FINANCIAL HIGHLIGHTS

Results (RM Million)	The Group 2001	2000	The Bank 2001	2000
Net interest income	**3,995**	3,797	**2,769**	2,563
Net income	**5,622**	5,251	**4,197**	3,509
Operating profit (before provisions)	**3,504**	3,657	**2,748**	2,394
Profit before taxation	**1,510**	2,137	**1,435**	1,544
Profit after taxation and minority interest	**840**	1,360	**901**	1,021
Dividends	**204**	304	**204**	304

Selected Balance Sheet Items (RM Million)	The Group 2001	2000	The Bank 2001	2000
Cash and short-term funds	**12,648**	16,192	**10,449**	13,039
Dealing and investment securities	**22,526**	19,463	**13,762**	11,920
Loans and advances	**92,654**	79,178	**74,575**	61,004
Total assets	**140,897**	127,072	**111,473**	96,806
Deposits from customers	**96,485**	81,867	**77,394**	60,260
Total liabilities	**130,550**	116,446	**102,836**	88,053
Shareholders' funds	**10,040**	10,360	**8,638**	8,753
Commitments and contingencies	**77,865**	62,670	**67,911**	53,671

Capital Adequacy Ratios (%)	The Group 2001	2000	The Bank 2001	2000
Core capital ratio	**9.17**	10.96	**10.03**	12.48
Risk-weighted capital ratio	**13.05**	15.21	**11.61**	14.60

Financial Ratios (%)	The Group 2001	2000	The Bank 2001	2000
Net income per ordinary share (RM)	**2.39**	2.25	**1.78**	1.50
Net return on average shareholders' funds	**8.23**	13.89	**10.36**	12.26
Net return on average assets	**0.63**	1.11	**0.86**	1.11
Loans and advances to deposits	**96.03**	96.71	**96.36**	101.23

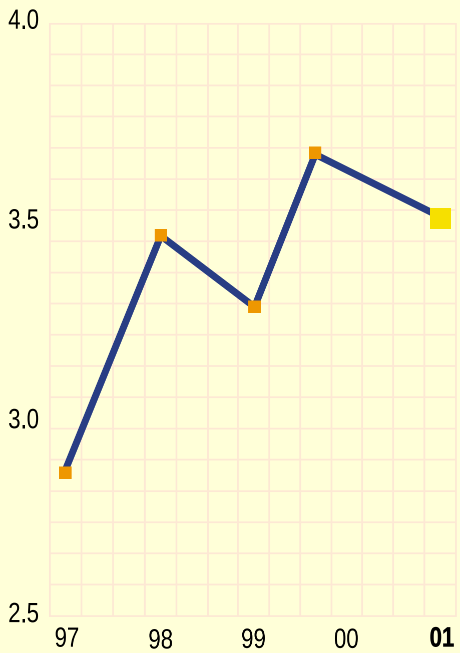
Share Information	The Group 2001	2000	The Bank 2001	2000
Number of ordinary shares in issue ('000)	**2,352,225**	2,337,975	**2,352,225**	2,337,975
Earnings per share*				
- Basic	**35.8 sen**	58.4 sen	**38.4 sen**	43.8 sen
- Fully diluted	**35.4 sen**	57.4 sen	**38.0 sen**	43.1 sen
Dividend rate	**12.00%**	18.00%	**12.00%**	18.00%
Dividend cover	**4.12**	4.47	**4.42**	3.36

** Computed in accordance with MASB Standard 13*

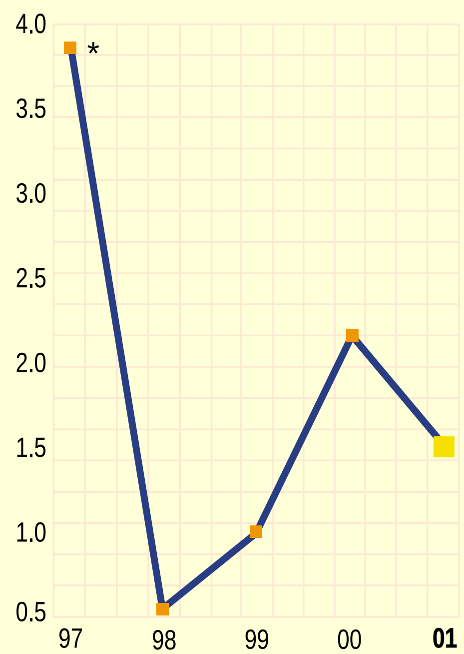
(RM Million)	**2001**	2000	1999	1998	1997
Results					
Operating profit (before provisions)	**3,504**	3,657	3,283	3,460	2,868
Profit before taxation	**1,510**	2,137	1,011	553	3,865
Profit after taxation and minority interest	**840**	1,360	970	130	2,981
Assets					
Total assets	**140,897**	127,072	117,479	114,514	110,438
Loans and advances	**92,654**	79,178	76,301	77,852	64,742
Liabilities and Shareholders' Funds					
Deposits from customers	**96,485**	81,867	77,551	70,025	65,101
Paid-up share capital	**2,352**	2,338	2,308	2,286	1,143
Shareholders' funds	**10,040**	10,360	9,217	8,407	8,273

	2001	2000	1999	1998	1997
Financial ratios (%)					
Net return on average shareholders' funds	**8.23**	13.89	11.01	1.56	42.97
Net return on average assets	**0.63**	1.11	0.84	0.11	2.91
Loans and advances to deposits	**96.03**	96.71	93.39	111.18	99.45
Share Information					
Basic earnings per share	**36 sen*+**	58 sen*+	42 sen*+	6 sen*+	261 sen
Net tangible assets backing per share	**RM4.27***	RM 4.43*	RM 3.99*	RM 3.67*	RM 7.23
Dividend rate	**12.00%**	18.00%	12.00%	15.00%	24.00%
Dividend cover	**4.12**	4.47	4.87	1.05	15.53

* based on enlarged capital after 1:1 bonus issue in 1998
\+ computed in accordance with MASB Standard 13



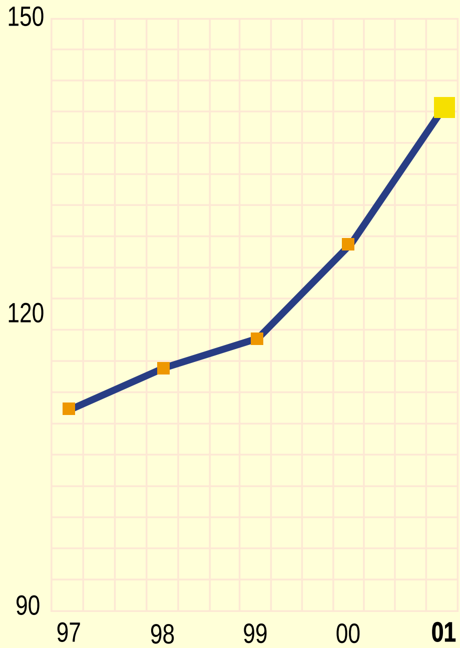
Operating Profit (before provisions)
(RM Billion)



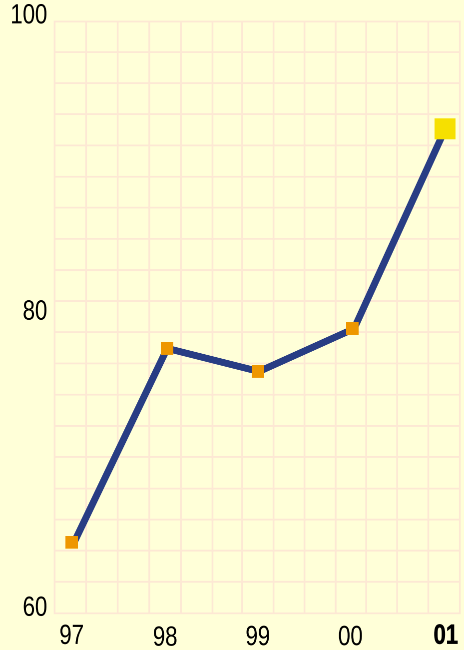
Profit Before Taxation
(RM Billion)

* Including the gain on disposal of Kwong Yik Bank

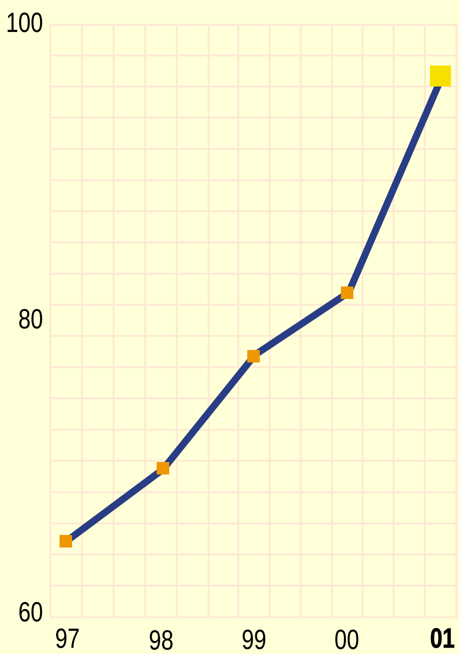
FINANCIAL SUMMARY



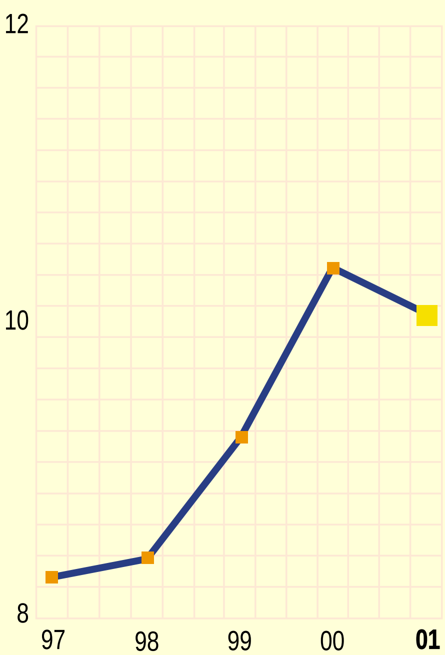
Total Assets
(RM Billion)



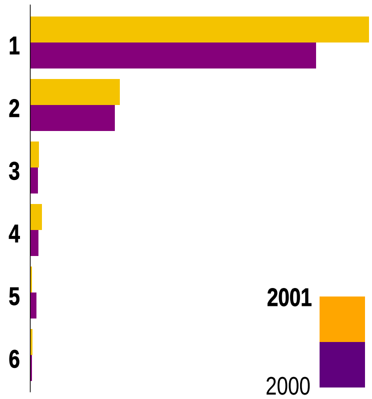
Loans
(RM Billion)



Deposits
(RM Billion)

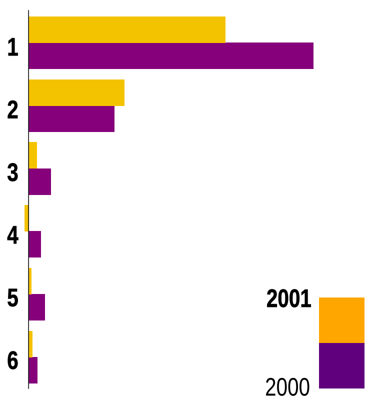


Shareholders' Funds
(RM Billion)

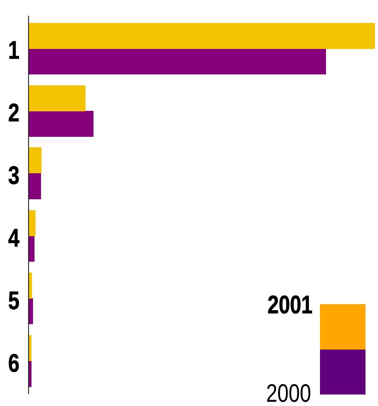


Analysis By Activity

	Operating Revenue (RM'000)	**2001**	2000
1	Commercial and Merchant Banking	**7,559,317**	6,379,198
2	Finance Company, Leasing and Factoring Operations	**1,977,850**	1,885,943
3	Discount House	**193,980**	165,512
4	Insurance	**256,711**	183,386
5	Stocks and Futures Broking	**41,636**	132,511
6	Others	**43,551**	42,340

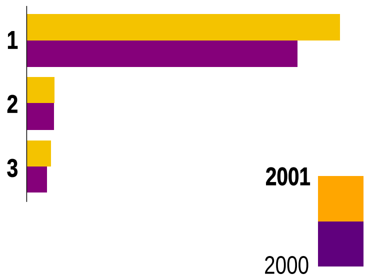


	Profit Before Taxation (RM'000)	**2001**	2000
1	Commercial and Merchant Banking	**979,275**	1,415,497
2	Finance Company, Leasing and Factoring Operations	**477,263**	426,029
3	Discount House	**39,915**	110,615
4	Insurance	**(5,770)**	60,103
5	Stocks and Futures Broking	**1,722**	81,807
6	Others	**17,547**	43,437

