

MALAYAN BANKING BERHAD

(Company No. 3813-K)

REGISTERED OFFICE :

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

22 December 2000

DIRECTORS

Tan Sri Mohamed Basir bin Ahmad (Chairman)
Dato' Richard Ho Ung Hun (Vice-Chairman)
Datuk Amirsham A. Aziz (Managing Director)
Dato' Ismail Shahudin (Executive Director)
Raja Tan Sri Muhammad Alias bin Raja Muhd. Ali
Mohammad bin Abdullah
Dato' Mohd Hilmey bin Mohd Taib
Haji Mohd. Hashir bin Haji Abdullah
Teh Soon Poh
Datuk Abdul Rahman bin Mohd. Ramli
Dato' Mohammed Hussein (Executive Director)

To: The Shareholders Of Malayan Banking Berhad ("Maybank" or "the Bank") (3813-K)

- (1) Proposed Acquisition Of Entire Issued And Paid-Up Share Capital Of Phileo Allied Bank (Malaysia) Berhad, Phileo Allied Securities Sdn Bhd And Their Respective Subsidiaries Except For Phileo Allied Options And Financial Futures Sdn Bhd, Phileo Allied Unit Trust Management Sdn Bhd And Phileo Asset Management Sdn Bhd For Net Cash Consideration Of RM1,280 Million ("Proposed Acquisition of Phileo"); And**
- (2) Proposed Acquisition Of The Pacific Bank Berhad's Entire Banking Business And Entire Issued And Paid-Up Share Capital Of P.B. Holdings Sdn Bhd, Pacific Nominees (Tempatan) Sdn Bhd And Pacific Nominees (Asing) Sdn Bhd For Cash Consideration Of RM1,250 Million ("Proposed Acquisition of Pacific").**

The abovementioned exercises are collectively referred to as "the Proposals".

Dear Sir/Madam

1. INTRODUCTION

On 24 August 2000 and 30 August 2000, Aseambankers, on behalf of Maybank, announced the following proposals respectively:-

1.1 Proposed Acquisition of Pacific

Proposed acquisition of The Pacific Bank Berhad's entire banking business and entire issued and paid-up share capital of P.B. Holdings Sdn Bhd, Pacific Nominees (Tempatan) Sdn Bhd and Pacific Nominees (Asing) Sdn Bhd for cash consideration of RM1,250 million; and

1.2 Proposed Acquisition of Phileo

Proposed acquisition of entire issued and paid-up share capital of PABB, PASSB and their respective subsidiaries except for Phileo Allied Options And Financial Futures Sdn Bhd, Phileo Allied Unit Trust Management Sdn Bhd and Phileo Asset Management Sdn Bhd for net cash consideration of RM1,280 million.

Details of the abovementioned Proposals are set out in the ensuing sections.

Aseambankers, on behalf of Maybank, had submitted the relevant applications in respect of the Proposals to the Minister via BNM and FIC to seek their approvals on the Proposals. The approval from the FIC was obtained on 13 October 2000. The approval from the Minister has been received on the 9 December 2000.

THE PURPOSE OF THIS INFORMATION CIRCULAR IS TO PROVIDE YOU WITH DETAILED INFORMATION PERTAINING TO THE PROPOSALS AND TO SET OUT THE VIEWS OF THE BOARD.

2. DETAILS OF THE PROPOSALS

2.1 Background Information

Maybank

Maybank was incorporated in the Federation of Malaya on 31 May 1960 with an authorised share capital of RM20 million and an issued and paid-up share capital of RM7.5 million initially. As at 20 November 2000, Maybank has an authorised share capital of RM4 billion and issued and paid-up share capital of RM2.35 billion.

Maybank is principally engaged in commercial banking business whilst its subsidiary companies are engaged in finance, merchant banking, leasing, hire-purchase, general and life insurance, discount house business, factoring, stockbroking, venture capital, trustee, nominee services, property trust, unit trust and futures broking.

Further information on Maybank is included in Appendix I.

