%, as the sentiment in the equity market during the period was generally weak.



**Saving and Investment Domain:** With its strong branding, ranging from financial strength to service coverage, the Maybank Group continued to dominate the saving and investment business domain. During the year, banking deposits (including deposits in our finance company) of individuals from Malaysian operations rose by 10.4%, thus increasing our market share from 20.6% to 21.4%. Given the sizeable excess liquidity in the system and the downward rigidity in the market interest rate movements, there had been a negative carry on these deposits. Hence, the strategic focus during the period was an aggressive re-balancing of deposit portfolios and the creation of opportunities for customers to place funds in financial products with upside potential on returns. Among those products were the closed-end investment linked insurance product, known as Premier Capital Guarantee, and Mayban Enhanced Bond Trust Fund. The former was developed by the Group's life insurance company, Mayban Life; whilst the latter by Mayban Unit Trust. Premier Capital Guarantee received tremendous response from the public, resulting in the manager of

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the fund doubling its size after five days of its launch. Three new unit trust products were also introduced during the year. These funds were Mayban Dana Ikhlas, which is a syariah approved balanced fund, Mayban Ethical Trust Fund, and Mayban Value Trust Fund.

**Financial Protection Domain:** This business domain is to serve the financial protection needs of retail customers. In meeting the needs of our customers, several new insurance protection products were launched during the year. Among them was Premier Personal Accident Insurance, which was launched in late December 2002. With the commencement of the Group takaful business in July 2002, we have introduced a mortgage takaful product to the market and it is expected that another product, known as home building, will be in the market by end 2003. The success seen in both financial protection and saving and investment business domains can be attributed to the business model we are adopting and this, in particular, is the bancassurance model.

Given the positive outlook on the domestic economy as well as the region, Maybank Group Retail Financial Services is confident that its business will continue to grow. Apart from expanding further its lending activities in line with the growing demand for consumer financing, strong emphasis will be given to the growth in fee income. This will come from the distribution of a wider range of financial products as well as transactional fees, payment services and brokerage income.







# Enterprise Financial Services



# 33 business

**centres located throughout  
the country**

Maybank maintains its position as the leading financier of the country's industrial growth and external trade. We are differentiated from the rest by our financial strength, service convenience, strong branding and the philosophy of wanting to grow along with our customers.



Maybank maintains its position as the leading financier of the country's industrial growth and external trade. We are differentiated from the rest by our financial strength, service convenience, strong branding and the philosophy of wanting to grow along with our customers. These differentiations have been further amplified with the enhancement of our technological capability, provision of dedicated business centres and approach to relationship banking. In addition, continuous improvement in workflow and procedures are made to meet customers' expectations. Hence, despite the challenging operating environment in the last twelve months, the outstanding loans of Maybank enterprise banking business grew by 7.1%.

During the twelve-month period to June 2003, total domestic loans, excluding from the Labuan offshore office, extended to large corporates rose by only 0.1%. This can be attributed to the prevailing excess production capacity, which dampened the rate of investment growth, particularly in the manufacturing sector. Furthermore, the shift to the debt capital market continued during the period and some corporates have even pre-paid their loan obligations. However, the impact to the Group was minimised by the active involvement of our investment banking group in the primary market of private debt securities. We, as a Group, are also investing in these financial papers. Hence, taking into account our holding of private debt securities, total financing to large corporates by our domestic operations rose by 2.5%.

While there was only a moderate growth in loans to large corporates, the rate of expansion in financing facilities extended to small and medium scale enterprises had been remarkable. During the year, this segment chalked up an impressive growth of 12.6% and commanded a market share of 18.9%. About 69.4% of the increase in loans to this segment went to the manufacturing, construction and general commerce and they were mainly for working

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capital. Maybank played a significant role in the Government aided loan schemes, particularly loan facilities guaranteed by the Credit Guarantee Corporation and financing schemes for Bumiputra businesses. To date, Maybank has approved RM4.4 billion under the New Principal Guarantee Schemes, RM725.6 million under the Fund for Small and Medium Scale Industry (2) and RM365.0 million under the New Entrepreneurs Fund. During the financial year, lending under Government aided loan schemes rose by 29.5%. Besides financing, we also provide training and advisory services to assist Bumiputra entrepreneurs to manage their businesses. For our Singapore operations, lending to the small and medium scale industry rose by 2.7% against the industry of -3.0%.

Driving the small and medium scale industry business are the 33 Business Centres. These centres are well spread out across the country with teams of account managers responsible for relationship management, utilisation of facilities and customer service. Another five Business Centres are planned to be rolled out in the current financial year.

The Maybank Trade Finance business model which was launched during the previous financial year and currently operating through 15 trade finance centres, continued to record remarkable achievement. This was proven with an 18.8% growth in business volume, 13.5% increase in income, 23.0% market share and an improvement in the utilisation rate by 7.2% during the year.

In keeping with technological developments as well as providing comprehensive financial solutions to our customers, Maybank's enhanced Cash Management service was launched during the year. The product which is accessible online through Maybank2e.net, comes with the entire suite of cash management services such as disbursements, collections and receivables management, liquidity management, e-dividends, treasury and trade integration.

Given the increasing attractiveness of the private debt market as an alternative source of funding for large corporates, the relationship managers of Enterprises Financial Services worked closely with our Investment Banking Group to provide solutions for these customers' financing requirements. A strategic alliance was also formed with Mizuho Bank of Japan with the setting up of a Japan Desk to secure more business from Japanese customers in Malaysia.





## Automobile Financing



RM 10.5  
billion

**total automobile financing**

Maybank Group is a major player in the domestic automobile financing business. Despite less than robust economic conditions and a slowdown in motor vehicle sales during the first half of 2003, automobile financing expanded by 15.3% for the year.



Maybank Group is a major player in the domestic automobile financing business. Despite less than robust economic conditions and a slowdown in motor vehicle sales during the first half of 2003, automobile financing expanded by 15.3% to RM10.5 billion for the year. Hire Purchase (HP) financing product, which comprised 97.1% of total automobile financing, surged by 15.9% to RM10.2 billion compared with RM8.8 billion last year.



Several initiatives pursued by the Group proved instrumental in sustaining our leadership position in the automobile financing market. Among the initiatives undertaken during the period was the emplacement of a new business model, which is driven by the extensive use of technology in the work processes to achieve faster turnaround time in approval and disbursement, automatic credit scoring and centralised approval. The investment on infrastructure to provide better service is augmented by the development of a service strategy to choose the optimum mix and level of service for different client sets, resulting in cost savings.

The aggressive marketing and pricing strategies employed by the passenger car manufacturers provided customers a wider range of quality cars and affordable choices. The Group had actively joined hands with major car distributors and dealers to beef up consumer interest and place our representatives closer to customers. The Group had also aligned and strengthened itself in the used car business. It maintained an active involvement in sales campaigns and carnivals of used cars.

In line with efforts to enhance market penetration, the Group had expanded its used car dealer relationships from 759 to 1,510. Vehicle financing for used cars rose significantly by 57,421 units or 129% to reach 101,832 units from 44,411 units last year.

Capitalising on its capabilities, the Group strengthened its position in Singapore and established a footprint in the Philippines. In Singapore, the Group has developed a critical mass in the commercial vehicle segment and secured second position in new commercial vehicle financing with a 22% market share. During the year, the Philippines' operations also launched automobile financing and to date, it had secured a 2% market share.

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# 28.1%

## **growth in issuance of new credit cards**

Maybank commanded a 23.0% market share in the merchant acquiring business, 13.5% in the credit card issuing business and accounted for 14.7% of total domestic credit card receivables.

## Cards Business



The Cards business has a promising future in Malaysia as society becomes more accustomed to the convenience of cashless transactions, increasing cross-border movements of people and fast growing online commercial dealings. Maybank has long recognised this potential and was the first local bank in Malaysia to introduce credit cards. As at June 2003, Maybank commanded a 23.0% market share in the merchant acquiring business, 13.5% in the credit card issuing business and accounted for 14.7% of total domestic credit card receivables. These parameters placed Maybank as the market leader in the acquiring business and among local institutions, it is the leader in the issuing business.



Maybank continues to be aggressive in building up the base for its cards business. The major focus during the year was to enhance value from the utilisation of its cards. Among these were exclusive deals on holidays and shopping privileges, incentives for transferring of credit balance, contests and lucky draws, as well as easy payment programmes.

During the twelve-month period to June 2003, Maybank recorded a 28.1% growth in the issuance of new credit cards and 30.1% growth in credit card receivables. Merchant sales for credit and debit cards rose by 34.6% and 53.6% respectively. These were remarkable achievements considering the intensified competition in the business as well as moderate growth in consumer spending and for a brief period, a significant drop in tourist arrivals.