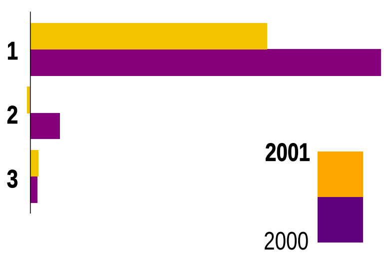


	Assets Employed (RM'000)	**2001**	2000
1	Commercial and Merchant Banking	**115,741,300**	99,404,847
2	Finance Company, Leasing and Factoring Operations	**18,967,637**	21,596,377
3	Discount House and Factoring Operations	**4,200,650**	4,029,151
4	Insurance	**1,341,031**	1,138,875
5	Stocks and Futures Broking	**200,895**	538,961
6	Others	**445,778**	363,890

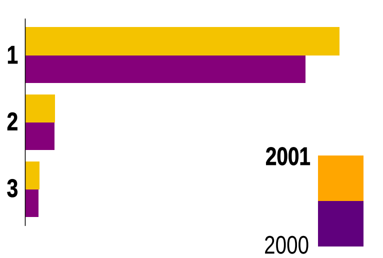
Analysis By Geographical Location



	Operating Revenue (RM'000)	2001	2000
1	Malaysia	**8,680,478**	7,472,693
2	Singapore	**737,787**	758,111
3	Other Locations	**654,780**	558,086



	Profit Before Taxation (RM'000)	2001	2000
1	Malaysia	**1,481,101**	1,937,165
2	Singapore	**(16,930)**	163,050
3	Other Locations	**45,781**	37,273



	Asset Employed (RM'000)	2001	2000
1	Malaysia	**123,635,692**	110,335,379
2	Singapore	**11,658,582**	11,485,006
3	Other Locations	**5,603,017**	5,251,716

Maybank Awards

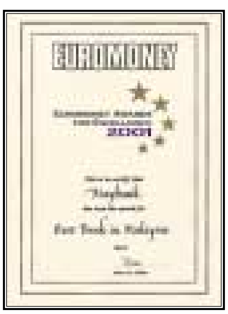
2001

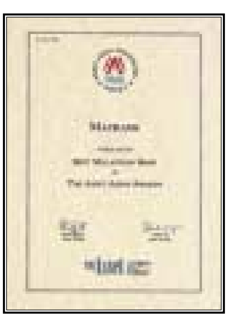
Euromoney Award for Excellence - *Best Bank In Malaysia*

The Asset Asian Awards - *Best Malaysian Bank*

Investor Relations Magazine Asia 2001 Awards

- *Best Investor Relations By A Malaysian Company*





2000

Euromoney Award for Excellence - Best Domestic Bank in Malaysia

The Banker Award for "Bank of the Year" in Malaysia

1999

Global Finance Award for Best Domestic Bank in Malaysia

1998

Finance Asia Award for Best Domestic Commercial Bank

Asiamoney Award for being voted one of the Best Managed Companies in Malaysia

1997

Asian Banking Digest Award - Winner for outstanding progress in regional expansion

Asiamoney Award for the Best Managed Company in Malaysia

Asiamoney Award for the Best Bank in Currencies in Malaysia

Asiamoney Award for Malaysia's Commercial Bank of the Year

1996

Euromoney Award for Excellence - Best Domestic Bank in Malaysia for increasing profitability and a healthy return on equity

Asiamoney Award for being voted one of the Best Managed Companies in Malaysia

1995

Euromoney Award for Excellence - Best Domestic Bank in Malaysia for its impressive return on equity

Asian Institute of Management Awards for "General Management"

1993

Euromoney Award for Excellence - Best Bank in Malaysia for its impressive profitability and innovation

1992

Asian Institute of Management Award for "Information Technology Management "

1991

"IT Organisation of the Year" from Association of the Computer Industry Malaysia (PIKOM)

Best Bank In Malaysia 2001

EUROMONEY AWARDS
FOR EXCELLENCE
2001

Recognition is a two-way street
"We recognised your needs" and
"You recognised our abilities"

Respect is a two-way street
"We respect your needs" and
"You respect our abilities"

Maybank says "thank you" to our customers for their recognition and respect because Maybank recognises and respects our customers.

Maybank

Malayan Banking Berhad (3813-K)

Corporate Information & Board Of Directors

Maybank
(Incorporated in Malaysia in 1960)

Registered Office
14th Floor, Menara Maybank
100, Jalan Tun Perak
50050 Kuala Lumpur
Malaysia

Telephone: (6)03 2070 8833
Telex: MA 30438
Facsimile: (6)03 2070 2611
Cable: MAYBANK
SWIFT: MBBEMYKLA
Website: http://www.maybank2u.com
e-mail: publicaffairs@maybank.com.my

Registrar
Maybank
14th Floor, Menara Maybank
100, Jalan Tun Perak
50050 Kuala Lumpur
Malaysia

Listed On
The Kuala Lumpur Stock Exchange
Main Board on 17 February, 1962

Company Secretary
Datin Shafni Ahmad Ramli
28, Jalan SS 3/80
Ladang Seaport
47300 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Auditors
Messrs Arthur Andersen & Co
Public Accountants

Chairman
Tan Sri Mohamed Basir bin Ahmad
P.S.M., J.S.M., D.P.C.M.

Vice Chairman
Dato' Richard Ho Ung Hun
D.P.M.P.

Managing Director
Datuk Amirsham A Aziz
P.J.N.

Executive Director
Dato' Ismail Shahudin
D.P.C.M., P.M.P.

Executive Director
Dato' Mohammed Hussein
D.J.M.K. (Appointed on November 1, 2000)

Member
Raja Tan Sri Muhammad Alias
bin Raja Muhd. Ali
P.J.K., P.P.T., K.M.N., S.M.P., J.M.N., D.P.S.K., D.I.M.P., D.P.J., P.S.M., S.J.J.

Member
Mohammad bin Abdullah

Member
Dato' Mohd Hilmey bin Mohd Taib
S.M.P., D.I.M.P.

Member
Haji Mohd Hashir bin Haji Abdullah
J.M.N., S.M.S., P.P.T.

Member
Teh Soon Poh

Member
Datuk Abdul Rahman bin Mohd Ramli
P.J.N.

Profiles Of Directors

Tan Sri Mohamed Basir bin Ahmad *(63 years of age - Malaysian)*

B.A., AMP (Harvard)

Non-Executive Director. He worked with Bank Negara Malaysia from 1965 and retired in 1993 as Adviser. He is a Fellow Member of the Malaysian Institute of Bankers since 1980.

Appointed as Chairman of Maybank on October 9, 1993 and also serves as Chairman of the Senior Appointments and Remuneration, Nomination, Finance and Establishment Committees.

Current directorships in public companies include Mayban Fortis Holdings Bhd (formerly known as Mayban Assurance Bhd), Mayban Life Assurance Bhd, Mayban General Assurance Bhd (formerly known as UMBC Insurans Bhd), Aseambankers Malaysia Bhd, Mayban Property Trust Management Bhd, Mayban International Trust (Labuan) Bhd, Maybank International (L) Ltd, Maybank (PNG) Ltd, PT Bank Maybank Indocorp (formerly known as PT BANK MAYBANK NUSA INTERNATIONAL), Maybank Philippines Incorporated, PhileoAllied Securities (Philippines) Incorporated and PhileoAllied Bank (Malaysia) Bhd.

Attended 19 out of the 21 Board Meetings held in the financial year. No family relationship with any Director and is a nominee of the major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Dato' Richard Ho Ung Hun *(74 years of age - Malaysian)*

Barrister at Law (Lincoln's Inn)

Independent Non-Executive Director. He was a Member of Parliament from 1969 to 1982. He was appointed as Deputy Minister of Road Transport in 1974 and was subsequently appointed as Deputy Minister of Finance in 1976. In 1978, he was appointed as Minister without Portfolio in the Prime Minister's Department and subsequently as Minister of Labour and Manpower in the same year.

Appointed Vice Chairman of Maybank on January 27, 1983 and also serves as a Member of the Senior Appointments and Remuneration, Nomination, Finance and Establishment Committees.

Current directorships in public companies include Mayban Finance Bhd, Mayban Management Bhd, Aseamlease Bhd, Mayban Trustees Bhd, Aseambankers Malaysia Bhd, Mayban International Trust (Labuan) Bhd, Maybank International (L) Ltd, Anfin Bhd, DMIB Bhd and Pengurusan Danaharta Nasional Bhd.

Attended all of the 21 Board Meetings held in the financial year. No family relationship with any Director and/or major shareholder of Maybank. Has a Tenancy Agreement with Maybank to rent a unit of four-storey shophouse to be used as branch premises. Has never been charged for any offence. ■

Datuk Amirsham A Aziz *(51 years of age - Malaysian)*

B.Econs (Hons), Member of MACPA

Managing Director. He joined the Maybank Group in 1977 and has worked in various capacities within the Group.

Appointed Managing Director of Maybank on May 1, 1994 and also serves as a Member of the Nomination, Finance and Establishment Committees.

Current directorships in public companies include Mayban Finance Bhd, Aseambankers Malaysia Bhd, Mayban Fortis Holdings Bhd (formerly known as Mayban Assurance Bhd), Credit Guarantee Corporation Malaysia Bhd, Cagamas Bhd, Perbadanan Usahawan Nasional Bhd, AFC Merchant Bank Ltd, Asean Fund Ltd, and Asean Supreme Fund Ltd.

Attended 19 out of the 21 Board Meetings held in the financial year. No family relationship with any Director and/or major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Raja Tan Sri Muhammad Alias bin Raja Muhd. Ali *(69 years of age - Malaysian)*

B.A (Hons), AMP (Harvard), D.Sc. (Hon), D.Econs (Hon)

Independent Non-Executive Director. He was the Group Chairman of Felda from May 1, 1979 to June 30, 2001.

Appointed a Director of Maybank on March 31, 1978 and also serves as a Member of the Senior Appointments and Remuneration and the Maybank Group Employee Share Option Scheme Committees.

Current directorships in public companies include Mayban Fortis Holdings Bhd (formerly known as Mayban Assurance Bhd), PT Bank Maybank Indocorp (formerly known as PT BANK MAYBANK NUSA INTERNATIONAL), Kuala Lumpur Kepong Bhd, Sime Darby Bhd, Batu Kawan Bhd, Cerebos Pacific Ltd and Yule Catto & Co plc.

Attended 19 out of the 21 Board Meetings held in the financial year. No family relationship with any Director and/or major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Mohammad bin Abdullah *(60 years of age - Malaysian)*

Member of MACPA, Member of MIA

Independent Non-Executive Director. He was the Chairman of Coopers & Lybrand Malaysia prior to his retirement in 1995.

Appointed a Director of Maybank on January 11, 1995 and also serves as a Member of the Audit, Senior Appointments and Remuneration, Nomination, Finance, Establishment and the Maybank Group Employee Share Option Scheme Committees.

Current directorships in public companies include Mayban Discount Bhd, Maybank (PNG) Ltd, Mayban Finance Bhd, Maybank International (L) Ltd, Anfin Bhd, Negara Properties (M) Bhd, Labuan Reinsurance (L) Ltd, Golden Hope Plantations Bhd, Malaysian National Reinsurance Bhd and The Malaysia Equity Fund Ltd.

Attended all of the 21 Board Meetings held in the financial year. No family relationship with any Director and/or major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Dato' Mohd Hilmey bin Mohd Taib *(48 years of age - Malaysian)*

MBA (UK), Member of MIA, Bachelor of Econs (Hons) Accounting, Diploma in Accounting

Non-Executive Director. He is currently the Executive Chairman of HeiTech Padu Bhd. Prior to this, he was the Group Chief Executive of Permodalan Nasional Bhd.

Appointed a Director of Maybank on March 27, 1995 and also serves as the Chairman of the Maybank Group Employee Share Option Scheme Committee and a Member of the Audit and Nomination Committees.

Current directorships in public companies include Maybank Philippines Incorporated and PhileoAllied Securities (Philippines) Incorporated.

Attended 19 out of the 21 Board Meetings held in the financial year. No family relationship with any Director and is a nominee of the major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Haji Mohd Hashir bin Haji Abdullah *(65 years of age - Malaysian)*

ACA (Aust), ACIS (UK), Member of MACPA, FBIM (UK), FCIT (UK), AMP (Harvard)

Independent Non-Executive Director. He was the General Manager of Kelang Port Authority prior to his retirement.

Appointed a Director of Maybank on November 7, 1996 and also serves as the Chairman of the Audit Committee and a Member of the Senior Appointments and Remuneration, Finance and Establishment Committees.