PABB

PABB was incorporated in Malaysia on 6 July 1994 as AlliedBank (Malaysia) Bhd and subsequently changed to the present name on 28 April 1997. PABB has authorised share capital of RM2 billion consisting of 2 billion ordinary shares of RM1.00 each and issued and paid-up share capital of RM704 million consisting of 704 million ordinary shares of RM1.00 each. PABB offers complete and comprehensive range of financial services and investment choices, innovative, tailor-made financial products, delivery channels through the creative use of information technology to its customers.

Currently, PABB has 29 branches nationwide and 3 virtual banking kiosks.

PASSB

PASSB was incorporated in Malaysia on 1 December 1975 and is a member company of the KLSE and a wholly-owned subsidiary of PAB. PASSB has authorised share capital of RM100 million consisting of 100 million ordinary shares of RM1.00 each and issued and paid-up share capital of RM100 million consisting of 100 million ordinary shares of RM1.00 each. PASSB is based in Ipoh, Perak with a branch research office in Kuala Lumpur and is a full-service stockbroking house that offers a comprehensive range of products and services to local and international institutional clients and retail customers.

Further information on PABB and PASSB are included in Appendix II(A) and (B).

PBB

The Pacific Bank Berhad (“PBB”) (formerly known as Batu Pahat Bank Ltd or “BPBL”) was incorporated in Federation of Malaya on 30 May 1963 by Oversea Chinese Banking Corporation Limited of Singapore to acquire and to carry on the undertakings of BPBL. PBB was listed on the Main Board of the KLSE on 23 August 1990. The PBB Group is principally engaged in the provision of wide range of financial services which include commercial banking, insurance, unit trust management, leasing, hire purchase, trustee and nominee services. Presently, PBB has 69 commercial bank branches located throughout Malaysia.

Further information on PBB is included in Appendix II(C).

2.2 Salient Terms Of The Proposed Acquisition Of Phileo

Pursuant to the Agreement with Phileo, Maybank shall acquire from PAB its entire shareholdings of 100,000,000 ordinary shares of RM1.00 each in PASSB including all its subsidiaries, and from PAB and PAFMB their entire shareholdings of 682,000,000 (96.88%) and 22,000,000 (3.12%) ordinary shares of RM1.00 each respectively in PABB, including all its subsidiaries except for three (3) subsidiaries, namely Phileo Allied Options and Financial Futures Sdn Bhd, Phileo Allied Unit Trust Management Sdn Bhd and Phileo Asset Management Sdn Bhd which will be reacquired by PAB as part of the proposal.

Maybank is acquiring the PASSB Group in trust for MS(H)SB and agrees to transfer and deal with the PASSB shares as MS(H)SB shall from time to time direct. No other agreement was entered into except for the Declaration of Trust dated 24 October 2000.

Mode Of Payment

The consideration for the acquisition of PABB and PASSB shall be a cash consideration of RM1,300 million and the sale consideration for the reacquisition of the Excluded Subsidiaries by PAB will be RM20 million, which was arrived at on a willing buyer - willing seller basis after taking into account, among others, the audited net tangible assets of the Excluded Subsidiaries as at 31 January 2000.

The audited NTA and Net Profits of the Excluded Subsidiaries:

	Audited NTA As At 31.01.2000	Net Profits / (Losses) For The Year Ended 31.01.2000
Excluded Subsidiaries	RM'mil	RM'000
Phileo Allied Options and Financial Futures Sdn Bhd	6.17	(396)
Phileo Allied Unit Trust Management Sdn Bhd	6.62	121
Phileo Asset Management Sdn Bhd	4.51	2,072

The consideration shall be paid by Maybank as follows:

- (a) a deposit of RM130 million (which is 10% of the gross purchase consideration of RM1,300 million) to the stakeholders, HSBC Bank Malaysia Berhad (formerly known as Hongkong Bank Malaysia Berhad) upon the execution of the Agreement with Phileo; and
- (b) the balance of RM1,170 million is to be paid on the completion date.

The RM1,300 million is the gross consideration before excluding the Excluded Subsidiaries which will be repurchased by PAB for RM20 million.

The Directors expect the completion date to be no later than 14 business days or such other dates as mutually agreed in writing (as defined in Section 2.01 and 5.01 of the sale and purchase agreement between Maybank, PAB and PAFMB) from all conditions precedent pursuant to the Agreement with Phileo are fulfilled. Maybank will not assume any liabilities from the Proposed Acquisition of Phileo save for the liabilities of the Subject Companies assumed in the ordinary course of business.