The strength of Maybank in this business line is well recognised. During the review period, we were presented with the Gold Award by MasterCard International for having the best overall marketing program for the entire Asia-Pacific region. This award was in conjunction with the World Cup 2002. Based on Bank Negara Malaysia's Benchmarking Study, Maybank topped the list in credit card approvals and processing. In June 2003, we were conferred the ISO9001 certification for card application and processing.

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During the year, focus was given to developing the debit card business which began with the launching of the chip-based bankcard that replaced the old ATM card. This new bankcard has three payment applications i.e. e-Debit (electronic debit at point-of-sale), MEPS Cash (e-purse or electric storage of monetary value), as well as all the ATM functions. Apart from encouraging customers to change to this new smart chip-embedded card, merchant terminalisation is also being aggressively pursued with more than 4,000 outlets already accepting the debit card as the mode of payment.



	RM'000	Group	RM'000
	41,418,971		46,850,428
	44,825,780		40,405,997
	16,327,661		9,760,090
	102,572,412		97,016,515
<b>BANKS AND OTHER FINANCIAL INSTITUTIONS</b>			
		<b>Group</b>	
	36	RM'000	RM'000
	8,062	10,990,196	8,265,642
	8,113,390	832,636	140,980
	14,074,688	6,734,065	2,439,269
		18,556,897	10,845,891

## Investment Banking



# 70 corporate

**finance assignments  
and M&A advisory transactions  
completed during the year.**



Investment banking activities of Maybank were further strengthened during the financial year. This was through participation in 12 deals worth RM12.768 billion. Aseambankers was the joint arranger and manager for Syarikat Prasarana Negara Berhad's RM5.468 billion Redeemable Serial Fixed Rate Bonds, which was the largest Private Debt Securities deal of the year. It was also the principal advisor and lead arranger for YTL Power Generation Sdn Bhd's RM1.3 billion Medium Term Notes Issuance Programme; and joint arranger for Nestle Foods (Malaysia) Sdn Bhd's RM700 million Al-Murabahah Commercial Papers/Medium Term Notes Issuance Programme. For calendar year 2002, Aseambankers was named 'Best at Islamic Bonds' by Euromoney magazine.

In the area of corporate finance, Aseambankers had completed cross border Merger and Acquisition (M&A) activities from its involvement in various transactions, notably as the Local Advisor in the YTL Power International Berhad and Wessex Water Limited deal. A total of 51 corporate finance assignments were completed during the year. In M&A advisory, it completed 19 transactions, totalling RM15 billion in value. Noteworthy among them were the acquisition of RHB shares by the Utama Banking Group and its disposal of Bank Utama (Malaysia) Berhad, acquisition of Malakoff Berhad by Malaysian Mining Corporation and the merger of MCIS Insurance Berhad and Zurich Insurance Malaysia Bhd.

Despite poor market sentiment, four Initial Public Offerings (IPOs) worth RM567.35 million were undertaken during the year. In the area of corporate restructuring, Aseambankers completed three transactions with total value of RM304.69 million.





Aseambankers is positioning itself to tap the opportunities in the Middle-East market. It has initiated plans to penetrate the market especially in structured Syariah-compliant products with international appeal such as Ijarah or Istinar transactions, Salam papers (advance payment sale) and Musharakah (joint venture).

Aseambankers has strengthened its research unit primarily to provide quality, independent research material to empower investors with economic and market knowledge when making considered investment decisions. The research materials "Fixed Income Weekly" and "Bond Beat" have a wide following among members of the investment community.

At Mayban Securities, an integrated Research Unit generates investment ideas and devises investment strategies for the benefit of its customers. The Unit provides technical views and analysis for investors with trading inclination. The ideas are disseminated primarily through the in-house dealers, remisiers and Maybank Share Investment Executives all over Malaysia using electronic mail, the Internet on [www.maybank2u.com](http://www.maybank2u.com) and paper-based reports.

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PERBANKAN  
ISLAM

38.8%

## **increase in total Islamic financing**

Maybank has a sizeable Islamic banking operation. As at June 2003, the Group's Islamic banking financing accounted for 27.1% of the total Islamic financing extended by the domestic banking system.

## Islamic Banking





Maybank has a sizeable Islamic banking operation. As at June 2003, the Group's Islamic banking financing accounted for 27.1% of the total Islamic financing extended by the domestic banking system. During the year, total Islamic financing by the Maybank Group increased by 38.8% to RM12.8 billion. The increase came largely from the Bank, which recorded a growth of 43.2%. With this performance, Islamic financing accounted for 14.3% of the Bank's domestic operations, hence exceeding the 11% target set by Bank Negara Malaysia for 2004.

For the Group as a whole, 51.8% of the financing was for the purchase of residential properties and another 13.0% for the financing of transport vehicles. Manufacturing, on the other hand, accounted for 9.2% of total Islamic financing.

Maybank is also a major mobiliser of Islamic funds. As at June 2003, total customer deposits for the Group was RM11.0 billion and this represents a 22.3% market share. Individual depositors accounted for 25.5% of the total while business enterprises made up another 34.7%.

Islamic Banking continued to record profitable operations and this is due to the focus given to the business, the operating model as well as the trust and confidence from all our customers. For the financial year 2003, the Maybank Group Islamic banking operations registered a profit after tax and zakat of RM120.7 million. This was a reduction from the previous year's level of RM178.4 million. The reduction, in part, was due to the introduction of profit equalisation reserves amounting to RM65.5 million.



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# Insurance Business

RM 135.7  
million

**aggregate pre-tax profit**

The insurance business recorded a respectable growth with aggregate premium income rising by 23.9%. The largest increase was recorded in the life insurance business, which grew by 58.7%.





The insurance business of Maybank continues to show a stable performance with an aggregate pre-tax profit for the year of RM135.7 million. During this period, it recorded a respectable business growth with aggregate premium income rising by 23.9%. The largest increase was recorded in the life insurance business, which grew by 58.7%.



Maybank's takaful business commenced operations in July 2002. In the first year of its operations, the company recorded a cumulative contribution of mortgage takaful amounting to RM16.2 million.

Based on new business premium, which grew by 78.3%, Mayban Life Assurance Berhad was ranked fifth – a notch higher than a year ago. The improvement in market position can be attributed to the growth in its investment-linked product, which contributed about 62.2% of the total new business premium. For the company, the response to this close-end investment linked product was beyond expectations as it was over-subscribed on the day it was launched. During the year, Mayban Life also continued to focus on improving its service standard.

Growth in the gross premium written for non-life insurance business declined slightly by 8.6%. The decline can be attributed to prudent risk selection and underwriting, especially in large corporates which recorded a reduction of 35.6%. The focus of the non-life business during the year was on the retail segment. In line with this focus, a new product, Premier Personal Accident was introduced in late December 2002.

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# 15%

## **expansion in loan base of Maybank's international operations**

As at June 2003, total assets from international operations amounted to RM22.9 billion.

## International Banking





Maybank has sizeable international operations. As at June 2003, total assets from these operations amounted to RM22.9 billion or 13.2% of the total. Despite competition and a challenging operating environment, the loan base of the international operations expanded further by 15.0% during the year. With a significant network presence in Singapore, Brunei Darussalam and the Philippines, the business focus in these countries is in retail banking. For the rest, the focus is on wholesale banking, trade finance and payment services.

During the year, Maybank expanded into the Middle East with the establishment of an offshore banking unit in Bahrain on 1 September 2002. The Bahrain office will serve as a bridge that facilitates the flow of Islamic and conventional financial products between the Southeast Asian region and the Middle East.

Singapore, being the largest overseas operations, recorded a loan growth of 15.8%. The increase was attributed to hire purchase, housing loans and credit cards. Business loans, however, declined due to the continued sluggishness in credit demand by corporates. Strong focus was given to fee income activities and during the year, significant achievements were made in the sales of insurance and unit trusts. Maybank continued to leverage on its qualifying full banking (QFB) status and in July 2003, it relocated two branches to the heartland of the business district. An off-site ATM was added to the network with the unit at Toa Payoh commencing operations in June 2003. Indeed, the most significant achievement for the operations in Singapore was the turnaround in its financial performance. Pre-tax profit for the financial year was RM95.9 million against a loss of RM98.8 million in the previous year.

Leveraging on strong credit demand and growing personal consumption, Maybank Philippines intensified its lending activities. The main focus was on consumer credit, specifically automobile financing. In total, the loan base of the Philippines' operations rose by 28.4% to Peso7.33 billion. In an effort to achieve operational efficiency, Maybank Philippines had embarked on a rationalisation programme, which involved the right-sizing of its branch network and staff strength.

During the year, Maybank received approval in principle from the People's Bank of China to undertake Remimbi services to cater to the needs of foreign individuals and enterprises. The Shanghai branch is expected to provide this service during the third quarter of 2003.