Current directorships in public companies include Mayban Fortis Holdings Bhd (formerly known as Mayban Assurance Bhd), Mayban Life Assurance Bhd, Mayban General Assurance Bhd (formerly known as UMBC Insurans Bhd), Mayban Finance Bhd, Mayban Management Bhd, Mayban Discount Bhd, Mayban Life International (Labuan) Ltd and MFSL Ltd.

Attended all of the 21 Board Meetings held in the financial year. No family relationship with any Director and/or major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Dato' Ismail Shahudin *(50 years of age - Malaysian)*

B. Econs (Hons)

Executive Director. Prior to joining Maybank in 1992 as General Manager, he was with Esso Malaysia Berhad, Citibank, the then United Asian Bank and Bank of Commerce.

Appointed Executive Director of Maybank on September 16, 1997 and also serves as a Member of the Finance and Establishment Committees.

Current directorships in public companies include Mayban General Assurance Bhd (formerly known as UMBC Insurans Bhd), Aseambankers Malaysia Bhd and Maybank Philippines Incorporated.

Attended 20 out of the 21 Board Meetings held in the financial year. No family relationship with any Director and/or major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence ■

Mr Teh Soon Poh *(65 years of age - Malaysian)*

Barrister at Law (Middle Temple)

Independent Non-Executive Director. He was the former General Manager of Credit Control Division of Maybank prior to his retirement in 1992.

Appointed as Director of Maybank on October 21, 1997 and also serves as a Member of the Audit, Finance and the Maybank Group Employee Share Option Scheme Committees.

Current directorships in public companies include Mayban Property Trust Management Bhd, Mayban Finance Bhd, Mayban Trustees Bhd, Mayban International Trust (Labuan) Bhd, Maybank International (L) Ltd, Anfin Bhd, Sifin Bhd (formerly known as SimeFinance Bhd), PhileoAllied Trustee Bhd and Aseambankers Malaysia Bhd.

Attended 20 out of the 21 Board Meetings held in the financial year. No family relationship with any Director and/or major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Datuk Abdul Rahman bin Mohd Ramli *(62 years of age - Malaysian)*

ACA (Aust), Member of MACPA, Member of MIA

Non-Executive Director. He was the Group Chief Executive of Golden Hope Plantation Bhd prior to his retirement in 1999.

Appointed a Director of Maybank on November 17, 1999 and also serves as a Member of the Audit, Senior Appointments & Remuneration and Finance Committees.

Current directorships in public companies include Mayban Finance Bhd, Kuala Lumpur Kepong Bhd and The Store Corporation Bhd.

Attended all of the 21 Board Meetings held in the financial year. No family relationship with any Director and is a nominee of the major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Dato' Mohammed Hussein *(51 years of age - Malaysian)*

Bachelor of Commerce (Accounting)

Executive Director. He joined the Maybank Group in 1977 and has worked in various capacities within the Group.

Appointed Executive Director of Maybank on November 1, 2000 and also serves as a Member of the Finance Committee.

Current directorships in public companies include Mayban Discount Bhd, Mayban International Trust (Labuan) Bhd, Maybank International (L) Ltd, PT Bank Maybank Indocorp (formerly known as PT BANK MAYBANK NUSA INTERNATIONAL), PhileoAllied Bank (Malaysia) Bhd, PhileoAllied Securities (Hongkong) Ltd and Malaysian Industrial Development Finance Bhd.

Attended all of the 14 Board Meetings held in the financial year upon his appointment in November 2000. No family relationship with any Director and/or major shareholder of Maybank. No conflict of interest with Maybank. Has never been charged for any offence. ■

Group Management & Management Team

Group Management

Managing Director
Datuk Amirsham A Aziz

Head, Corporate Services/ Support & Risk Management Group
Dato' Ismail Shahudin

Head, Banking Business Group
Dato' Mohammed Hussein

Head, Investment Banking And Asset Management Business Group
Md Agil Mohd Natt

Head, International Business Development
Spencer Lee Tien Chye

Group Financial Controller
Hooi Lai Hoong

Head, Insurance Business Group
Kassim Zakaria

Head, Finance Business Group
Dato' Wan Ismail Abdul Rahman

Management Team

Managing Director
Datuk Amirsham A Aziz

Executive Directors
Dato' Ismail Shahudin
Dato' Mohammed Hussein

Senior General Managers
Spencer Lee Tien Chye
(Singapore Operations)

Hooi Lai Hoong
(Finance & Treasury)

Ashraf Ali bin Abdul Kadir
(e-Banking)

General Managers
Choo Yee Kwan
(International Banking/ Group Remedial Management)

Abdul Aziz Peru Mohamed
(Consumer Banking)

Tong Hon Keong
(Information Systems)

Johar Che' Mat
(Enterprise Banking)

Zulkiflee Abbas Abdul Hamid
(Credit Control)

Mohd Zulkifli bin Itam
(Human Resource)

Dato' Abdul Manap bin Abd Wahab
(Branch Operations)

Assistant General Managers
Richard Chang Wah Choong
(Internal Audit)

Lee Hong Khim
(Corporate Support, Singapore)

Loh Oun Hean
(Banking Business, Singapore)

Mohd Naim Abdullah
(Enterprise Banking)

Ibrahim Hassan
(Group Market Risk)

Syed Mahadzir Syed Ismail
(Forex & Money Market)

Nik Nasir Majid
(Corporate Planning)

Tracy Ong Guat Kee
(Enterprise Banking)

Zulkifly bin Sulaiman
(Consumer Banking)

Terry Lim Cheng Chooi
(Enterprise Banking)

Leong Peng Kei
(Property Administration & Purchase)

Lee Khee Joo @ Lee Ying Chong
(Special Project)

Statement On Corporate

- **Managing with professionalism, accountability and integrity**
- **Providing shareholders with information on a timely basis**
- **Building long-term shareholder value**

...The above are some of the elements of the Malaysian Code of Corporate Governance

The Malaysian Code of Corporate Governance was formalised in March 2000 and sets out the principles and best practices which companies should adopt to raise standards of corporate governance. This Code will be enforced from financial year ending after 30 June 2001.

As a leading public listed company in Malaysia, Maybank recognises the importance of corporate governance in all areas of its activities, and has adopted the above Code for implementation within the Group.

The Directors would like to state that as a Group, Maybank has always recognized the need for good corporate governance to build and enhance long-term shareholder value. The key principles, and most of the best practices, as set out in the Code, have been incorporated into the Bank's systems and processes, even long before the Code was promulgated. An indication of such a commitment is reflected in the establishment of the Senior Appointments and Remuneration Committee and Nomination Committee way back in 1995 and 1996 respectively.

Board Of Directors

Effective and independent

The cornerstone of Maybank's corporate governance is an independent, effective Board, that sets strategies and policies, as well as ensures proper conduct of business. These strategies are laid down in a medium term strategic plan and reviewed every year during annual budget exercises.

The current Board comprises three executive and eight non-executive Directors of which five are independent. The current Directors bring to the Board a diverse wealth of skills as well as knowledge in law, banking, accounting, economics, information technology and general management. Profiles of the Directors are published on pages 12-14.

Of the 11 Directors on the Board, three are nominees of Permodalan Nasional Berhad, which together with ASB and ASN hold controlling interest in the Bank. Notwithstanding this, given the overall size of the Board, no one group of Directors or individual member dominates the Board's discussion or decision making.

In discharging its fiduciary duty, the Board, is assisted by six Board Committees, each entrusted with specific tasks. The composition and responsibilities of the Board Committees are set out in page 19.

The appointments to the Board are recommended by the Nomination Committee, which is entrusted with the task of reviewing and recommending the appropriate mix of expertise and experience, and the appropriate balance between executive, non-executive and independent Directors. This Committee is also responsible for the nomination of Board members of subsidiary companies, and as part of their responsibilities, are guided by the principle that the chairman of these subsidiaries should always be a non-executive director.

The Nomination Committee is also responsible for recommending measures to upgrade the effectiveness of all Board

Governance

members. The members of the Board (with the exception of the Managing Director) are required to offer themselves for re-election every three years in accordance with the provision of the Memorandum & Articles of Association as well as the KLSE Listing Requirement.

Regular continuing education programmes and seminars are organised for the Directors to keep them abreast of latest developments and advances in corporate governance. The full Maybank Board was also among the first batch of company Directors to undergo the KLSE accredited training programme as required under the Exchange's guidelines on training for Directors.

There is also a clear division of responsibilities between the Chairman and the Managing Director. The Chairman heads the Board and leads the planning discussion at the Board level, while the Managing Director is responsible for the implementation of the policies and the executive decision making.

All areas of risk management are constantly raised and discussed at the Board as well as the various Board Committees. The Audit Committee of the Board ensures compliance with disclosure requirements and accounting and audit policies overseeing all issues pertaining to operational risks. The Finance Committee considers all issues relating to credit, market and liquidity risks while the main Board oversees all risks, including legal and reputational risks. Plans are, however, in place to centralise all these functions under a Risk Management Committee of the Board.

Transparent procedures and supply of information

Board meetings are scheduled once every month to review the Group's operations, with additional meetings held every quarter to review and approve the quarterly and annual financial statements. During the year, another five meetings were specially convened to discuss urgent issues relating to

the Bank's merger exercise. All the Directors have complied with the minimum number of attendance at meetings as stipulated by Bank Negara Malaysia and the KLSE.

The Board meets four times a year in locations outside Kuala Lumpur to enable the Directors to update themselves on the Group's local operations as well as to meet with clients and local government officials to better understand their needs.

Board meetings are structured, with a pre-set agenda. Board papers providing updates on operational, financial and corporate developments are circulated prior to the meeting to give Directors time to deliberate on the issues to be raised at the meetings. Minutes of the Board Committees and the Group Management Committee are also tabled at the Board meetings for its information and deliberation. The Managing Director leads the presentation and provides explanation on the papers.

Outside the Board meetings, all Directors have direct access to the Senior Management and the services of the Company Secretary. In addition, the Directors are also empowered to seek external independent professional advice to enable them to make well-informed decisions.

Remuneration Of Directors

Maybank pays its Directors annual fees which were last revised in 1994 and approved by shareholders at the annual general meeting. In addition to this, Directors are paid a meeting allowance for each meeting they attend, which was last revised in 1999.

Currently the Nomination Committee is responsible for reviewing and recommending the fees for Directors. In setting the level of remuneration for Executive Directors, the Committee is guided by the need to 'attract and retain' and at the same time, link the rewards to corporate and individual performance.

The fees payable to the Directors of the Bank are included on pages 90-91 of the Financial Statement.

Dialogue With Shareholders

Maybank has always recognized the need to inform shareholders of all major developments of the Group on a timely basis. An investor relations programme which established direct channels of communication with shareholders and the investment community was launched in the early '90s. The Corporate Planning Division, with active involvement of key senior management personnel, including the Managing Director and Executive Directors, drives the programme.

The principal forum for dialogue with shareholders remains the Annual General Meeting, during which shareholders are encouraged to raise questions pertaining to the operations and financials of the Company with the Directors.

Apart from the mandatory public announcements through the Kuala Lumpur Stock Exchange for the Group's financial results and corporate developments, the Maybank Group has also set up a website, www.maybank2u.com, for timely dissemination of announcements to all stakeholders, and for feedback.

The Group organises briefings to analysts and fund managers in conjunction with the release of its interim and final results. In addition, it participates in various investor forums, both locally and abroad as well as organises other briefings and meetings with investors and fund managers to keep them abreast of the company's developments.

In recognition of Maybank's initiatives and efforts in this area, the Company was given an award for "Best Investor Relations by a Malaysian Company" in 2001 by the UK-based Investor Relations magazine.

Accountability And Audit

Financial reporting

The Board also takes responsibility for presenting a balanced and understandable assessment of the Group's operations and prospects, each time it releases its quarterly and annual financial statements to shareholders. The Audit Committee of the Board assists by scrutinizing the information to be disclosed, to ensure accuracy and adequacy.

A Statement of Directors' Responsibility for the Audited Accounts is published separately on page 45.

Internal controls

The Board acknowledges its overall responsibility for the Group's system of internal control and the need to review its effectiveness regularly. In this connection, the Board also wishes to state that the system of internal controls is already in operation to provide assurance of effective and efficient operations covering financial operations and compliance.

The Board recognises that risks cannot be eliminated completely, as such, the systems and processes put in place would have to be aimed at minimizing and managing them. At this juncture, the Board is of the view that the system of internal controls that has been instituted throughout the Group is sound and sufficient to safeguard shareholder's investment and the company's assets. Notwithstanding this, on-going reviews are continuously carried out to ensure the effectiveness of the system.

Relationship with auditors

Through the Audit Committee of the Board, the Company has established transparent and appropriate relationship with the Company's auditors, both internal and external.

The external auditors attend all the meetings of the Committee. In addition, the Committee also meet the external auditors without the presence of the management at least once a year. ■

Board Committees

The Board

The Board has the overall responsibility of ensuring that the Company operates according to its declared objectives. In carrying out this responsibility, it is empowered to decide on all matters relating to the Company's business and to delegate these powers accordingly. It can appoint Board Committees and delegate any of its powers to these committees as it deems fit. The Board meets once a month.