Internally generated funds will be used by Maybank to finance the Proposed Acquisition of Phileo.

The net consideration of RM1,280 million was arrived at on a willing buyer - willing seller basis after taking into account, among others, the audited net tangible assets of the Subject Companies as at 31 January 2000, the due diligence findings and also future earnings potential of PABB and PASSB. The net profit before transfer to statutory reserve for PABB and group net profit for PASSB were RM220.6 million and RM17.5 million, respectively based on the audited financials as at 31 January 2000.

The audited NTA of PABB and PASSB Group as at 31 January 2000 are RM861 million and RM184 million respectively. The original cost of PAB's investment in PABB incurred between 6 July 1994 to 23 December 1994 is approximately RM501.02 million. The original cost of PAF's investment in PABB is approximately RM22.0 million which was made on 1 July 1999. The original cost of PAB's investment in PASSB is approximately RM112.0 million which was made on 26 May 1994.

The consideration of RM1,300 million represents approximately 1.25 times the combined net assets value of the PABB and PASSB which approximates RM1,041 million as at 31 January 2000.

The five (5) days weighted average market price of PAB's shares as at 29 August 2000 (being the last practicable date prior to the announcement) was RM2.38.

2.3 Proposed Terms Of The Proposed Acquisition of PASSB Group By MS(H)SB Group

Upon completion of the Proposed Acquisition of Phileo and Maybank acquiring PASSB Group upon trust for MS(H)SB;

- (i) the stockbroking business of PASSB and its subsidiaries, namely Phileo Allied Nominees (Tempatan) Sdn Bhd and Phileo Allied Nominees (Asing) Sdn Bhd will be acquired by MSSB; and
- (ii) another subsidiary of PASSB, namely Phileo Allied Securities (Jersey) Limited and its subsidiaries will be transferred to MS(H)SB.

The Proposed Acquisition of PASSB Group by MS(H)SB Group is conditional upon, inter-alia, the necessary approvals being obtained for the Proposed Acquisition of Phileo.

2.3.1 Operation Matters

MSSB propose to operate a stockbroking branch in PASSB's current offices situated in Wisma Phileo, No. 55, 57 and 63, Persiaran Greenhill, 30450 Ipoh, Perak Darul Ridzuan. The expected date for the commencement of operations in the Ipoh branch will be March 2001, subject to approvals from the KLSE and SC.

2.3.2 Financial Impact On Maybank Group

There would not be any impact on the overall Maybank Group's financial position in relation to the Proposed Acquisition of PASSB Group by MS(H)SB Group as MS(H)SB and MSSB are both wholly-owned subsidiaries of Maybank.

2.4 Salient Terms Of The Proposed Acquisition Of Pacific

The proposed transaction involves an acquisition by Maybank from PBB of the assets and liabilities of PBB relating to the banking business including three (3) of PBB's wholly-owned subsidiary companies, namely P.B. Holdings Sdn Bhd, Pacific Nominees (Tempatan) Sdn Bhd and Pacific Nominees (Asing) Sdn Bhd (collectively referred as "PBB Subsidiaries").

The audited NTA and Net Profits of PBB Subsidiaries:

PBB Subsidiaries	Audited NTA As At 31.12.1999 RM'000	Net Profits/ (Losses) For The Year Ended 31.12.1999 RM'000
P.B. Holdings Sdn Bhd	4,912	1,966
Pacific Nominees (Tempatan) Sdn Bhd (Note 1)	15	-
Pacific Nominees (Asing) Sdn Bhd (Note 2)	2	-

Note 1: Pacific Nominees (Tempatan) Sdn Bhd has remained inactive during the financial year ended 31 December 1999; and

Note 2: Pacific Nominees (Asing) Sdn Bhd has not commenced operations since its incorporation on 29 May 1993.

Assets and liabilities of PBB not related to the banking business including certain subsidiaries and associated companies set out hereunder shall be excluded from the Proposed Acquisition of Pacific and shall remain with PBB. The subsidiaries and associated companies which shall be excluded from the Proposed Acquisition of Pacific are:

- (i) Pacific Insurance Berhad;
- (ii) Pacific Mutual Fund Berhad;
- (iii) P.B. Pacific Sdn Bhd;
- (iv) Pacific Futures Sdn Bhd;
- (v) Pac Lease Sdn Bhd; and
- (vi) Malaysian Trustees Berhad.