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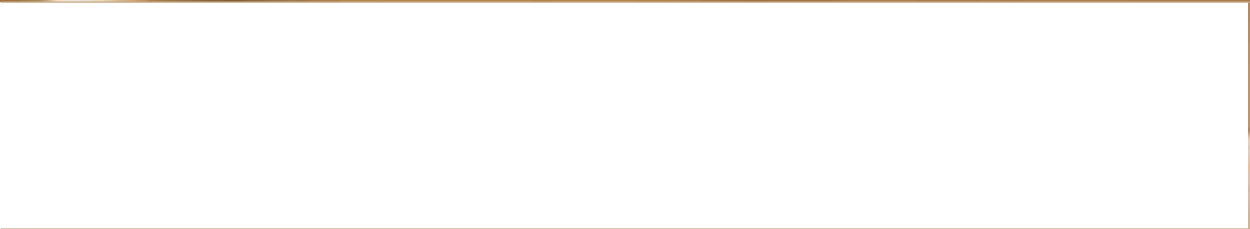


# 7 principles

## **that serve as a foundation for the risk management process**

The framework of risk management in the Maybank Group involves risk management principles, organisation structures, risk policy, as well as risk measurement and monitoring process.

## Risk Management



Maybank Group has a diversified business. In the course of conducting this business, the Group is assuming various forms of risks and it is critical for us to identify, measure, integrate and manage these risks so as to contain the possible negative impact to the Group's earnings. In the medium term, this will also help us to allocate capital to our business appropriately. The framework of risk management in the Maybank Group involves risk management principles, organisation structures, risk policy, as well as risk measurement and monitoring process.



## risk management principles

The following represent the seven broad principles that serve as a foundation for the risk management process at the Maybank Group:

1. The risk management approach is premised on three lines of defence - risk taking units, risk control units and internal audit.
2. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and pricing of risks. Complementing this is the internal audit, which provides independent assurance of the effectiveness of the risk management approach.
3. Group Risk Management provides risk oversight for the major risk categories including credit risk, market risk, liquidity risk, operational risk and other industry-specific risks.
4. Group Risk Management ensures that the core policies of the Group are consistent, sets the risk tolerance level and facilitates the implementation of an integrated risk-adjusted measurement framework.
5. Group Risk Management is functionally and organisationally independent of the business sectors and other risk takers in the Group.
6. The Maybank Board, through the Risk Management Committee, maintains overall responsibility for risk oversight within the Maybank Group.
7. Group Risk Management is responsible for the execution of various risk policies and related decisions of the Board.

## risk management organisation structure

The Board of Directors is at the apex of the Group risk management organisation structure. This follows from its responsibility in establishing policies with respect to the management of all risk categories and its accountability in ensuring effective functioning of the internal control mechanism. Assisting the Board in discharging this role are the three board committees; i.e. the Risk Management Committee, Credit Review Committee and the Audit Committee. The Risk Management Committee is responsible for formulating policies as well as to identify,

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The two most important risks the Group assumes are specific financial industry risks and risks arising from the general business environment.

measure, monitor, manage and control the credit, market, liquidity and operational risks. The role of the Credit Review Committee is to review the decisions made by the executive level credit committee. The Audit Committee, on the other hand, is tasked with the responsibility of ensuring sound internal control framework and compliance.

All risk management activities in the Group pertaining to credit, market, liquidity and operational risks are under the responsibility of the Group Chief Risk Officer; while activities relating to internal control and compliance with internal and regulatory standards are under the Chief Audit Executive. In ensuring effective internal control and its integrity, the Chief Audit Executive operates independently and reports directly to the Board of Directors.

## risk policy framework

The two most important risks the Group assumes are specific financial industry risks and risks arising from the general business environment. The policy framework in managing these risks distinguishes four kinds of risks; i.e. credit, market, liquidity and operational risks.

- a. **Credit Risk:** In managing credit risk, equal emphasis is given to steps taken at the origination as well as at the preservation stage. At the point of origination, initiatives cover issues relating to people, processes and systems. With regard to people, the selection process is made more rigorous and it is mandatory for newly appointed credit officers to undergo a comprehensive Credit Training Programme. In addition, the Group also conducts on-the-job training and continuous professional education programmes. As required by Bank Negara Malaysia, all credit personnel have to sit for the Certified Credit Professional examination conducted by Institut Bank-Bank Malaysia (IBBM). The process aspect is in line with Bank Negara Malaysia's requirement for independent credit risk management. Under the Group's credit approval process flow, 'credit administration' and 'credit controls, review and analysis are performed independently of individuals involved in business origination. This process framework, however, does not apply to programme loans where appropriate systems are in place. Strengthening this framework further is the system of authority limits, set according to the grade of the officers and nature of the credit facilities; adoption of the Group risk rating system and an emplacement of the approving system for retail loans. Lending guidelines are also under constant review, taking into account the changing business environment.



The focus at the preservation stage includes the credit review process, the frequency of which depends on the risk characteristics of the facilities; detection of vulnerable accounts and a system of early warning signals. The Group also adopts a stringent policy on non-performing loan classification and provisioning for bad and doubtful debts which, taken together, will instil a higher degree of risk awareness across the organisation.

The Group adopts a proactive, policy-driven approach to portfolio management. The guiding principle is to diversify its loan portfolio mix and avoid any undue concentration of credit risk. In this regard, the Group has a formalised set of concentration policies relating to single customer limits and lending caps; economic sector focus and sectoral caps; collateral caps; country limits; bank limits and counterparty limits.

The Group management of credit risk includes taking the appropriate action to push for tighter loan monitoring and expediting loan recovery. For this purpose, a dedicated remedial management department is established at the head office as well as loan management centres at the various business zones.

- b. **Market Risk:** This risk component encompasses price and interest rate risks, all of which are inherent in the ordinary course of the Group's business. Price risk is the risk to earnings as a result of adverse changes in interest rates, foreign exchange rates, equity and commodity prices, as well as in their respective correlation and volatility.

Maybank has a dedicated team responsible for market risk management. Apart from ensuring consistent methodology employed across the Group, the team continually evaluates risks and monitors compliance with approved policies and risk limits. Market risk profiles are regularly reported to the various levels of management or committees and the Board of Directors.

Market risk controls and measures adopted in the Group are in line with industry best practices and the Bank of International Settlements (BIS) recommendations and they include: Value-at-Risk methodology, independent mark-to-market valuation, on-line tracking of stop-loss limits for trading positions, stress testing of portfolios and the back-testing of market risk models.

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- c. **Liquidity Risk:** This is related to risk arising from withdrawals of deposits, repayments of purchased funds at maturity, extension of credit, purchase of assets and working capital requirements. Maybank seeks to manage its liquidity risk across all classes of assets and liabilities to ensure that even under adverse conditions, it has access to funds at a reasonable cost.

The primary tool used in monitoring liquidity for Maybank's domestic operations is based on the liquidity framework introduced by the Bank Negara Malaysia. This framework ascertains liquidity based on the contractual and behavioural cashflow of assets, liabilities and off-balance sheet commitments. Maybank adheres diligently to the stipulations as provided under the framework and additionally, maintains a minimum level of eligible liquefiable assets in the form of cash and marketable debt securities that are issued and/or guaranteed by both the Government of Malaysia and selected AAA-rated private entities.

For the overseas operations, Maybank has in place a clearly defined Liquidity Policy Statement that outlines all aspects of liquidity management based on a common framework. The statement defines the relevant operational processes in the day-to-day management of liquidity including the reporting structure, liquidity risk triggers, benchmark ratios and contingency funding plans.

- d. **Operational Risk:** This risk component is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. In the management of this risk, a dedicated team has been established and the team is responsible for identification, assessment and measurement, control framework, monitoring and reporting of operational risks. In the wake of the new Basel Capital Accord (Basel II), Maybank has proactively taken initiatives to align its operational risk management to the requirement of the Accord and best practices. This includes performing gap analyse to benchmark our practices against Basel II and progressively adopting practices which further enhance the management of operational risk within the organisation.





## Human Resource Management and Development

**The overall thrust of Maybank's human resource strategy is to strengthen organisational capabilities required in the execution of business strategies.**



The overall thrust of Maybank's human resource strategy is to strengthen organisational capabilities required in the execution of business strategies. This is realised through optimisation of human capital investment to position Maybank as an employer of choice. A two-year developmental plan is being implemented in phases and it covers the critical areas of performance management, remuneration, leadership development, learning organisation, manpower planning and succession planning.

In the area of performance management, a system which introduces a new approach to managing employees' performance, was rolled out on a pilot basis. The format of the new system leverages on balancing and achieving business results using the Balanced Scorecard concept, which links corporate goals to that of the individual and emphasises the demonstration of Maybank Leadership Competencies. Using the Balanced Scorecard concept ensures a balanced perspective of long-term performance via four dimensions – Financial, Customer, Internal Business Process as well as Learning & Growth. In addition, the Maybank Leadership Competencies reinforce the “valued behaviours” required to sustain long-term high performance. A rigorous goal setting process was put in place to ensure effective selection and cascading of Key Performance Indicators across and down each Business as well as Capability sectors in the organisation. Various training and communication activities were rolled out to ensure that all executives Group-wide would be ready to use the system, which is implemented with effect from 1 July 2003.