The Audit Committee Of The Board (ACB)

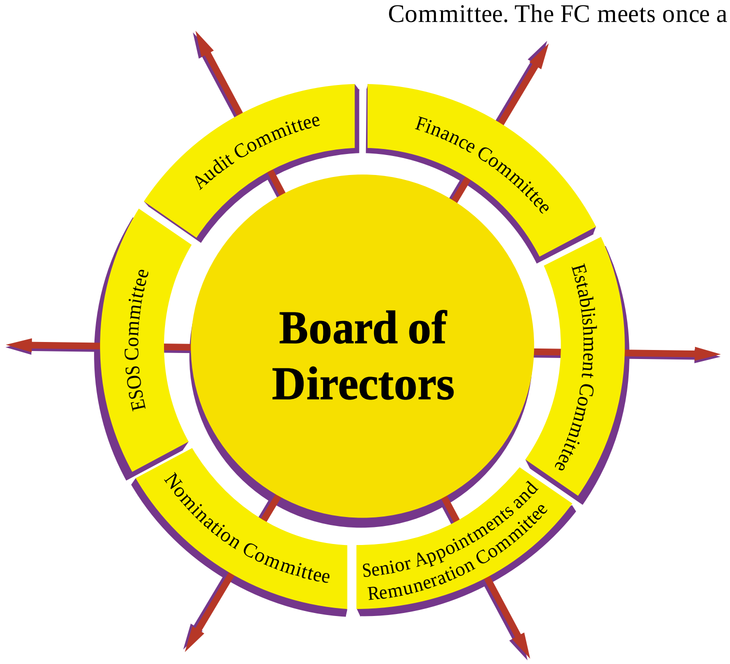
The ACB is appointed by the Board to assist it in discharging its duty of maintaining a sound system of internal controls to safeguard shareholders' investment and the company's assets. This includes reviewing the financial statements to ensure compliance with disclosure requirements and approved accounting standards in Malaysia as well as guidelines set by the Kuala Lumpur Stock Exchange and Bank Negara Malaysia. Detailed terms of reference and the activities of the ACB are provided in page 20.

Finance Committee (FC)

The Board has delegated to the FC numerous responsibilities and authorities, principally relating to credit and finance. These are to review and recommend the annual budget, and to make policy recommendations on credit matters and treasury operations. At the operational level the Committee has been empowered to approve credit facilities within limits, to monitor the Maybank Group's position on derivatives, to approve the operating guidelines and trading limits for money market trading operations and to approve the write-off of bad-debts within limits. Six non-executive directors of the Board, four of whom are independent, sit on the nine-member Committee. The FC meets once a week.

Maybank Group Employee Share Option Scheme (ESOS) Committee

The ESOS Committee oversees the implementation of the Maybank Group Employee Share Option Scheme in accordance with the approved Bye-Laws. The Committee informs the Board, from time to time, of the administration of the Scheme. All the four members of the Committee are non-executive directors with three of them being independent. The Committee meets at least twice a year.



Establishment Committee (EC)

The EC is empowered to set policies and procedures on human resources and employee matters, including staff promotions of certain levels and recommends policies on public relations. It is also responsible for approving capital expenditures and the disposal of capital assets. Sitting on this six-member Committee are four non-executive directors. The Committee meets once a fortnight or at least once a month.

Nomination Committee (NOMC)

The NOMC is entrusted with the specific task of recommending the appointment of Directors to the Board of Maybank and its subsidiaries, giving consideration to the appropriate mix of expertise and experience and the appropriate tenure. The NOMC also reviews the performance of the Directors who retire at the end of their respective terms. Where potential conflict of interests exists, the NOMC will recommend solutions to resolve these conflicts. This Committee also continually seeks ways to upgrade the effectiveness of the Board of Directors of Maybank and its subsidiaries.

Five members of the Board serve on this Committee, of which four are non-executive directors. The NOMC meets as and when required.

Senior Appointments And Remuneration Committee (SARC)

The SARC is responsible for the review and recommendation of general remuneration policies and practices of the Group. It is also empowered to recommend to the Board the appointment and promotion of senior management for the Group. It addition, it is to recommend to the Board, suitable short and long-term polices of having performance-related incentive schemes, as well as a programme for management development.

All six members of the Committee are non-executive directors. The Committee meets at least twice a year, or as and when requested by the Chairman.

Audit Committee Of The Board

The Board has appointed the Audit Committee to assist it in discharging its duties of maintaining a sound system of internal controls to safeguard shareholders' investment and the Group's assets.

Size And Composition

For the financial year ended June 30, 2001, the Audit Committee comprised the following five non-executive directors, three of whom are independent directors:

Members

Chairman

Haji Mohd Hashir bin Haji Abdullah
(Independent Non-Executive Director)
ACA (Aust), ACIS (UK), Member of MACPA, FBIM (UK), FCIT (UK), AMP (Harvard)

Members

Mohammad bin Abdullah
(Independent Non-Executive Director)
Member of MACPA, Member of MIA

Teh Soon Poh
(Independent Non-Executive Director)
Barrister at Law, Middle Temple

Dato' Mohd Hilmey bin Mohd Taib
(Non-Executive Director)
MBA (UK), Member of MIA, Bachelor of Econs (Hons) Accounting, Diploma in Accounting

Datuk Abdul Rahman bin Mohd Ramli
(Non-Executive Director)
ACA (Aust), Member of MACPA, Member of MIA

Tenure Of Membership

The tenure of the Committee members is 3 years.

Authority

The Board has empowered the Committee to undertake the following:

1. Investigate any matter within its terms of reference.
2. Have the necessary resources required to perform its duties.
3. Have full and unrestricted access to any information and documents relevant to its activities.
4. Have direct communication channels with external auditors, person(s) carrying out the internal audit function or activity and with the senior management of the Bank and its subsidiaries.
5. Promptly report to the KLSE matters which result in a breach of the listing requirements.
6. Obtain external legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers necessary.
7. Convene meetings with external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

Duties And Responsibilities

The duties and responsibilities of the Committee are to review, appraise and report to the Board of Directors on the following:

1. The scope of audit and audit plans of both the internal and external auditors.
2. The adequacy of the established policies, procedures and guidelines, operating and internal accounting controls and whether the internal auditor has the necessary authority to carry out their job.
3. The internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal auditor.
4. The quarterly results and year-end financial statements focusing particularly on the changes in accounting policies, significant and unusual events as well as compliance with accounting standards and other legal requirements.

5 The effectiveness of internal control systems and the internal and/or external auditors' evaluation of these systems and in particular the external auditor's management letter and management's response.

6 Any related party transaction and conflict of interest situation that may arise within the Bank or Group including any transaction, procedure or course of conduct that raises questions of management integrity.

7 The appointment of the external auditors and their audit fee.

Attendance at Meetings

During the financial year ended June 30, 2001, the Audit Committee held a total of 18 meetings, of which 14 were regular meetings while 4 were meetings to deliberate the quarterly and the year-end financial statements. The details of attendance of the Committee members are as follows:

Name Of Committee Member	No Of Meetings Attended
Haji Mohd Hashir bin Haji Abdullah	**18/18**
Mohammad bin Abdullah	**16/18**
Teh Soon Poh	**18/18**
Dato' Mohd Hilmey bin Mohd Taib	**12/18**
Datuk Abdul Rahman bin Mohd Ramli	**14/18**

The three executive directors, the Head of the Audit Division and the representatives of the external auditors, Messrs Arthur Andersen & Co., are invited to attend the Committee meetings. The Company Secretary, Datin Shafni Ahmad Ramli, is the secretary to the Audit Committee.

Activities

During the year in review, the following were the activities of the Audit Committee:

1 Reviewed the Annual Audit Plan for the year 2000/2001 to ensure adequate scope and coverage over the activities of the Group. This was reviewed together with the External Auditor.

2 A total of 306 internal audit reports on audit assignments were tabled and deliberated by the Committee. In addition, 31 adhoc audit reports and 69 investigation audit reports were also tabled. The ACB reviewed the Bank Negara Malaysia Examiners' reports and audit reports of other regulatory authorities such as the Federal Reserve Bank of the State of New York, Financial Services, Authority of United Kingdom and the Hong Kong Monetary Authority in respect of our branch operations in New York, London and Hong Kong.

3 Reviewed the minutes of the ACB of subsidiaries for an overview of their internal controls system.

4 Reviewed the staffing requirements of the Audit Division to ensure that the Audit Division is adequately staffed by employees with the relevant skills, knowledge and experience to enable the Audit Division to perform its role including the provision of training.

5 Provided independent evaluation of the performance and approval of the remuneration, increment, promotion, bonus and appointment of audit staff in accordance with the requirement of Garis Panduan 1 of Bank Negara Malaysia Guidelines.

6 Reviewed the Audit Division structure on a Group basis with a view to improve and enhance the effectiveness and efficiency in carrying out the internal audit function across the Group.

7 Reviewed and approved the shift in auditing focus from compliance based to the risk based audit approach. This included examining the methodology of the Risk Based Audit Approach, Audit Guidelines and Manual On Risk Based Auditing taking into view the global best practices and industry standards.

8 Evaluated the performance of external auditors and made recommendations to the Board on their appointment, scope of work and audit fees.

9 Reviewed the financial statements and ensured that the financial reporting and disclosure requirements of relevant authorities had been complied with.

Internal Audit Function

The Board/Audit Committee of the Board is assisted by the Internal Audit Division in maintaining a sound system of internal controls.

The Internal Audit Division undertakes internal audit functions of the Bank based on the audit plan that is reviewed by the Audit Committee and approved by the Board. The audit plan covers review of adequacy of risk management, operational controls, compliance with law and regulations, quality of assets, management efficiency and level of customer services amongst others. These reviews are now shifted to a risk-based approach rather than solely compliance.

The internal auditing function is conducted on a Group basis to ensure consistency in the control environment and the application of policies and procedures. This includes common platforms for addressing generic issues which run across the Group, namely related to information technology risk, market risk and credit risk, amongst others.

A systematic and disciplined approach is adopted to provide the required assurance to stakeholders, and also to add value and improve the Group's operations by providing independent, objective assurance and consulting activities. These are designed to evaluate and enhance risk management, control and governance processes to assist Management to achieve its corporate goals.

The internal audit reports prepared by the Division are deliberated by the Audit Committee of the Board and recommendations are duly acted upon by the Management.

Going forward, the Division will further enhance its risk-based auditing techniques, enhance the level of staff expertise and benchmark itself against global best practices in internal auditing. ■

To Our Shareholders

The financial year ended 30 June, 2001 was an eventful 12 months, marked by the completion of the merger of four financial institutions into the Group as well as a strategic alliance with Fortis International NV.

The challenging business environment emanating from the deceleration in the global economy, however, affected the overall performance of the Group.

Financial Performance

Tan Sri Mohamed Basir bin Ahmad

Despite the sluggish conditions, total income of the Group rose to RM5.59 billion from RM5.25 billion previously. However, higher overhead expenses and loan loss and provisions brought the Group's pre-tax profit to RM1.51 billion which was 29% lower than the previous year.

As expected, expenses relating to our mergers and acquisitions as well as the conclusion of four collective agreements during the year contributed to higher overhead costs. Some of these were one-off costs. We, however, expect cost savings in the rationalisation exercise following our mergers, to be realised in the coming years.

The increase in loan loss and provisions during the year was due to the deterioration in the asset quality of the Group's loan portfolio as well as the re-alignment of accounting policies on classification of non-performing loans (NPL) and treatment of collateral value for provisioning purposes of the mergee banks. The weaker stockmarket also necessitated additional provisions to be made arising from the decline in collateral values.

Mayban Finance continued to record a sterling performance, showing a 21% rise in pre-tax profit to RM504 million. Its net interest income increased to RM1.2 billion from RM1.07 billion previously. The result was also aided by lower loan loss and provisions amounting to RM374.4 million compared to RM519.8 million previously. After taxation and zakat of RM204 million, net profit for Mayban Finance amounted to RM300 million.

During the year, the operations of Mayban Factoring, Aseamlease and Sime Finance Berhad were consolidated with that of Mayban Finance.

Our investment banking group had an extremely challenging year. Aseambankers Malaysia Berhad reported a net loss of RM151.5 million on the back of lower revenues and higher loan loss and provisions.

Aseambankers' strategy is to concentrate on the core business of investment banking, which is corporate finance and capital-market related acitivities. Its strategy going forward, is to continue to be selective in the mandates it undertakes. Corporate lending will continue but this will be used to support core operations.

Mayban Securities recorded a lower pre-tax profit of RM12.35 million from RM82.33 million previously. This is attributed to sharply lower volumes due to weak market sentiments as well as lower commissions from the downward revision in brokerage fees.

Datuk Amirsham A Aziz

Mayban Discount also saw its pre-tax profit drop from RM110 million to RM39 million, mainly due to the narrowing of interest margins following the re-pricing of substantial portions of its investment portfolio, and higher provisions to reflect the default on some corporate bonds.

The operations of our asset management subsidiaries – Mayban Investment Management Sdn Bhd (MIM) and Mayban Management Berhad (MBB) – continued to be profitable but the rate of growth was affected by the poor market conditions that prevailed. During the year, we streamlined the fund management activity of the Group which is now centralized with MIM. Funds under its management totalled RM1.6 billion, of which 66% are funds belonging to or managed by the Group.

The Group's insurance business turned in a mixed performance with the life business remaining profitable but the general insurance business reversed into a loss position. This is despite higher new business premiums achieved by both businesses during the year.

The general insurance business recorded a pre-tax loss of RM23.5 million. This was due mainly to significantly higher claims, and provisions to reflect the reduction in value of its investment portfolio. Its financial performance was also affected by a deterioration in the quality of its corporate accounts necessitating higher provisions. This was partly due to the harsher economic conditions which prevailed.

The life insurance group reported a pre-tax profit of RM17.7 million. Mayban Life's new business premiums rose 41.2% to RM256.4 million.

Gross premium for Mayban Life International (Labuan) grew to RM101.2 million compared to RM27.4 million in the previous year.

Owing to the unavailability of Group tax relief to offset the losses incurred by some of our subsidiaries, the effective tax rate for this year was significantly higher at 47% against 35% last year. Consequently, net profit for the year after tax declined to RM838.6 million from RM1.36 billion. The lower earnings translates into a return on shareholders funds of 8.1%.

The Group's acquisitions were paid for entirely in cash. Consequently, this caused a decline in the Group's capital adequacy ratio (CAR). Nevertheless, we remain well capitalised, with our CAR at 13.05% as at 30 June 2001 – well above the minimum international standard of 8%.

As part of our capital management strategy aimed at reducing the long term costs of capital, we tapped the domestic bond market in May 2001 and raised a 10-year subordinated bond amounting to RM610 million. This issue was well received and over-subscribed.

Business Growth

The Group remained focused on expanding its market share during the financial year. We are pleased to report that arising from the acquisition of the two banks, Pacific Bank and PhileoAllied Bank, the Bank's market share for loans and deposits increased significantly, thus strengthening our franchise in the domestic financial market.

For the Bank, market share for loans increased from 18.6% to 22.8%. Market share for demand deposits increased from 19.6% to 23% while that for savings deposits grew from 24.8% to 32.9%.

The Group's market share of housing loans rose to 21.6% of the industry total. For the savings deposit, our market share rose to 31.4%.

In the credit cards business, we are one of the top three issuers in the country as well as the largest acquirer of credit card merchants.

Bankassurans remains a major distribution channel of the Group's retail banking activity. We now have over 500 financial executives who continue to ensure that we maintain our leadership position in this area. Life insurance, sold exclusively through this service, saw new premiums growing by 41.2% during the year to RM256.4 million.

We also continued to record favourable growth in our enterprise banking sector. Despite the slowing economy, the Bank approved RM14 billion in new loans for the year, of which RM4.3 billion was for SMEs. Trade financing activities also expanded significantly, and Maybank's share of the trade finance market grew from 20% to 23%.

Mergers And Acquisitions

The four strategic acquisitions that were completed during the year will contribute to enhancing our position as we face the challenges of globalisation.

These mergers proceeded according to our plan to complete them in a short period of time to minimise customers' inconvenience as well as preserve the value of the merged entities and allowing us to remain focused on our ongoing business.

The merger with Pacific Bank was legally completed in January 2001, followed by that with PhileoAllied Bank a month later. In April, the merger of PhileoAllied Securities with Mayban Securities was completed. The IT infrastructure of the mergee institutions were successfully integrated onto a single platform within a period of about five months.

The branch network was further rationalised following the integration of the IT infrastructure, and in all a total of 60 additional branches have been added to the network bringing the Group total to 441 branches nationwide. Mayban Securities now also has a branch office in Ipoh as a result of its merger with PhileoAllied Securities. In addition, we have the largest ATM network of over 1000 machines nationwide.

The mergers have undoubtedly made the Group's reach even more enviable. These two mid-sized banks and the stockbroking company with established franchises in niches in the middle and upper-market segment, would complement the Group's broad market appeal.

Partnership With Fortis

During the financial year, Maybank formally completed a strategic partnership with Fortis International NV, a renowned integrated financial services group with successful Bankassurans business experience as well as a prominent retail financial services group. Under this agreement, Fortis took up a 30% stake in our insurance business for RM340 million. The transaction was completed in June 2001.

This partnership with Fortis will further enhance our Bankassurans business in Malaysia which we pioneered in 1996, and propel us to be a leading player in the insurance industry.

It will also enable us to integrate the insurance and investment activities of our retail banking business to offer a complete suite of financial solutions to our retail customers.

Mayban Assurance Berhad also completed the acquisition of UMBC Insurans Berhad in February 2001. The merged entity was renamed Mayban General Assurance Berhad.

Awards

We are also pleased to report we have received numerous accolades that give recognition to the Group. These include the 'Triple A' award by The Asset Magazine; 'Best Bank in Malaysia' by Euromoney and 'Best Investor Relations by a Malaysian Company' by Investor Relations Magazine. These awards would not have been possible without the continuous support from our customers, shareholders and employees.

The merger integration team at Mayban Assurance Berhad was awarded "The Risk Manager of the Year" by the Malaysian Association of Risk and Insurance Management (MARIM) in recognition of the smooth and efficient merger process with UMBC Insurans Berhad.

Challenges

With the rationalization of the Malaysian financial sector creating sizeable financial services groups, and aggressive foreign players taking advantage of the increasingly liberalized domestic market, the Group needs to be ready to compete on all fronts – from services and product quality to convenient and effective delivery systems – to remain as industry leader.

In responding to the challenges ahead, we are expanding our role and transforming the Group into a customer-centric organisation providing comprehensive financial solutions to our customers. In this regard, we will continue to leverage on technology and improve our processes to provide an integrated platform to support our efforts.

Realising that staff are our valued assets, we will continue to provide training and development opportunities as well as a conducive performance-based environment that will encourage them to realise their full potential.

The ongoing efforts in risk management is yet another step we have taken to ensure our objectives are met. We have completed the development of a credit risk rating model during the year and our approach now is to focus on an integrated risk management capability across the Group to enhance overall risk management.

Dividends And Bonus

The Board of Directors is pleased to recommend a final dividend of 7.0 sen per share, less 28% income tax. This brings the total gross dividend for the year to 12.0 sen per share.

The Board is also pleased to recommend a bonus issue of one share for every two existing shares held. This exercise is part of our efforts to reward shareholders for their support as well as to realign the capital base of the Bank to a level which would better reflect the company's scale of operation.

Acknowledgement

We would like to place on record our appreciation to our customers and shareholders for their support, without which the Group would not have been able to achieve its success.

We would also like to extend our gratitude for the assistance and guidance given by the regulatory authorities in countries where we operate.

On behalf of the Group, we would like to extend a warm welcome to the staff of the four institutions which merged with us during the year. We also wish to thank all employees for their hard work and dedication, particularly during the merger period. ■

Tan Sri Mohamed Basir bin Ahmad
Chairman

Amirsham A Aziz
Managing Director

Consumer Banking

The growth in our consumer banking business was achieved through our emphasis on customer service excellence, enhanced delivery capability as well as building and capitalizing on our product leadership.

The domestic consumer banking segment saw intense competition in the year under review, with financial institutions competing for a bigger share of this growing sector. The Group continued to focus on this market segment and was able to hold on to our dominant position, growing market share in all core components of consumer banking including deposits, housing loans, credit cards and hire purchase.

Overall the Bank's consumer loans grew 32% over the previous year of which 75% came from mortgage financing. The Bank recorded a significant rise in market share of its savings deposit from 25.8% to 32.9%, while that for housing loans rose from 16.7% to 18.4%.

Our finance subsidiary, Mayban Finance also increased its consumer loans portfolio significantly. Its housing loan portfolio rose 28% to RM3.8 billion, and its hire purchase loans expanded 15% to RM8 billion. Mayban Finance saw its market share for housing loans increase from 19.6% to 20.5%, and that of its hire purchase from 17.6% to 18%.

On a combined basis, the Group's total market share for housing loans also saw a rise from 17.3% to 18.9%.

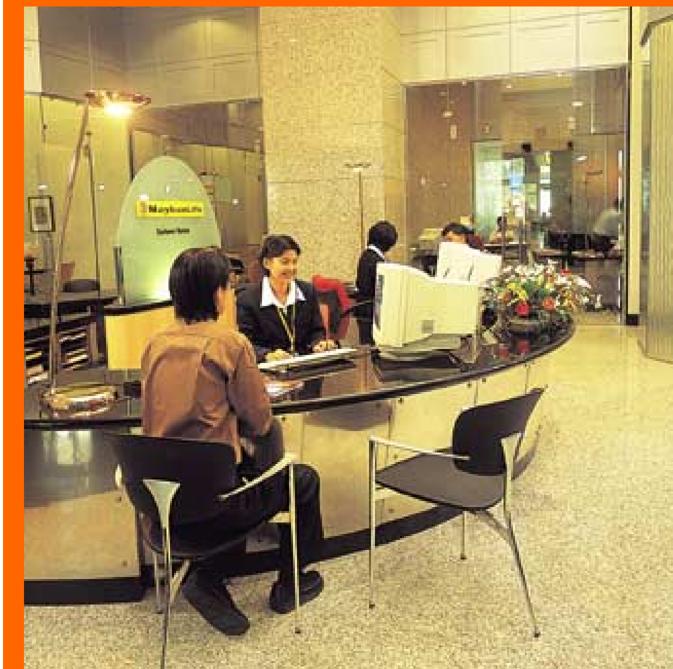
Our growth was made possible by our large customer base of four million that we currently have, and which we leveraged on to cross-sell our products and services.

The growth in our consumer banking business was also achieved through our emphasis on customer service excellence, enhanced delivery capabilities as well as building and capitalizing on our product leadership. Our business model of converting branches into sales and service outlets with dedicated sales personnel and financial planners offering comprehensive solutions to customers, will continue.

The centralisation of backoffice operations was further expanded to enable branches to concentrate on driving sales. We have also automated credit processing centrally for mortgages, to enhance service and to improve risk management at the same time. In addition, we continued to invest in improving our delivery capabilities, such as self-service terminals and other electronic delivery channels.

Following the transformation of our branches to sales and service outlets, we have also increased our sales force and provided them training in sales and marketing, bringing the total number of our consumer sales officers from 118 members to 388.

Sales through the Bankassurans network also continued to grow, driven by our team of financial executives, whose approach is to provide total financial planning covering savings, investment and protection for the customer. During the year, we increased our Bankassurans sales team to over 500 and improved our capability through data mining of our enlarged customer base.



In our credit card business, we launched the Maybank Visa Platinum Card in January 2001. This new exclusive card aims to meet the needs of selected customers and offers greater financial flexibility in recognition of their lifestyles.

Our marketing and promotional efforts paid off with over 100,000 new credit cards issued by the Group during the year. The Group's card-holder base is now well over half a million, making us one of the top three issuers in the country. On the acquiring business, the Group now has over 9,000 merchants, making us the largest acquirer of merchants.

Our unit trust management arm, Mayban Management Berhad (MMB) recorded total sales of 279 million units valued at RM196 million. During the year, MMB launched another unit trust, Mayban Dana Yakin. This Islamic unit trust offers yet another investment opportunity to our customers. MMB will be launching more funds as the current market conditions are more conducive for unit trust.

With the mergers completed, we will continue to leverage on the on-line share trading business which we have acquired. Currently, this service is offered through 20 Share Investment Centers and offers great potential for expansion. ■

Enterprise

The operating environment was a challenging one for the business banking segment of the Group, affecting the large corporations more while the small and medium-sized enterprise (SME) segment continued to see encouraging growth.

The operating environment was a challenging one for the business banking segment of the Group, affecting the large corporations more while the small and medium-sized enterprise (SME) segment continued to see encouraging growth.

Despite the slowing Malaysian economy, the Bank approved RM14.0 billion in new loans under this segment for the year under review. Of this, a total of RM4.3 billion were in loans for SMEs, of which 17.8% was for the manufacturing sector. Apart from manufacturing, a large portion of the SME loans was approved for general commerce and for contractors undertaking government contracts. Outstanding SME loans expanded by 12.3% or RM1.3 billion, compared to 15.2% in the previous year.

One initiative to leverage on the Group's customer base and IT capabilities involved putting our SME loan application process on-line. Applications for SME loans went on-line in Maybank2u.com from December 2000. This new channel will undoubtedly enlarge our customer reach, and we expect significant improvements in both turnaround time and productivity for SME loans.