The performance management system highlighted above is supported by a new approach to Remuneration/Reward which focuses on aligning pay to performance and positioning the Group's remuneration and reward competitively with the market. From a "one-size-fits-all" approach, differentiated reward plans have been designed to address business-specific needs and requirements. This approach is benchmarked against best practices.


In the area of Leadership Development, guided by leadership competency requirements, an Assessment Centre has been designed and rolled out. The objective is to inventorise talents among the executives within the Maybank Group. The focus on talent development is to ensure that the Group has the leadership as well as professional and competent Managers, to handle the execution of key strategic business initiatives. This initiative also ties in with the Manpower and Succession Planning project.

A new Learning Strategy has been developed. Among the focus areas are the strengthening of the organisational capability, enhancement of the speed to competency and strategic alliances with leading external learning centres.

A rigorous goal setting process was put in place to ensure effective selection and cascading of Key Performance Indicators across and down each Business as well as Capability sectors in the organisation.





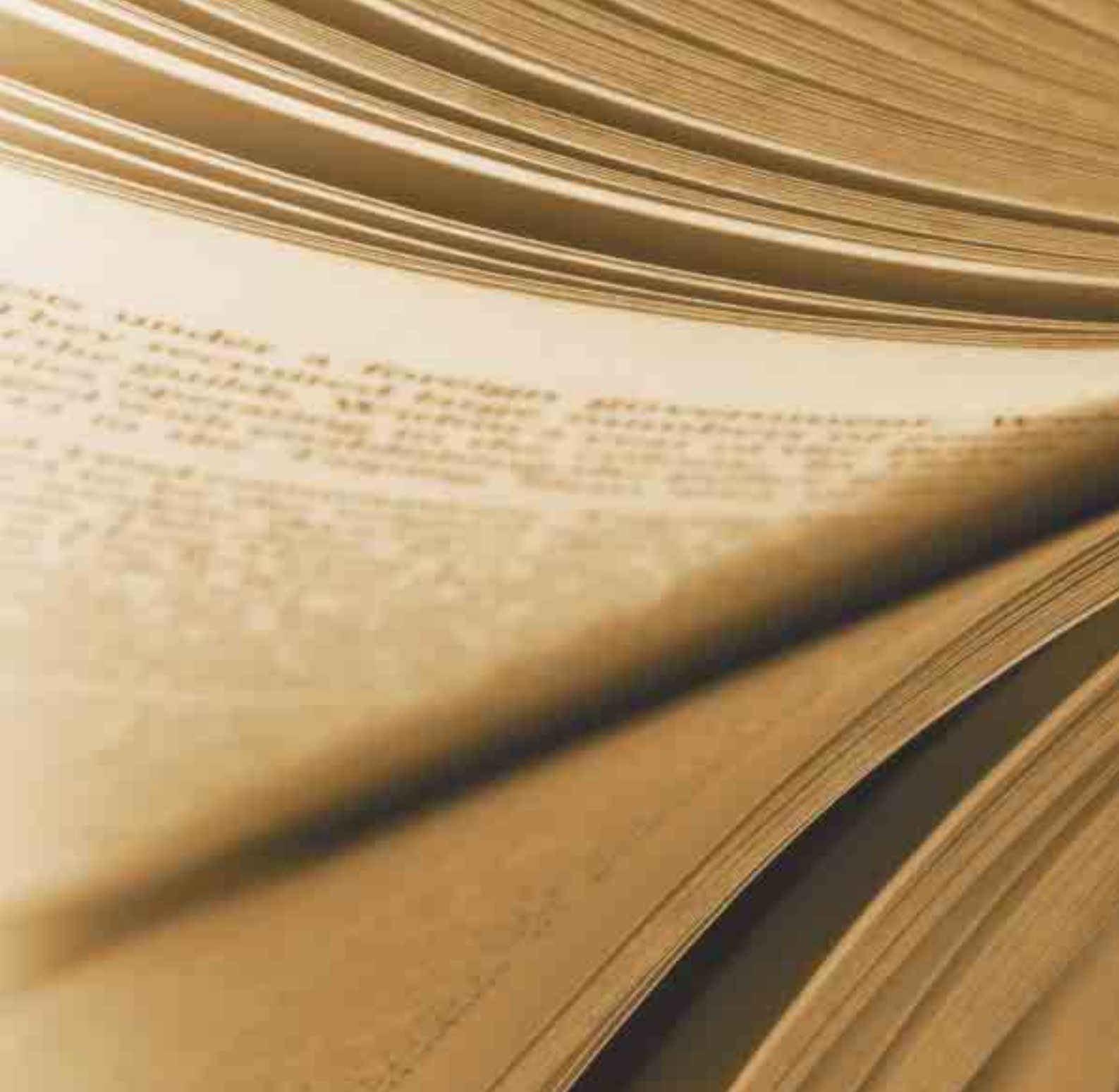


**The Maybank Group's community relations programmes are important affirmative activities that reinforce our commitment to enhance the well being of all levels of our society.**

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## Community Relations

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The Maybank Group's community relations programmes are important affirmative activities that reinforce our commitment to enhance the well being of all levels of our society. Our sponsorships provide opportunities for various communities and interest groups to preserve as well as promote core values of Malaysian society to foster unity and harmony as well as the conservation of our environment. As a caring and responsible corporate citizen, our community relations commitment remains focused to supporting education, health & welfare, arts and culture, sports and environmental protection.

### education

The Maybank Group committed over RM1.5 million during the year providing scholarships and awards for academic and professional excellence. Among those who benefited were staff and their children as well as deserving candidates pursuing degree courses in local public universities. During the year, 35 new students were also awarded the Maybank Scholarship Awards for undergraduate studies in local public universities. In the last ten years, over 500 recipients have benefited from the scholarships.

Maybank also contributed RM100,000 to the Outward Bound School, Lumut for the construction of an education block to facilitate training programmes for the youth of the nation.

### health and welfare

In the area of health and welfare, the Maybank Group remained committed to assisting the needy who require financial support for medical treatment. Maybank's contributions also went towards the purchase of medical equipment as well as maintenance support for charities that looked after orphans and the physically challenged.

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During the year, the Maybank Group Welfare Fund (MGWF) contributed medical equipment to Hospital Jabatan Hal Ehwal Orang Asli in Gombak. The Group also continued its ongoing support to the Institute of Paediatrics, Hospital Kuala Lumpur and adopted one of the wards there which treats children suffering from liver diseases. In addition, contributions were also made to the Spastics Children's Centre in Ipoh as well as the Patient Welfare Funds of Hospital Selayang and Hospital Universiti Kebangsaan Malaysia, in which the Group had previously assisted with the setting up of the Liver Transplant and Bone Marrow Transplant Centres respectively. Maybank's traditional celebrations of major festivals with the various races were held with patients from paediatric wards in several hospitals in the Klang Valley.

In recognition of the contribution of the armed forces, the Maybank Group donated RM200,000 in 2003 to the Warrior's Day Appeal Fund to support the surviving members of the armed forces who had sacrificed their lives in defence of the nation.

### art and culture

In our support of the development of art and culture, the Maybank Group continued to host a series of art exhibitions at Balai Seni Maybank during the period. The art exhibitions featured works by both local as well as foreign artists covering themes related to culture, customs, tradition and heritage of Malaysian society. A concerted effort to promote the works of local artists was also initiated by Maybank through a unique exhibition in conjunction with the 46th anniversary of Merdeka. Entitled *Imajan dan Suara Kemerdekaan (Images and Voices of Independence)* the exhibition featured the works of 107 Malaysian artists, making it the largest single gathering of works by Malaysian artists in Malaysia's 2003 art calendar programme. The Prime Minister of Malaysia, Dato Seri Dr Mahathir bin Mohamad officially launched the event in early August 2003. The proceeds from the sales of the artworks were channeled to Tabung Rayuan Hari Pahlawan (Warrior's Day Appeal Fund).



In Singapore, Maybank in collaboration with the Singapore Tourism Board, jointly commissioned and sponsored *The River Merchants* sculpture installed in front of Maybank Tower by the Singapore River. Maybank also sponsored for the first time in Singapore, a unique acrobatic performance on the Maybank Tower in conjunction with the opening of the Republic's Esplanade-Theatres on the Bay.

## environmental protection

The protection of endangered species remains the main focus of the Maybank Group in the area of environmental protection. The annual sponsorship of about RM60,000 was for the upkeep of sumatran tigers and fish owls at Zoo Negara Malaysia, Zoo Taiping and Zoo Melaka. The Maybank Group's other programmes for care of the environment included cleanliness and landscaping activities for its premises at Menara Maybank, Dataran Maybank and Maybank Tower Singapore.