The Group also launched its enhanced "Fac3Plus" package which is a first-of-its-kind industrial property financing package designed for business customers, specifically SMEs. This group integrated product attractively packages the products of various Maybank Group companies including Maybank, Mayban Finance, Mayban Assurance and Mayban Life, into one comprehensive financial solution for businesses.

We also participated in a substantial way in the various Government-Aided Loan Schemes. These include loan schemes guaranteed by the Credit Guarantee Corporation as well as financing schemes in support of the development of Bumiputera businesses. Beside financing, we also provide training and financial advisory services

Banking

to assist Bumiputera customers to manage their businesses.

We continued to focus on trade financing activities, a key strength of the Group. Revenues from trade financing expanded significantly and the Bank's share of the trade finance market grew from 20% to 23%.

During the year, we re-engineered the Bank's trade finance business in line with our shift to a more sales and service culture. Under the new model, a specialised trade processing centre, operating as a hub will collate and process applications for trade financing from our Trade Finance Centres (TFCs) nationwide. The TFCs, with their dedicated sales executives serve as service centres catering to the needs of the customers.

Results of the pilot test have been positive and the new model is expected to be implemented nationwide by September 2001. This is expected to contribute to a further rise in revenues from trade financing activities, driven by the growth in new customers as we tap our enlarged customer-base, as well as from improved efficiency and productivity.

We re-launched our Desktop Banking for corporates and businesses during the year, featuring a number of new and enhanced services. These include convenient cash management facilities, cheque writer, interbank giro and remittance services as well as trade finance solutions and custodial services. About 700 corporations currently subscribe to this intranet system.

Given the increasing attractiveness of the private debt market as an alternative source of funding for corporations, the relationship managers of the Bank worked closely with our investment bank to provide solutions for these customers' financing requirements. Resulting from this collaboration, Aseambankers was involved in a number of debt market exercises which involved a total of RM3.36 billion during the year.

The challenge as we move ahead, is to make a successful transition from a transaction-driven to service-driven operation. To assist in this process, we are embarking on the latest phase of the Maybank Delivery System with the introduction of Business Centres dedicated to serving the needs of businesses, whether it is to process their loan applications, managing their accounts or tailoring solutions for their financing needs. Fourteen such Centres are already in place with another thirteen expected to be set up by the end of the year. ■

e-Banking

A key initiative adopted was to invest in technology to expand and improve our primary electronic delivery channel with the aim of offering greater flexibility to our customers through self-service terminals.

In the area of electronic banking (e-banking) the Group remains commited to empowering our customers to conduct financial services using any electronic channels that offer convenience, value proposition and consistency of service.

Since the launch of Maybank2u.com, in June 2000, we have received very good response of more than 350,000 subscribers, who have performed over five million transactions to date. We have also enhanced the internet banking site by merging the corporate information site with the transaction and business portal to become a true one-stop financial portal. Maybank2u.com now offers a comprehensive range of services of the Group, from general banking activities to bill payments, purchase of insurance to share trading, as well as information converging at our portal.

Maybank2u.com has also drawn greater participation from the retail merchants and a total of 200 merchants have signed up with us. To further develop the e-commerce component of our portal, we have established smart partnerships with these merchants and expanded our payment capabilities to include education providers, reloading of prepaid mobile phone cards and transportation companies.

The portal also saw increased transactions of its online share trading services as the customer base expanded following the mergers.

In the year under review, we continued to invest substantially in technology to expand and improve our primary electronic delivery channel – the e-KawanKu Centres – with the aim of offering greater flexibility to our customers through self-service terminals. These centres installed with ATMs, cash deposit machines, passbook update machines and cheque deposit machines provide the Group's customers a common platform to perform a variety of transactions, from cash deposits to payment of bills.

As at June this year, we have 55 on-branch and 41 offsite e-KawanKu Centres, at petrol kiosks and shopping malls. This is in line with our objective of making Maybank services easily accessible and available outside banking hours and all year round. With the installation of more ATMs under the e-Kawanku Centres as well as additional branches from the mergers, the Group now has more than 1,000 ATMs, making it the largest ATM network in the country. Furthermore, to provide greater convenience to customers, we introduced the instant issuance of ATM cards at branches during the year.

In line with the Government's goal of developing a k-economy, and to tap opportunities arising from the evolution of information technology, Maybank entered into an e-commerce joint-venture that takes us out of mainstream banking to build a B2B e-procurement hub called TX123(M) Sdn Bhd, the first by a financial institution in Malaysia. This e-commerce platform allows for procurement, system integration services as well as e-payment and cash management services.

In November 2000, the Group implemented a regional switch to facilitate cross-border transactions between Malaysia, Singapore, Brunei and the Philippines. This switch allows Maybank customers to access their accounts from any of our ATMs in these countries. Additionally, customers in Singapore are also able to send and receive fund transfers within seconds, compared to the industry average of one day.

During the year, Maybank also re-launched Desktop Banking for corporates and businesses with new and enhanced services. Under our e-banking initiatives, we also plan to internet-enable this service in the next financial year. ■

International Operations

The strategic placement of our international banking operations is primarily to serve our customers' overseas trade and investment needs, contribute to the enhancement of our shareholder value and broaden the Group's concentration risks.

In the international banking arena, our footprints are in the region with greater emphasis in ASEAN. In ASEAN, we have a presence in seven of the current 10-member grouping except Thailand, Myanmar and Laos. We also have representation in Beijing, Shanghai and Hong Kong as well as in the key financial centres of London and New York.

Significant developments during the year include the commencement of our Shanghai operations in December 2000 and increasing our stake in Maybank Philippines Inc., our largest overseas network with 58 branches, to 99.96%.

Our second largest network overseas, Singapore, with 22 branches and 23 ATM locations, has become more visible with the launch in July 2001 of its S$120 million Singapore headquarters, a statement of the Group's commitment to the city-state.

The strategic placement of our international banking operations is primarily to serve our customers' overseas trade and investment needs, contribute to the enhancement of our shareholder value and broaden the Group's concentration risks.

For the year under review, the international operations turned in a pre-tax profit of RM29 million compared to RM200.4 million last year. These results were affected by the difficult operating environment in Indonesia and the economic slowdown in Singapore. Notwithstanding this, our international operations remain an important component of our business strategy, and in the longer term we expect it to provide us increasing returns.

Moving forward, our strategy is to continue to consolidate and strengthen our presence in the ASEAN markets, and at the same time putting our footprints in other selected regional markets for strategic or synergistic reasons. Being early in these new markets gives us a head-start in understanding the local operating environment, thus enabling us to be in a state of readiness to tap on the opportunities when the time is right. ■

Islamic Banking

The Group has a 25% overall market share for Islamic financing. In the financing of residential property, the Group has a significant market share of 37%, a result of the marketing and promotional efforts during the year.

The Group's Islamic Banking business continued to expand strongly in the year under review.

The strong performance, in a market rendered more competitive by the slowing economy and low interest rate environment helped the Group to maintain its leadership position among financial institutions providing both conventional and Islamic banking business.

Revenue from Islamic banking business grew 63% to RM306.3 million while profit before tax and zakat rose 96% to RM210.5 million.

Total Islamic banking assets rose 61% to RM10.36 billion accounting for 7.3% of the Group's assets. Deposits also recorded a strong growth to RM7.87 billion, of which 48% was for housing and hire purchase financing. The Group now has 21.8% or over one-fifth of the total market share of Islamic banking deposits in the country.

Financing grew 75% during the year to RM6.4 billion, of which 48% was for housing and hire purchase financing.

The Group has a 25% overall market share for Islamic financing. In the financing of residential property, the Group has a significant market share of 37%, a result of the marketing and promotional efforts during the year.

For corporate customers, trade financing facilities and competitive financing options continue to be offered. Apart from competitive pricing and packaging of financial solutions, briefings were held to help potential customers better understand the products.

In view of the increasing popularity of the Islamic Private Debt Securities (PDS) market, the Group also arranged the issuance of Islamic PDS for corporate customers during the year, involving over RM1.6 billion.

During the year, the Group achieved another milestone with the launch of its first-ever Islamic unit trust – Mayban Dana Yakin, which further complements the comprehensive range of Islamic banking products we offer. Launched by Mayban Management Berhad, the Fund offers all investors an opportunity to invest in a portfolio of assets managed under an investment policy that complies strictly with Syariah principles. The fund had an initial offering of 100 million units.

Recognising that Islamic Banking is fast gaining wide acceptance among Malaysians, Maybank set up three branches dedicated to Islamic Banking – one each in Wangsa Maju in the Federal Territory, Kuala Terengganu and Kota Baru. This is in addition to the existing channels where Islamic banking products and services are offered in parallel with conventional banking products at the Maybank Group network. ■

Risk Management

Risk management is a critical pillar of Maybank Group's operating model, complementing the other two pillars which comprise the business group as well as the support and services group. Comprehensive policies and processes for the early identification and proactive management of risks have been developed and implemented across the Group. In addition, the Group invests continuously and extensively in people and technology to interpret and manage these risks on a daily basis.

The three risk management groups are – the Group Market Risk Division, the Credit Control Division and Internal Audit Division. At the Board level, the Finance Committee oversees policies relating to credit, market and liquidity risks, the Audit Committee takes responsibility for operational and financial risks while the main Board oversees all risks including legal and reputational risks.

As part of the Group's continuous efforts to adopt and implement best practices that will help to manage risk and enhance shareholder value, plans are underway to integrate credit, market, liquidity and operational risks into an integrated risk management framework accountable to the Risk Management Committee of the Board.

While the primary responsibility of managing risk at portfolio level rests with the Group's risk management divisions, the business managers are required to work within the corporate policies and limits set by the Group. ■

Credit Risk Management

Credit risk is the risk of non-payment due to the inability or unwillingness of a customer or counterparty to meet its financial obligations with Maybank Group. Exposure to credit risk arises primarily from lending, trade finance and treasury activities.

The Credit Control Division (CCD) is entrusted with the overall responsibility of managing credit risk. In discharging this responsibility, it is primarily involved in managing and enhancing asset quality, formulating and reviewing credit policies as well as documentation/compilation of credit policies and procedures for adherence and easy reference by the business units. The CCD also sets and reviews concentration limits, according to various categories such as customer, economic segment, product types, banks and countries, and monitors credit portfolio risk. Industry risk is also evaluated and monitored as the dynamic changes in the economic environment has a direct impact on the Bank's asset quality.

In addition, the CCD is also entrusted with the development of credit skill through formulation of and participation in credit training programmes. CCD is also involved in the enhancement of credit process to achieve a balanced approach between independence in credit assessment and service quality. In line with this, we are continuously upgrading ourselves towards international best practices.

Among the initiatives adopted last year was the Maybank Group Credit Risk Rating Project involving the Bank, its Singapore operations, Mayban Finance and Aseambankers. The primary objectives are to provide a consistent approach in risk grading of the Group's corporate and commercial borrowers and to measure the risk of default by borrowers objectively.

The credit risk rating model, developed based on statistical modelling of the Group's historical data, will serve as a tool to facilitate decision making, as well as to guide pricing of loans according to risk. It will enhance portfolio management capabilities and sharpen the formulation of the Group's strategies to manage credit risk.

The CCD is continuously embarking on projects using appropriate methodologies and technologies to achieve an efficient and integrated credit risk management system for the Group. ■

Market Risk Management

Market risk encompasses price and interest rate risks, all of which arise in the ordinary course of the Group's business. Price risk is the risk to earnings that arises from changes in interest rates, foreign exchange rates, equity and commodity prices, as well as in their correlations and volatilities.

Group Market Risk Division (GMRD) is principally responsible for managing the above areas of risk and implementing the market risk management framework for Maybank Group. Previously, market risks are taken, measured, aggregated and managed within the confines of policies and methodologies adopted by individual entities. The formation of GMRD and the establishment of Maybank Group market risk management framework ensure that there are consistent methodologies in the identification and measurement of market risks as well as the establishment of effective and consistent risk management policies across Maybank Group.

GMRD continuously evaluates risks and monitors compliance with approved policies and risk limits. Market risk profiles are regularly reported to various levels of management/committee and the Board.

Market risk controls adopted include: value-at-risk methodology, independent mark-to-market valuation, on-line tracking of stop-loss for trading positions, stress testing of portfolios, back testing of risk models, and new product introduction guidelines. ■

Liquidity Risk Management

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. Maybank Group 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 for monitoring liquidity is based on the New Liquidity Framework (NLF). This framework that is regulated by Bank Negara Malaysia (BNM) ascertains liquidity based on the contractual and behavioural cashflow of assets, liabilities and off balance sheet commitments, taking into consideration the realizable cash value of eligible liquefiable assets. Maybank Group maintains a minimum level of liquid assets although under the NLF, no such regulatory requirement is established. These assets are maintained in the form of cash and marketable debt securities that are issued by both the Government of Malaysia and AAA rated private entities.

The NLF is fortified further with specific policies on maturity mismatches, which is monitored on a global basis over successive time bands. Liquidity risk management at Maybank Group focuses on a number of components, including tapping available sources of liquidity as well as preserving necessary funding capacity. Liquidity targets are maintained to ensure that even under adverse conditions, funds are available to cover customer needs, maturing liabilities, and other funding requirements.

Deposits represent Maybank's principal source of funds and are derived from a well-diversified retail deposit base, corporate and institutional clients. Maybank Group may raise funds locally or globally through a variety of instruments, including certificate of deposits and debt securities. Other sources of funding are explored on an ongoing basis e.g., the issuance of convertible bonds and asset securitisation to ensure diversity in funding sources. ■

Operational Risk Management

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people and systems, including disruption of business.

The business and support units are primarily responsible for managing operations risk in their respective functional areas. Overseeing the management of this risk at the corporate level is the Internal Audit Division (IAD) through a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, positions and documentation, and undertaking regular contingency planning, which includes disaster recovery planning as well as business resumption planning.

The IAD has traditionally been a unit which monitors adherence to controls and policies. However, given the fast evolving environment in which the Group operates, the IAD has now adopted a risk-based approach in its activity. The focus of this approach addresses the probability of an event occurring and the issue of the impact, when it happens. The specific areas of impact being examined are reputation, consumer satisfaction as well as financial effects.

To facilitate the change, and to enable managers to pre-empt these risks the IAD has over the last 12 months, mapped out the inherent risks of the activities undertaken by the Group. With such risks determined, the IAD has developed an inherent risk template for each business type and by product.

The IAD uses these templates to identify those activities which have the highest level of inherent risk to manage operational risk.

In line with the new approach, the mission statement of the IAD has been revised to reflect the changing role of the auditor, which is to add value and improve the Group's operations by providing independent, objective assurance and consulting activities designed to evaluate and enhance the risk management, control and governance processes to assist management to achieve corporate goals. ■

IT Infrastructure

> Maybank will continue to meet the exacting demands of customers for access to seamless conveniences. Key infrastructure components such as standardised application integration software, open and highly robust and scaleable system architectures will continue to be developed.

Anticipating the need for higher operational efficiency, resilience and the ability to scale up on demand during the year under review, the Group added state-of-the-art processing, storage and network technologies to complement the existing information technology (IT) infrastructure.

We successfully completed the task of merging the Maybank, Pacific Bank and PhileoAllied Bank IT systems in less than five months.

By May 2001, the front-end and back rooms of all three banking groups were operating as one, with minimum disruption to customer services. In addition, the unified system had nimbly adopted, and continues to support good features and products of the mergee banks that the Group wished to retain for customer retention and added competitive advantage.

Unstinting efforts were also made to deploy key enabling technologies to improve business processes. Spurred by major productivity gains and significantly faster turnaround processing following the implementation of the Loans Applications Processing and Cheque Clearing, workflow automation and imaging were assimilated and harnessed in other major key areas, including those which have been automated earlier.

For our Trade Finance centralised operations, we have re-engineered the work processes and applied workflow and imaging technologies. These have already achieved a three-fold improvement in productivity, and we will continue to strive to attain world class standards.

Extensive resources were also allocated to provide additional system features and functionalities and further enhance operational efficiency, with a focus on achieving straight-through processing.

Apart from processes, technology has also enabled the Group to structure a single unified view of the customer. This structure, already in place today, will facilitate easy and fast access to data on the customer's relationship and financial position with the entire Maybank Group, for cross-selling.

Moving forward, to tap the full potential of the Group's huge and growing customer base, initiatives are underway for the development of an Integrated Group Sales system and a more sophisticated Customer Relationship Management (CRM) system. The goal is to maximise the relationship with the customer through elevated service levels and better value propositions.

Maybank will continue to meet the exacting demands of customers for access to seamless conveniences. Key infrastructure components such as standardised application integration software, open and highly robust and scaleable system architectures will continue to be developed. ■

Human Resource Development

Human Resource (HR) activities were on high gear throughout the year, as the HR team focussed on integration programmes to ensure a smooth transition of employees from merged institutions into our Group.

Recognizing the need to improve productivity and efficiency of our manpower to face the future challenges, a Voluntary Separation Scheme (VSS) was launched following the merger. This scheme provided an opportunity for mutual benefit. For our employees, it was an opportunity to re-skill themselves to seek new vocations. For the Bank, the scheme was part of ongoing efforts to streamline our operations to enhance productivity and efficiency.

A total of 1,230 employees left under the VSS. As part of our asssistance under the scheme, these employees underwent various courses in business management, information technology and financial planning at the Institute of Banks Malaysia to help them to re-skill themselves before leaving the bank.

In the Maybank Group, how we succeed, is as important as what we achieve. It is this underlying philosophy which makes HR development an integral part of everything Maybank does. We invest continuously in employees at every level.

For the year under review, the Group spent about RM27 million to develop our human resources, covering skills and leadership development, continuous learning schemes, sales and services training and communication/change management.

In the Maybank Group, how we succeed, is as important as what we achieve. It is this underlying philosophy which makes human resource development an integral part of everything Maybank does. We invest continuously in employees at every level.

Of this amount, RM21 million was incurred at the Bank level. This constituted 3.7% of our gross remuneration package which is significantly higher than the 2.5% required by Bank Negara Malaysia (BNM). A total of 11,792 employees attended 609 training programmes at our Staff Training Centre and 1,270 employees attended various external programmes, including banking courses conducted by the Institute of Banks Malaysia. Many of these staff training programmes were organised to support the merger integration process.

To support the Group's transformation from transaction-based to customer-focus, our training programmes are increasingly skewed towards service. Last year, over 4,000 employees were put through sales and service training or the necessary certification as professional financial planners.

The Maybank Group also contributes to employee welfare and safety wherever it operates. Our contribution was recognized last year when we won the Occupational Safety and Health Award for the Financial Institutions sector conferred by Ministry of Human Resources.

Our dialogues with employee unions continue and in the last year, we concluded four collective agreements governing various categories of employees.

At the senior management level, the managers undergo skills upgrading as well. As a Group, our senior management participate in programmes offered by a number of the world's leading institutions of higher learning.

As the Maybank Group braces itself for increasing competition and customer expectations arising from globalisation, our HR programmes will focus, among others, on further developing a performance related management system, transforming our personnel into adopting a sales and service culture as well as enhancing risk management skills. ■

Community Relations

The Maybank Group's community relations programme continued to focus on improving the social well-being of the less fortunate, especially in communities in which we operate, through meaningful activities.

During the year, over RM5 million was disbursed to welfare and charities as well as medical causes, sports and educational sponsorships.

Donations to the needy and less fortunate during the major festive celebrations, has become a tradition. Residents from various welfare homes were also invited to celebrate the festive occasions with staff of the Group.

Maybank was involved as a platinum sponsor of the NST Million Ringgit Charity Rubber Duck Race. The funds that we raised have been channelled to the Maybank Group Bone Marrow Transplant Centre Hospital Universiti Kebangsaan Malaysia which treats patients with blood cancer.

To support and promote the development of a community that is educated and knowledgeable, we continued to disburse scholarships and study awards to the deserving and high achievers from the public, as well as the staff and children of staff of the Maybank Group.

The Group continued its support towards the development of sports in Malaysia. Through this programme, we have succeeded in nurturing a group of athletes who represented the Bank as well as the country at national and international sporting events. Maybank athletes were in action at the Sydney Olympics 2000 while twenty athletes and three coaches will participate in the 21st SEA Games 2001.

In the Arts, the Group added an international flair to two art exhibitions at Balai Seni Maybank.

In February 2001, “The China-Maybank Friendship Art Exhibition” was launched by H.E. Guang Dengming, the Chinese Ambassador to Malaysia. The exhibition was held to commemorate the opening of the Maybank Shanghai branch in China. The exhibition featured works by two renowned Beijing artists.

The second exhibition in June 2001, a joint effort between Maybank and Very Special Arts (VSA) Singapore, showcased works by 12 Singaporean artists with disabilities. This exhibition is a continuation of our support and commitment to help develop the artistic talents of people with disabilities.

In Singapore, Maybank in conjunction with the National Library Board, introduced the first Remote Book Drop Service offering a book drop at its 24-hour auto lobby at Maybank Capital Tower Branch. This allows National Library members to return their books at a convenient location.

The Maybank Group continues to remain conscious of its commitment to help the needy and will, through various programmes, ensure they continue to be given assistance.

The Group will also make its presence felt wherever and whenever it feels it can contribute to the well-being, growth and holistic development, whether of the individual, the community or society in general. ■

Management's Discussion & Analysis

On Financial Position And Result Of Operations

Survey On The Overall Business Conditions

Maybank entered its financial year on a positive note as the economy continued to enjoy rapid expansion in external demand. Economic growth during the first half of 2000 was almost double-digit and this provided confidence that over the next twelve months, it would expand by at least 6.5%. The prospects for banking and financial services, therefore, looked promising as the sector would be riding on the new growth cycle. However, as the year progressed, it became evident that the highly leveraged US economy could no longer maintain its fast pace. Hence, with its growth rate trending downward, it choked an already ailing Japanese economy and in the process put pressure on export dependent economies including Malaysia.

The speed at which domestic economic growth decelerated was indeed a surprise. From 7.6% during the third quarter of 2000, GDP growth eased off to 6.3% in the fourth quarter and 3.1% for the first quarter of 2001. By the second quarter of 2001, economic growth hit the lowest level of 0.5%. With the pace of economic activities cooling off, outstanding loans of the banking system only managed to register a moderate increase of 5.9% during the twelve-month period to June 2001. Mortgage financing which grew by 18.5% accounted for 48.3% of the increase. Another 25.8% of the increase came from financing of passenger cars which during the period grew by almost 20%. The strong growth in consumer financing reflected the change in focus of financial institutions in an environment where excess capacity discouraged new investment and growth in external trade slowed.

With the momentum of economic growth easing, deposits of the banking system grew at a moderate pace of 3.7%. While deposit growth lagged behind loans, the system continued to remain liquid. Loan-deposit ratio for the system was 85.8% which was marginally higher than it was a year ago. Given this situation, interest rates remained relatively stable. However, due to the excess liquidity and stiff competition in the loan market, the average lending rate for commercial banks trended downward from 7.69% in June 2000 to 7.19% in June 2001.

The about turn in business conditions and sentiment affected the performance of the equity market. In the twelve-month period to June 2001, the KLSE Composite Index lost 240 points. Market capitalisation came down from RM572.31 billion in June 2000 to RM403.49 billion in June 2001 – a loss of RM168.8 billion. Trading was lethargic with daily average volumes of around RM300 million against RM1,169 million a year earlier. This development put a significant pressure on stockbroking companies.

Analysis Of Significant Balance Sheet Developments In Financial Year Ended (FYE) June 2001

Total Assets The asset base of the Group as at end June 2001 stood at RM140,897.3 million compared to RM127,072.1 million a year ago. This represented an increase of RM13.8 billion or 10.9%. In financial year (FY) 2000 the growth was 8.2%. At Bank level, total assets rose by a higher RM14.7 billion or 15.2% to RM111,473.5 million over the same period. The comparative growth rate in FY 2000 was 10.5%. In both cases, the higher growth rates in FY 2001 is attributed to the inclusion of the assets of the merged institutions comprising Sime Finance, Pacific Bank, PhileoAllied Bank and PhileoAllied Securities. Their contribution totaled

RM19,749.2 million at the Group level and RM17, 851.3 million at the Bank. Discounting these, the asset base of the Group and Bank would have registered a decline of 4.7% and 3.3% respectively. This was mainly due to the reduction in short term funds and inter - bank placements.

The proportion of interest bearing assets remained relatively unchanged from June 2000 at 94.5% in the case of the Group and 94.1% at the Bank.

Cash And Short Term Funds

Cash holdings and Short term funds of the Group declined by RM3,543.8 million or 21.9% between 30 June, 2000 and 30 June, 2001 to RM12,647.9 million. In the case of the Bank, the reduction was more moderate at RM2,589.7 million or 19.9%. The decline arose out of the asset and liability management strategy which aimed at reducing short term and inter-bank assets in view of their marginal yields and the lack of arbitrage opportunities .

Deposits and Placements with Financial Institutions

Total deposits and placements of the Group with Financial Institutions declined by RM524.0 million or 9.3% to RM5,133.9 million from a year ago. The Bank on the other hand ,registered a growth of RM732.7 million or 14.0% to RM5,968.7 million for the same period. As explained earlier, these shifts are directly attributed to the asset and liability management strategy.