## sports

The Maybank Group continues to support sportsmen and sportswomen by providing employment and benefits to enable them to excel in their sporting activities as well as participate in international and national sporting events. Maybank Group's sportspersons have a strong representation particularly in the country's badminton and hockey team. During the year, we continued to provide sponsorships towards the development as well as promotion of various national sports activities and tournaments.

The Maybank Group remains aware of our responsibilities as one of the largest corporations in Malaysia. Our community relations programmes continue to be overwhelmed with requests for sponsorship and we will continue to provide support that transcends ethnicity and benefit a wide group of recipients as well as contribute towards the well-being of the individual, community and the nation.



## awards and recognitions

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### August 2002

- Maybank was named “Best Consumer Internet Bank in Malaysia” and “Best Consumer Online Securities Trading in Asia Pacific” by Global Finance magazine in its exclusive survey of the World’s Best Internet Banks.
- Maybank was awarded the prestigious 2002 Arts Supporter Award presented by the National Arts Council of Singapore for its contributions to Very Special Arts in 2001. This is the second year running that Maybank Singapore was presented with the award.

### September 2002

- Maybank was one of the Silver Awards recipients of the Singapore H.E.A.L.T.H. Awards 2002 organised by the Health Promotion Board to give recognition to organisations with excellent workplace health promotion programmes.



### January 2003

- Euromoney Magazine named Maybank as the “Best Islamic Retail Bank” while Aseambankers Malaysia Berhad, the Group’s investment banking subsidiary, won the award for being “Best at Islamic Bonds”. This recognition was the result of the magazine’s international survey of market leaders in Islamic finance.

### February 2003

- Mayban Balanced Trust Fund (MBTF) won The Edge-Lipper Award for the financial period ending 31 December 2002. MBTF was No. 1 in Mixed Asset Balanced Funds under the Malaysian Unit Trust Fund Award 2002.

### March 2003

- Mayban Management Berhad received a commendation from the Association for Socially Responsible Investment in Asia (ASrIA) for launching the first Malaysian Ethical Trust Fund. ASrIA is a non-profit Hong Kong based organisation dedicated to promoting corporate responsibility and sustainable investment practices in the Asia Pacific region.

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# Group Corporate Highlights

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## key corporate events

### July 2002

- Mayban Securities acted as co-manager for the Institutional Offering of PLUS Expressway Berhad and underwriter for the Domestic Offering of its retail tranche.
- Maybank Singapore co-arranged a S\$175 million Syndicated Loan for AMK Properties Pte Ltd to part finance the proposed development for a condominium project in Ang Mo Kio.



### August 2002

- Maybank signed a RM10 million agreement with three vendors, namely CL Computers (M) Sdn Bhd, Opensys (M) Sdn Bhd and Interdeals Automation (M) Sdn Bhd for the supply and installation of new high capacity cash and cheque deposit self-service terminals at Maybank e-Kawanku centres.
- Maybank signed a partnership agreement costing over RM6 million with Oracle Corporation Malaysia that would enhance Maybank Group's data

warehouse project to provide strategic business intelligence for business needs as well as improve high value customer relationship and services.

- As part of the continuous effort to provide enhanced convenience for customers, Maybank signed an agreement with Hewlett-Packard Sales (M) Sdn Bhd for the Maybank Group Call Centre project.
- Maybank Singapore sponsored a seminar and dialogue session "Enhancing Malaysia-Singapore Business Co-operation" which was officiated by Dato' Seri Rafidah Aziz, Minister of International Trade and Industry Malaysia. More than 700 entrepreneurs attended the dialogue session organised by the Singapore Confederation of Industry, Ministry of International Trade and Industry Malaysia, Malaysian Industrial Development Authority and Malaysian External Trade Development Corporation.



- Mayban Securities organised an international investment conference in Langkawi that was attended by more than 100 institutional fund managers.





- Maybank Group announced a pre-tax profit of RM2.383 billion for the year ended 30 June 2002, a 57.9% increase from the previous year. Net profit almost doubled to RM1.648 billion.

### September 2002

- Maybank participated in MAPEX 2002 in support of the government's call to help encourage property ownership with special housing loan incentives.

### October 2002

- Maybank held its 42nd Annual General Meeting at Menara Maybank, Kuala Lumpur.

### November 2002

- Maybank Singapore was the main sponsor for a seminar on the "The New Malay Entrepreneurs: Tips For Better Business". The Guest-of-Honour was Dr Yaacob Ibrahim, Acting Minister for Community Development and Sports and Minister in-charge of Muslim Affairs.



- Maybank signed a contract for an e-Procurement solution with a leading e-Procurement service provider, tx123 (M) Sdn Bhd to increase operational efficiency. tx123 (M) Sdn Bhd will provide an Internet-based e-Procurement solution that will link both Maybank and its suppliers and vendors.

### December 2002

- Maybank announced the appointment of Unisys (M) Sdn Bhd to undertake the bank's outward cheque clearing processing. Under the agreement, Unisys will take over the intensive manual backroom activities and adopt the best practices for outward cheque clearing processing.



### January 2003

- Deputy Finance Minister 1, Dato' Dr Haji Shafie bin Haji Mohd Salleh launched Mayban Takaful Berhad, the first takaful company owned by a conventional bank in Malaysia. The products of Mayban Takaful unit will be sold through Maybank and Mayban Finance branches under the bancassurance model.



### February 2003

- Maybank Group announced a 19.2% increase in net profit to RM897.81 million for the six months ended 31 December 2002. Profit before tax for the Group was RM1.24 billion.

### March 2003

- Maybank Group unveiled the new company name and logo of its subsidiary, Mayban Management Berhad which was renamed Mayban Unit Trust Berhad to accurately reflect the nature of its business. Mayban Unit Trust is among the top five largest unit trust management companies in Malaysia.
- Maybank and Mizuho Corporate Bank Ltd, Japan entered a strategic business alliance to set up a Japan Desk at Maybank. The setting up of the Japan Desk would enable Maybank to tap on Mizuho's strong network and financial expertise while Maybank's large network in Malaysia would provide a convenient access to Mizuho's customers as well as reach other new businesses that have direct or indirect Japanese interests.

### May 2003

- Maybank Group announced a pre-tax profit of RM1.95 billion for the nine months ended 31 March 2003. Net profit for the Group was RM1.37 billion.
- Aseambankers signed an agreement as the Lead Arranger and Adviser to Aldwich Berhad for a RM877 million nominal value zero coupon bonds.
- Aseambankers and Maybank signed a RM177 million private debt securities (PDS) facility with Mines Golf Resort Berhad (MGRB). Aseambankers was the Adviser and Lead Arranger of the facility that comprised Bank Guaranteed Serial Bonds with nominal value of up to RM130.0 million and Bond Guaranteed Commercial Papers with nominal value of up to RM47.0 million for MGRB.
- Aseambankers signed an agreement as the Lead Arranger and Adviser to Bintai Kinden Corporation Berhad (BKCB) for a RM110 million Syndicated Loan Facility to Kejuruteraan Bintai Kinden Sdn Bhd, a wholly owned subsidiary of BKCB.



## new products and services

### July 2002

- Maybank Singapore made its debut in the HDB (Housing Development Board) home loan market.

### August 2002

- Maybank Singapore introduced the world's first luminous glow-in-the-dark Card, targeted at the youth market there. This is the first MasterCard Electronic debit card to be launched in Singapore. In conjunction with this launch, Maybank also launched the Flash Credit card, the first Maybank credit card bearing the MasterCard Brand in Singapore.



- Maybank became the only Qualifying Full Bank (QFB) to offer the Loan Insurance Scheme (LIS) to promising small local enterprises in Singapore. The scheme is administered by the Standards, Productivity and Innovation Board (SPRING Singapore). This scheme allows Maybank to extend market coverage and to have flexibility in structuring competitive loans for enterprising small businesses. Under the LIS, a portion of the loan is insured against default risks and the insurance premiums are co-shared between SPRING Singapore and the borrower.



### September 2002

- Deputy Finance Minister, Dato' Chan Kong Choy, launched Maybank Group's second Islamic Unit Trust Fund, Mayban Dana Ikhlas. Its total fund size was 400 million units at RM0.50 per unit.

- Maybank and TIMECel, the mobile communications unit of TIME dotcom Berhad entered into a joint collaboration where TIMECel 017 Prepaid customers could purchase their TIMECel Prepaid TopUp service at any Maybank/Mayban Finance Kawanku ATMs and through the Internet via Maybank2u.com.

#### October 2002

- Maybank and Maxis Communications Berhad signed an agreement for a strategic business partnership that would enable customers who are also Maxis post-paid subscribers to pay their Maxis and Astro bills as well as check their account balances in Maybank/Mayban Finance through their mobile phones using Short Messaging Service (SMS).

#### November 2002

- Maybank became the first bank in Singapore to allow customers to make payments to payee organisations in Malaysia as well as transfer funds to any accounts maintained with Maybank in Malaysia within one business day.



#### December 2002

- Maybank, Mayban Finance and Rangkaian Segar Sdn Bhd, the operator of Touch 'n Go Electronic Payment System, jointly launched the reload service of Touch 'n Go cards at Kawanku ATMs. This service allows Maybank/Mayban Finance customers to reload their Touch 'n Go cards at denomination values of RM50, RM100 and RM200.



- Maybank launched Blink, a revolutionary mobile payment service developed by Singapore Technologies Electronics and MasterCard, for its Singapore customers. With Blink, customers can make transactions using their mobile phones at selected merchants.



- Maybank and the Employees Provident Fund (EPF) signed an agreement to officially launch the online payment of EPF contributions via Maybank's Internet banking channels, Maybank2e.net and Maybank2u.com. This service would allow both enterprise and self-employed customers to pay their EPF contributions conveniently, 24 hours a day, 7 days a week, anytime and anywhere.

### January 2003

- Deputy Finance Minister I, Dato' Dr Haji Shafie bin Haji Mohd Salleh launched Mayban Unit Trust Berhad's two new unit trust funds, Mayban Ethical Trust Fund (METF) and Mayban Value Trust Fund (MVTF). The first of its kind in Malaysia, METF is a socially responsible fund which caters specifically for Malaysians who want a say on how their investments contribute toward the society and the environment. MVTF is a research-intensive equity investment fund, which targets fundamentally sound undervalued equities that are temporarily neglected by the market. With a fund size of 300 million units each, METF and MVTF were the seventh and eighth funds managed by Mayban Unit Trust.



### April 2003

- Maybank launched its Internet banking kiosks that provide convenience for customers to access Maybank's financial portal at [www.maybank2u.com](http://www.maybank2u.com) at its banking premises. The launch makes Maybank the first bank in Malaysia to introduce the Internet banking kiosk concept where the Bank provides the terminals at branches to enable customers to undertake their Internet banking transactions.

### May 2003

- Mayban Unit Trust Berhad launched its latest unit trust product – Mayban Enhanced Bond Trust Fund (MEBTF). The Fund, with a size of 300 million units, is essentially a capital preservation fund providing stability of income to investors. In addition, it is unique as it enhances returns through participation in selective Initial Public Offerings (IPO). The Fund was fully subscribed on 23 June 2003.
- Maybank announced the over-subscription of its Premier Capital Guarantee Fund (PCG) to a total value of RM114 million on the first day of its sales on 2 May 2003. PCG is a specially designed investment-linked insurance plan which was Maybank's latest bancassurance product and underwritten by Mayban Life Assurance Berhad.

### product promotions

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#### April 2003

- The Grand Prize winner of the Maybank Rewarding Dreams Contest was presented with a BMW318iA worth over RM220,000 at a special ceremony held in Kuala Lumpur. Apart from the grand prize, other prizes included Nokia 7650 mobile phones and holiday packages to Sutera Harbour Resort, Kota Kinabalu, Sabah. The contest was open to all new and existing Maybank Group Visa Credit Card members who charged a minimum RM200 to their credit cards during the three-month contest period which ended in January 2003.



## community relations

### July 2002

- Maybank and the Singapore Tourism Board jointly commissioned and sponsored The River Merchants sculpture installed in front of Maybank Tower by the Singapore River. Maybank's partnership with the Singapore Tourism Board was a befitting extension of the role that Maybank Tower has played in enhancing the Singapore River landscape and the Singapore skyline as well as preserving and showcasing the rich heritage of the Singapore River.



### August 2002

- In conjunction with the Merdeka celebration, Maybank Group distributed over 100,000 Jalur Gemilang worth more than RM200,000 at its head office and branches nationwide to customers and the public.

### October 2002

- Maybank Tower was featured in a high profile national event that attracted thousands of spectators and global media coverage. Maybank sponsored a unique and dynamic aerial ballet and acrobatic performance on Maybank Tower – a first for any building in Singapore – as part of the gala opening of the Esplanade – Theatres on the Bay. The performance on Maybank Tower was used as a backdrop for the Harbour Spectacular, the highlight of the evening witnessed by two thousand officials, ambassadors, as well as thousands of people in Singapore.

### November 2002

- The Vice Chairman of Maybank Dato' Richard Ho presented a cheque of RM12,000 to the Institute of Paediatric, Hospital Kuala Lumpur in conjunction with Deepavali celebration. More than 300 children from various races at the Institute also received cash and food hampers at the ceremony.



- Renowned artist Yusof Ghani led a group of eleven artists who exhibited their total of 50 artworks of mixed media at Balai Seni Maybank. The exhibition was entitled “Images of Malaysia”.

- The Maybank Group contributed RM27,000 to the Patients’ Welfare Fund of Hospital Universiti Kebangsaan Malaysia (HUKM) in conjunction with Hari Raya Aidilfitri during a visit made to the hospital. Children were also given hampers and duit raya.

December 2002

- A total of 35 students pursuing their undergraduate studies at local universities were presented with the Maybank Scholarship Awards worth over RM190,000.



- The Maybank Group contributed RM10,000 to Spastic Children’s Centre in Ipoh, Perak as part of its on-going community relations programme to assist the underprivileged.

February 2003

- In conjunction with Chinese New Year celebration, Maybank Group contributed RM21,500 to the Patients’ Welfare Fund of Hospital Selayang. About 100 children patients at the hospital also received goodies and ang pow from the Maybank Group.





- An art exhibition entitled “Emotions of Asia” by Italian artist, Anna Stiffi Fardella was launched at Balai Seni Maybank by His Excellency Anacleto Felicani, Ambassador Extraordinary and Plenipotentiary of the Republic of Italy to Malaysia.

#### April 2003

- The Maybank Group contributed medical equipment worth over RM60,000 to Hospital Jabatan Hal Ehwal Orang Asli. The contribution was made through the Maybank Group Welfare Fund (MGWF). To date, a total of over RM1 million had been contributed through MGWF alone apart from other major contributions made directly by the Group.



#### May 2003

- Balai Seni Maybank hosted an art exhibition entitled “INSPIRASI” featuring the works of three local artists from different backgrounds, Noni Taib, Zaidah Abdullah and Dato’ Hj Abdul Kayoom.
- Maybank continued its sponsorship of the prizes for the International Penang Bridge Run. Since 1996, Maybank has been associated with this leading event which has continued to attract participation from international runners.
- Mayban Finance organised the 12th Kem Remaja held in Sabah which was participated by 100 Form Four students from all over the country. This 8-day camp exposes the participants to various outdoor recreational activities including camping craft, orienteering, first aid and community service.

#### June 2003

- Malaysia’s renowned artist, Adeputra held his solo art exhibition entitled “Made In Blessing Land” at Balai Seni Maybank, featuring artworks in oil and acrylic painted from 1998 to 2003.

## employee programmes

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### July 2002

- The Maybank Group awarded cash incentives worth a total of RM74,000 to 170 children of staff who obtained excellent academic results in their public examinations.

### September 2002

- Maybank celebrated its 42nd anniversary by holding the 10-Year Long Service Award ceremony as an appreciation to staff who had dedicated 10 years of service to the bank.

### October 2002

- Staff from local and overseas operations who had served the bank for 20, 30, and 40 years were presented with Long Service Awards by Maybank at a special ceremony.

### December 2002

- Maybank signed a Memorandum of Agreement with the Association of Maybank Class One Officers (AMCO), with the introduction of reward schemes linking bonus and incentive plans to individual and corporate performance. The agreement contains terms and conditions of service and other provisions that govern the working relationship between AMCO and Maybank from 1 March 2002 until 28 February 2005.