Loans And Advances

The Group's gross loans and advances (including loans sold to Cagamas) increased from RM90,313 million in June 2000 to RM109,133 million in June 2001 – a growth of RM18,820 million or 20.8%. The equivalent at the Bank level was RM85,327 million representing a growth of RM17,467 million or 25.7%. Excluding the loans of the merged institutions, the Bank's domestic gross loans book registered an organic growth of 8.6%. This compares favourably to the loan growth rate of 6.1% attained by commercial banks over the same period. Coupled with the infusion of the loan portfolios of the merged institutions, the Bank's domestic loans market share rose to a significant 22.8% as at end June 2001 from 18.6% a year ago. This credible performance came amidst a slowing economy and increasing resort among corporates to the capital market for fund raising.

In keeping with the objective of maintaining a diversified portfolio, exposure to all economic sectors showed growth. However reflecting the principal drivers of economic activity, the bulk of the new lending in the domestic market was directed towards the Residential, Manufacturing, General Commerce and Construction sectors. Reflecting the focus on these segments, market share of the domestic Residential Property sector rose to 18.4% as at end June 2001 from 16.7% a year ago. In the case of Manufacturing, it increased by 4.2% over the same period to 22.6%. As for the General Commerce and Construction sectors, market share rose by 6.0% and 2.2% in FY 2001 to 22.4% and 20.5%. In spite of the slower growth in trade volumes, the emphasis on trade related businesses resulted in market share of the Trade Finance business rising to 23.0% as at end June 2001 from 20.0% a year ago.

In terms of the other principal domestic based lending units in the Group, namely Mayban Finance and Aseambankers, the former saw its gross loans expand by RM1.1 billion in FY 2001. This was a result of the expansion in its mortgage and hire purchase portfolios. Consequently, its market share of the two sectors expanded by 0.9% and 0.4% in FY 2001 to 20.5% and 18.0% respectively. In the case of Aseambankers, resulting from the focus on fee based activities, its loan book saw a further reduction of RM396.6 million to RM1,128.1 million in the financial year.

With regard to Overseas banking operations, the gross loan book size rose by RM636.2 million or 4.1% at the Group level to RM16,260.0 million. The expansion was led by Singapore Operations which registered a growth of RM310.5 million to RM9,708.6 million. In the Philippines, the continuing effort to build up capacity resulted in outstanding loans rising by RM97.6 million to RM326.0 million. The extensive computerisation program which enhanced operational efficiency levels was a key enabling factor in this regard. However in the case of Indonesia, its loan portfolio shrank by RM20.2 million to RM229.8 million. This is attributed to the conscious effort to manage risks in view of the continuing economic and political uncertainties.

Outstanding Islamic financing facilities rose by RM2,659.4 million to RM4,767.7 million at the Bank level to account for 6.8% of the Bank's gross domestic loan portfolio. At the Group level, it increased by RM2,784.2 million to RM6,632.8 million and the market share for Islamic financing now stands at 25.0%.

The overall Loan/Deposit Ratio for the Group and Bank stood at 96.0% and 96.4% respectively as at 30 June, 2001 compared to 96.7% and 101.2% a year ago reflecting the more moderate pace of loans growth via-a-vis deposits in the review period.

Dealing Securities

The Group's holdings of Debt Securities increased by RM426.5 million or 48.7% to RM1,302.1 million in FY 2001. In the case of the Bank, the portfolio increased to RM295.5 million. In both cases, the growth was largely fueled by the active market for fixed income instruments .

Investment Securities

Holdings of investment securities by the Group rose by RM2,686.3 million or 14.5% to RM21,274.0 million. At Bank level, it rose by RM1,548.2 million or 13.0% to RM13,466.8 million. The increase in the portfolio of investment securities was to optimise returns from surplus funds.

Total Liabilities

The Group had total liabilities of RM130,549.6 million as at end June 2001 – an increase of RM14.1 billion or 12.1% from a year ago. In FY 2000 the growth was 7.8%. At the Bank level, total liabilities rose by a higher 16.8% during the same period to RM102,835.6 million. The increase in FY 2000 was 10.5%. Excluding the liabilities of the merged institutions amounting to RM17,926.2 million at the Group and RM16,331.3 million at the Bank, the outstanding liabilities of the Group and Bank declined by 3.3% and 1.8% respectively.

Deposits from Customers Customer deposits rose by RM14,618 million or 17.9% at the Group level and by RM17,134 million or 28.4% in the Bank to RM96,484.6 million and RM77,394.5 million respectively. In domestic operations, the 9.4% organic growth in traditional deposits out paced the 2.8% registered by the industry for the same period. The growth came mainly from the key low cost Savings and Demand deposit segments which expanded by 10.8% and 14.3% respectively. This reflected the increased dominance of the Bank in the local low cost deposit market. With the inclusion of the deposits from the merged institutions, market share of the Demand and Savings deposits rose to 23.0% and 32.9% as at end June 2001 from 19.6% and 24.8% respectively a year ago. The customer base remained well balanced with Individuals and Business Enterprises each accounting for about half of total deposits both at the Bank and Group.

Deposits and Placements Of Financial Institutions Deposit placements by financial institutions with the Group declined by RM1.0 billion or 5.0% to RM19,088.8 million. In the case of the Bank, the quantum of reduction was more pronounced at RM3,582.2 million or 22.6% to RM12,268.9 million. This development is attributed to the reduced dependence on US dollar denominated inter bank funding.

Subordinated Obligations Outstanding subordinated obligations rose by RM610.0 million at both the Group and Bank due to the issuance of 10 year Subordinated Bonds of the same value by the Bank. The exercise was in line with the strategy to balance the capital structure and to manage the cost of capital.

Shareholders Funds Despite the overall profitability of operations, total shareholders funds of the Group declined by RM319.4 million or 3.1% to RM10.0 billion. This is attributed to the write off in full against General Reserves of all goodwill arising from acquisitions in accordance with the existing accounting policy. The goodwill written off amounted to RM923 million.

Profit And Loss Statement

Net Interest Income During the course of the year, margins were subject to sustained downward pressure on account of the excess liquidity and the competitive market conditions especially in the consumer and corporate segments. It was particularly intense in the mortgage, hire purchase and trade finance markets. This is evidenced by the reduction in the average lending rate of commercial banks from 7.69% in June 2000 to 7.19% in June 2001. The deterioration in asset quality which led to an increase in interest-in-suspense by 23.2% or RM670.4 million at the Group was another source of the margin stress.

Notwithstanding the above, pro active asset liability management strategies pursued at both the Group and Bank levels, mitigated any substantial reductions in margins. As such, the net interest margin only declined by a marginal 0.04% to 3.39% at Group level while it was maintained at 3.0% at the Bank.

The Group registered a net interest income of RM3,995.0 million in FY 2001 which represented a growth of 5.2% or RM198.1 million.

At the Bank, it recorded a similar but higher growth of 8.0% or RM205.4 million to RM2,768.6 million. In both cases, given the relatively stable margins, the growth was a result of the expansion in average interest bearing assets.

Islamic Banking Income from Islamic Banking rose to RM306.4 million at the Group due to the 73.1% growth in gross loans(including loans sold to Cagamas) and the doubling of its investment portfolio. Loan growth was supported mainly by the healthy demand for mortgage facilities both at Maybank and Mayban Finance. The higher issuance volumes of government papers and bills with superior yields coupled with the need to place out the surplus deposit base was the reason behind the significant growth in investment securities.

Non-Interest Income The Group's total non-interest income rose by RM53.8 million or 4.2% to RM1,320.6 million.

In terms of Fee income, growth mostly emanated from Commission charges and Service charges. Commissions rose by RM8.0 million on account of higher credit card related fees and improved contributions from the remittance business. Service charges and fees rose by 14.2% or RM31.4 million to RM252.2 million due the generally higher volume of transactions arising from the expanded customer base. An offsetting factor was the RM95.8 million or 80.6% reduction in brokerage income due to the lower turnover at Mayban Securities on account of the sharp decline in trading volumes. Excluding this volatile source, core fee income would have registered a growth of 8.0% or RM48.7 million.

Investment income (excluding Dividends) rose by RM217.9 million from RM168.5 million to RM386.4 million principally on account of the gain from the part divesture of the insurance business which contributed RM232.5 million at the Group.

Other income rose by RM106.9 million or 26% to RM519.4 million at the Group. Within this component, premium income increased by 31.7% to RM213.8 million reflecting the emphasis and expansion of the bancassurance scheme.

The overall non-interest income performance was however impacted by provisions for the diminution in value of investment securities totaling RM278.5 million. The provisions were made to cover the drop in the value of equities, some of which were taken in conjunction with debt-equity conversion schemes. In addition, provisions were also made on some investment securities to reflect the Group's policy of marking to market the valuations of such instruments.

Overhead Expenses

Total overhead expenses of the Group rose by 32.9% or RM524.2 million to RM2,118.0 million. At the Bank level, it rose by 30% or RM334.2 million to RM1,448.8 million. As expected, the increase was due mainly to one-off merger related expenses totaling around RM132.5 million. Among others this included the Voluntary Separation Scheme (RM91.3 million) and realignment of the depreciation policy in respect of the acquired assets (RM20.4 million).

After discounting expenses attributable to the mergers, the actual overhead costs of the Bank's Malaysian Operations (which accounted for 83% of the Bank's total overheads) only rose by 9.7% or RM86.9 million. This was due to higher outlays on the following: Establishment, Fees, Staff and Marketing expenses.

At the Group level, overhead expenses were further impacted by the RM28.5 million provision in respect of premium debtors and higher claims amounting to RM58.0 million at Mayban General Assurance.

In addition, there was a RM25.5 million charge incurred in respect of two revised collective agreements and other staff related expenses at Mayban Finance.

The cost-to-income ratio (before loan loss provisions) deteriorated to 34.5% from 31.8% for the Bank and in the case of the Group, to 37.7% from 30.4% in FY 2000. At the Bank, this was a consequence of merger related expenses as well as higher provisions for diminution in value of investment securities. At Group level, the ratio was impacted by an additional charge of RM11.6 million attributed to the mergers at Mayban Finance and Mayban General Assurance, the provisions at Mayban General Assurance as explained above and by the reduced income from Subsidiaries involved in the equity and capital market based activities. Excluding the expenses resulting from the mergers and provisions at Mayban General Assurance, overhead costs of the Group increased by a lower 22.1%. Consequently, the adjusted cost-to-income ratio of the Group would be 34.6% and 31.4% in the case of the Bank.

Loan Loss Provisions

Loan loss provisions of the Group registered an increase of 31.0% or RM473.1 million to RM1,995.4 million. At the Bank, it rose by 54.4% or RM462.5 million to RM1,312.2 million. The increase in both cases was necessitated by additional NPL classifications and the drop in collateral values arising from the weaker property and equity markets. Provisions resulting from the realignment of policy totaling RM444.8 million in respect of NPLs acquired from the merged institutions were also another contributory factor in Malaysia. However this cost was met substantially through the write-back of RM439.8 million in General Provisions.

Aseambankers loan loss provisions more than tripled to RM219.4 million. This was due to most of its distressed corporate portfolio being negatively impacted by the slower growth. At Mayban Finance, there was a lower charge RM374.4 million in the year compared to RM519.8 million in FY 2000 due to the slower increase in risk weighted assets. Consequently, the amount required for general provisions was reduced by approximately RM110.0 million.

The additional charges raised total provisions to RM8,675.2 million for the Group and RM6,567.8 million for the Bank. As a percentage of net loans, cumulative General Provisions amounted to 2.91% for the Group and 2.61% at the Bank compared to the statutory requirement of 1.5%.

Non Performing Loans

Total outstanding NPL of the Group based on the 3 month classification stood at RM15,775.2 million at end June 2001 compared to RM9,579.6 million in June 2000. The Bank accounted for RM11,698.5 million or 74.2% of this total. At the Bank level, RM3,752.4 million (after realignment) or 32.1% was inherited from the merged institutions.

Notwithstanding the NPL's arising from the mergers, the increase in outstanding NPL both at the Group and Bank is also attributed to slower recoveries as a result of protracted debt restructuring efforts, the classification of facilities previously identified as being vulnerable and the weak equity market. The Gross NPL ratio of the Group stood at 14.5% and 13.7% for the Bank. On a net basis the respective ratios were 7.7% and 7.0%.

Due to the rising incidence of NPL's, the reserve cover (excluding collateral value) of the Group and Bank declined from 78.8% and 90.4% respectively to 64.0% and 65.5%. This compares favourably to 39.1% for commercial banks and 38.4% for the banking system.

Taxation

The effective tax rate of the Group rose to 47.1% from 35.7% in FY 2000 due to the absence of Group relief particularly in respect of the losses incurred by some of the subsidiaries. A second consideration was the complete disallowance of tax relief on interest suspended where in FY 2000, a 100% relief was granted. Due to the latter, the effective tax rate of the Bank also increased to 37.2% compared to 33.9% in FY 2000. ■