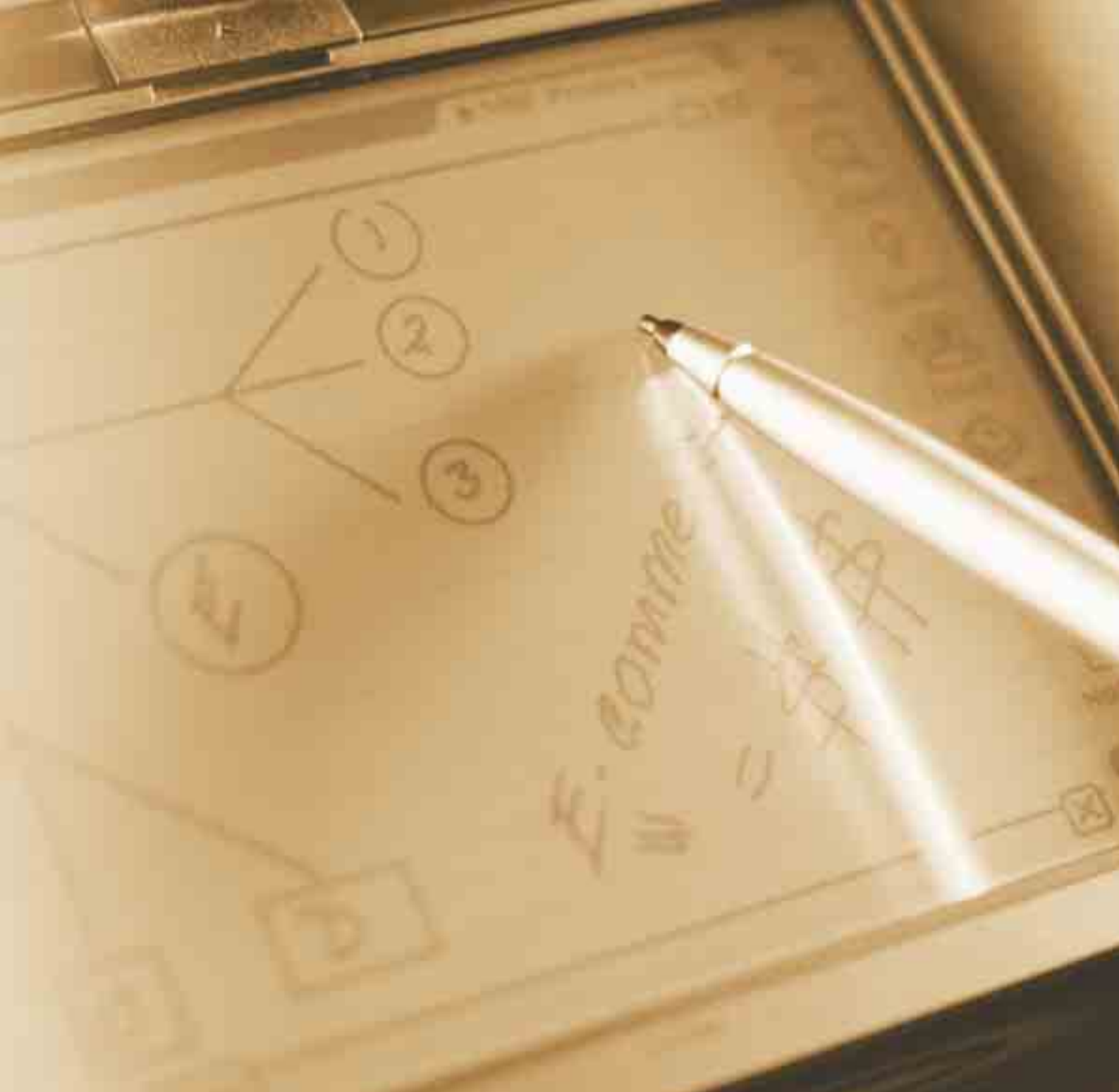
RM 161  
billion  
**in Group assets**

The balance sheet of Maybank continued to expand and this signified a higher degree of resilience to the moderation in overall economic activities.

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## Management's Discussion & Analysis of Financial Performance

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## introduction

Although the Gross Domestic Product (GDP) for Malaysia during the twelve-month period to June 2003 expanded at a faster rate than the preceding period, it originated principally from higher public spending and lower import leakages. Export growth had been trending downward following weak demand for electronics while private spending recorded a mild expansion as both consumer and business sentiments were negatively affected by the uncertainties in the global economy. Despite this development, the balance sheet of Maybank continued to expand and this signified a higher degree of resilience to the moderation in overall economic activities.



The increase in the Group's total loans reflects the ability of the Bank to capitalise on the opportunities created by the Government's economic stimulus programmes as well as the competitive edge it has over other market players.

## analysis of significant balance sheet developments

### assets:

Outstanding assets at the Group and Bank level expanded by 6.8% and 8.5% respectively to RM161.0 billion and RM127.7 billion. In the previous financial year, the corresponding growth rates were 2.3% and 2.6% respectively. About 82.6% of the increase in the Group total assets originated from the increase in loans and investment securities. This kept the proportion of interest-generating assets to total assets at 93.7%.

### cash and short-term funds:

The Bank registered a growth of 9.4% while the Group showed a lower growth of 2.1%. The movements in this component reflect routine asset-liability management activities.

### deposits and placements with financial institutions:

Total deposits and placements with financial institutions for the Group and Bank rose by 34.9% and 30.4% respectively. The major portion of this increase was in respect of placements with Bank Negara Malaysia (BNM) as overall liquidity in the banking system remained in a substantial surplus. The Group remained a net lender in the inter-bank market.

### loans and advances:

Outstanding gross loans (including loans sold to Cagamas) of the Group and Bank expanded by 6.8% or RM7,232.3 million and 6.4% or RM5,280.3 million respectively. The increase was attributable to the competitive strength of Maybank in the credit market, higher utilisation of existing facilities, and a smaller number of debt restructuring schemes involving conversion of loan facilities to capital market instruments. With this performance, the Group's market share for loans improved to 21.1% from 20.8% a year ago.



About 71.5% of the increase in the Group's total loans came from its domestic operations. At the Bank level, the increase was most noticeable in the small and medium enterprises (SME) segment. Loans to this segment expanded by 12.6% against 5.0% in the previous financial year. This reflects the ability of the Bank to capitalise on the opportunities created by the Government's economic stimulus programmes as well as the competitive edge it has over other market players.

The on-going focus in retail lending continued to yield further results. At the Group level, loans granted for the purchase of transport vehicles rose by 16.8% against 9.5% in the previous year. For card receivables, a robust growth of 30.1% was achieved against 20.2% previously. However, for financing the purchase of residential properties, a lower growth of 9.6% against 12.5% previously was recorded. This reflects the Group strategy in the face of intense price war in the house financing market.

Lending to the domestic large enterprises recorded a negligible increase of only 0.1%. About RM1.3 billion of large loans were repaid, converted to debt-equity or written off. In comparison, loans to large enterprises fell by almost RM5.0 billion in the previous year as a sizeable RM5.75 billion in loans were repaid, refinanced through the capital market, converted to equity-related instruments or written off.

In Singapore, the Bank's gross loans grew by a faster 15.8% or SGD798.1 million from 12.2% the year before. For the Singapore Dollar lending book, the increase emanated from retail lending for purchase of residential properties, hire-purchase, card receivables and personal loans.

Growth in the Group's Islamic financing continued strongly into the year with an expansion of 38.8% or RM3,580.1 million against 36.7% the previous year. It now accounts for 11.3% of the Group's overall gross loans against 8.7% in June 2002. As in the previous financial year, more than half or 51.8% of the Group's Islamic financing was for mortgage lending.

#### dealing securities:

Holdings of dealing securities at the Group level decreased by RM846.6 million or 52.2%. This was solely in respect of Aseambankers' operations as it sought to better manage its funding of assets by reducing low-yielding Bankers Acceptances (BAs).

#### investment securities:

The investment portfolio of the Group rose by RM1,477.4 million or 6.2% and by an even larger quantum of RM1,685.3 million or 9.9% at the Bank level. Higher holdings of PDS with strong ratings or those issued in conjunction with debt restructuring, Malaysian Government Securities, Cagamas bonds as well as short-term Negotiable Instruments of Deposits (NID) and BAs contributed to the bulk of the increase in the overall investment portfolio.

#### liabilities:

Outstanding liabilities of the Group rose by 6.9% to RM147.1 billion and the Bank, by 8.5% to RM116.4 billion. For the Group, growth in customer deposits accounted for 72% of the overall increase in liabilities while at the Bank level, it only contributed slightly more than 50% of the increase. This was due to the constant sourcing of alternative funding at the lowest rates, including from the money market.

#### deposits from customers:

Customer deposits at the Group level rose by RM6,820.9 million or 6.6% while at the Bank, it went up by RM4,698.2 million or 5.7%. Supported by the Group's extensive reach, wide range of services and features as well as strong branding, efforts continued to be directed to garner 'lower-cost' savings and demand deposits. For the Group, savings and demand deposits increased by RM1,474.2 million or 7.9% and RM1,823.6 million or 10.4% respectively. For the Bank's domestic operations, all of the traditional deposit growth emanated from savings and demand deposits while fixed deposits fell by RM55 million. Accordingly, fixed deposits now contribute only 51.8% of the Bank's domestic traditional deposits from 54.2% a year ago. In comparison, the

For the Group, savings and demand deposits increased by RM1,474.2 million and RM1,823.6 million respectively.





ratio for all commercial banks was much higher at 64.5%. This ongoing deliberate strategy to reduce funding away from the higher-cost fixed deposit is necessary to ensure that the Bank continues to have a competitive advantage in pricing. The Group's market share of domestic savings deposits was maintained at over 30.0% while for demand deposits, the market share improved to 24.1% from 22.8% a year ago.

#### deposits and placements of financial institutions:

In view of the ample liquidity of most commercial banks, deposits placed by financial institutions with the Bank rose by RM1,949.9 million or 18.0%. At the Group level however, a decline of RM402.1 million or 2.9% was recorded.

#### obligations on securities sold under repurchase agreements (Repos):

For the Group and Bank, this item saw an increase of RM1,267.6 million or 29.8% and RM1,075.3 million or 26.0% respectively. The relatively high increase reaffirms the Group's ability to source funds at competitive rates. For the Bank, the market share of repos outstanding was maintained at almost 20%.

#### bills and acceptances payable:

Growth rates in excess of 50% were recorded for both the Group (+RM1,156.7 million) and Bank (+RM1,447.1 million). The increases were mainly for acceptances payable and are mirrored by the corresponding growth in claims on customers under acceptance credits (part of gross loans). This instrument, which is an integral part of the Group's trade-related operations, grew by about RM1.1 billion or 16% during the year.

#### commitments and contingencies:

For the Group, the increase for this off-balance sheet item was 10.2% or RM7.5 billion. However, in terms of credit-equivalent, the increase was only RM647 million or 5.3%.

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For the Bank, the full-year's impact of the sizeable loans refinanced through the capital market at much lower spreads as well as narrower gapping income from Treasury activities were also prominent factors in weighing down overall margins. Net interest rate margin for the Bank fell to 2.66% or a reduction of 10 basis points.

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## analysis on the profit and loss statement

### net interest income:

The Group's net interest income declined by a further 1.0% or RM38.4 million to RM3,897.2 million. This was largely in respect of Mayban Finance where its net fund-based income fell by RM54.3 million or 6.0% and to a lesser extent, Mayban Discount. However, at the Bank level, it turned to record a 1.8% improvement or RM50.5 million, having declined by 0.3% in the previous financial year.

Sustained pressure on interest margins continued into the year. This was particularly more pronounced for retail lending, including loans for purchase of transport vehicles. With the financing rates for new Hire Purchase (HP) loans having declined by more than 1.0% from a year ago, Mayban Finance's overall net interest rate margin for its total loans fell by 63 basis points to 4.62%. The other major contributory factor was the higher handling fees paid to motor vehicle dealers by RM26.7 million in view of the significant increase in the number of new hire purchase loans booked. Prior to the adoption of this new accounting policy, the handling fees incurred were capitalised and amortised over the loan tenors using the 'sum-of-digits' method. This policy change has been applied retrospectively to re-state the previous financial year accounts. In addition, to better manage its interest rate risk, Mayban Finance further increased its hire purchase loans sold to Cagamas. However, this had some impact in raising its overall cost of funds immediately as the long-term Cagamas funding rate is higher than fixed deposit.

At the Group level, net interest rate margin from interest-earning assets declined by 19 basis points to 2.91% from 3.10% in the previous financial year. In addition, the higher 'negative carry' of surplus funds as well as the reduction in the base lending rate (BLR) by 40 basis points in May 2003 also had an adverse impact for both the Bank and the finance company subsidiary. For the Bank, the full-year's impact of the sizeable loans refinanced through the capital market at much lower spreads as well as narrower gapping income from Treasury activities were also prominent factors in weighing down overall margins. Net interest rate margin for the Bank fell to 2.66% or a reduction of 10 basis points.



In order to mitigate the above-mentioned adverse factors, the Group consciously strives to improve the quality of its loan base. Such improvement will reduce the impact of interest suspension on margins. As a result, net interest suspended for the Group and Bank fell by RM231.8 million or 29.1% and RM180.3 million or 29.7% respectively.

#### islamic banking:

Income from the Group's Islamic Banking operations fell by 1.2% or RM4.9 million to RM383.1 million. This was on account of the need to set aside a RM65.5 million provision for Profit Equalisation Reserve (PER). As required, banking institutions have to set aside the excess in distributable income over that paid to depositors as PER. For the Bank, overall income went up by RM21.6 million or 9.4% even after setting aside RM42.3 million as PER.

#### non-interest income:

The Group's non-interest income declined marginally by 0.7% or RM11.2 million to RM1,576.7 million. This was due to a lower write-back of provision for diminution in value of investment securities to RM18.0 million from RM77.3 million the year before.

The generally weak equity market and external events also had an impact on the Group's trade and tourism-related transactional fee income such as foreign exchange and foreign remittances. As a result, stock-broking brokerage fell by 45.1% or RM21.0 million while foreign exchange profits declined by 10.6% or RM20.5 million.



At the Bank level, non-interest income (excluding dividend income received from Subsidiaries and provisions for diminution in value of investment in Subsidiaries and other securities) improved by 11.7% or RM116.9 million. Some of the more notable increases were Commissions (+RM45.1 million or 15.4% with slightly more than half earned from the higher acquiring business of Credit/Debit cards), Service Charges and Fees earned from transactional activities (+RM32.8 million or 13.7%) and opportunities taken to realise higher gains from the sale of investment securities (+RM30.8 million). These increases mainly reflect the on-going concerted efforts to expand our strong remittance franchise, strengthen the payment service capabilities as well as upgrade fixed income dealing skills.

The fee-income ratio remained at 26.9% for the Group. For the Bank, the same ratio improved to 26.5% from 25.9% the previous year. This is before taking into consideration dividends received from Subsidiaries and provisions for diminution in the value of investments in Subsidiaries.

#### overhead expenses:

Total overheads of the Group rose 7.1% or RM155.3 million to RM2,336.1 million. At the Bank, a more pronounced growth of 12.5% or RM192.3 million was registered. The lower growth for the Group was the result of a decline in the general insurance subsidiary, where the overheads fell by RM28.3 million with lower claims incurred as well as lower provisions for bad and doubtful debts. Apart from this, Mayban Securities also recorded lower overhead costs, i.e. by RM17.0 million on account of both concerted efforts to reduce fixed costs as well as lower costs due to reduced turnover.

The higher overhead costs of 12.5% at the Bank was due to the implementation of various collective agreements, cost of business acquisitions, expenditure pertaining to the introduction of the chip-based 'Payment Multi-Purpose Card', and marketing expenses.

The cost-to-income ratio for the Group increased to 39.9% from 36.7% in the previous financial year. The Group's ratio remained lower than the average of 43.5% for nine other larger banking institutions. On an adjusted basis, the Bank's cost-to-income ratio rose to 37.7% from 37.3% the year before.

Loan loss and provisions of the Group and the Bank fell by 34.6% or RM477.6 million and 31.4% or RM358.9 million respectively.



#### loan and financing loss and provisions:

Loan loss and provisions of the Group fell by 34.6% or RM477.6 million and by 31.4% or RM358.9 million at the Bank. In the case of the Group, the reduction was mainly due to lower Specific Provisions. Total non-performing loans (NPLs) recovered, regularised or restructured to investment securities as a percentage to total newly-classified NPLs, improved to 95% and 94% for the Group and Bank respectively from 86% and 83% the previous year.

For both the Group and Bank, General Provisions (GP) charged were reduced. In the previous financial year, the higher amount charged as GP was due to the decision to reinstate outstanding provisions to 2.5% of risk weighted assets from 2.0% in the previous year. For the financial year ended June 2003, this policy was maintained. The outstanding General Provisions of RM3,474.4 million for the Group is equivalent to 3.3% of net loans compared to the statutory requirement of 1.5%.

#### non performing loans:

Reflecting both the tapering off of new NPLs as well as the sustained effort to preserve asset quality, outstanding NPLs declined at both the Group and Bank. For the Group, the decline was by RM494.4 million and for the Bank, by RM365.5 million. Consequently, the gross NPL ratio of the Group declined to 11.5% from 12.8% in June 2002. Over the same period, the Bank's gross NPL ratio fell to 11.2% from 12.3%. In terms of net NPL ratio, both the Group and Bank saw a decline to 6.2% and 6.0% from 7.2% and 6.9% respectively a year ago.

Accordingly, the reserve cover (excluding collateral value) for both the Group and Bank improved to about 76.0% each from 71.2% a year ago. This remained much higher than the 54.4% for commercial banks and 52.5% for the banking system as at end June 2003.

#### taxation:

The effective tax rate of the Group improved to 21.5% from 29.3% in the previous financial year due to the utilisation of previously unrecognised tax losses at certain subsidiaries. In addition, there was a reversal of RM187.2 million in respect of the Group's over-provision in prior years.

The Directors are required by the Companies Act, 1965 and the KLSE Listing Requirements to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Bank at the end of the financial year and of their results and cash flows for the financial year then ended.

In preparing the financial statements, the Directors have:

- considered the applicable approved accounting standards in Malaysia
- adopted and consistently applied appropriate accounting policies
- made judgements and estimates that are prudent and reasonable

The Directors have the responsibility for ensuring that the Group and the Bank keep accounting records which disclose with reasonable accuracy the financial position of the Group and the Bank which will enable them to ensure that the financial statements comply with the Companies Act, 1965 and the KLSE Listing Requirements.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Bank and to prevent and detect fraud and other irregularities.

## Statement of Directors' Responsibility in respect of the Audited Financial Statements