Mode Of Payment

The consideration for the acquisition shall be a cash consideration of RM1,250 million subject to the following adjustments ("the Adjustments") upon completion:

- (a) save and except for the dividend paid in July 2000 in respect of the financial year ended 31 December 1999, any dividends declared, paid or payable in respect of the period from 1 January 2000 by PBB shall be reduced from the consideration by the same amount; and

Malayan Banking Berhad
Information Circular to Shareholders

- (b) additional cash consideration in an amount to be determined based on an agreed fixed value of RM136,986.30 per day, to reflect the increasing value of the banking business from 1 January 2000 until the completion date.

The consideration shall be paid by Maybank as follows:

- (a) a deposit of RM30 million upon execution of the Agreement with Pacific; and
- (b) the balance is to be paid to a stakeholder (OCBC Bank (Malaysia) Berhad) on the completion date. Upon obtaining the relevant vesting order from the High Court of Malaya to give effect to the Proposed Acquisition of Pacific, remaining purchase consideration shall be released in full to PBB.

The Directors expect the completion date to be falling at the expiry of 14 business days or such other dates as mutually agreed in writing (as defined in Section 1.1 and 8.1 of the sale and purchase agreement between Maybank and PBB) whereby all conditions precedent pursuant to the Agreement with Pacific are fulfilled. Maybank will not assume any liabilities from the Proposed Acquisition of P.B. Holdings Sdn Bhd, Pacific Nominees (Tempatan) Sdn Bhd and Pacific Nominees (Asing) Sdn Bhd save for the liabilities of the above companies assumed in the ordinary course of business.

Internally generated funds will also be used by Maybank to finance the Proposed Acquisition of Pacific.

The consideration was arrived at on a willing buyer-willing seller basis after taking into consideration, among others, the net asset value of PBB as at 31 December 1999, the due diligence findings and future earnings potential of PBB banking business. The audited NTA of PBB as at 31 December 1999 was RM850 million.

The original cost of investment on PBB Subsidiaries in the books of PBB are as follow:

PBB Subsidiaries	Date of Investment	No. of shares	Costs RM
P.B. Holdings Sdn Bhd	26.03.83	3	3
	07.08.84	299,997	299,997
	22.03.88	700,000	700,000
		1,000,000	1,000,000
Pacific Nominees (Tempatan) Sdn Bhd	24.07.81	2	20
	07.08.84	998	9,980
		1,000	10,000
Pacific Nominees (Asing) Sdn Bhd	29.05.93	2	2

While the net assets value of the relevant assets and liabilities to be acquired shall be determined upon completion, the indicative derived value of RM1,250 million (before the Adjustments) represent approximately 1.76 times the net assets value of the relevant assets and liabilities to be acquired which approximates RM709 million as at 31 December 1999.

The five (5) days weighted average market price of PBB's shares as at 23 August 2000 (being the last practicable date prior to the announcement) was RM3.65.

3. RATIONALE

Proposed Acquisitions

The impending globalisation and liberalisation of the financial industry will continue to pose great challenges to Malaysian financial institutions. To attain its long term objective of a sound and resilient financial system, the government is encouraging financial institutions to rationalise and consolidate. Local financial institutions are currently undergoing various mergers and consolidation exercises to address these challenges ahead.

Upon completion of the Proposals, it is intended that the commercial banking business of PABB and PBB will be merged with that of Maybank and the local stockbroking business under PASSB will be merged with that of MSSB. MSSB has made an application to the relevant authorities to operate a stockbroking branch in Ipoh, Perak. Upon receiving the necessary approvals from the relevant authorities, the stockbroking license of PASSB will be returned to the authorities.

The Proposals, upon completion, will provide the combined entity with opportunities to synergise and to enhance its financial services in the areas of banking, bancassurance and investment management. In addition, the combined entity will be able to benefit from economies of scale and synergies through cross selling of its products and services to an enlarged customer base. These Proposals are in tandem with Maybank's strategy to further strengthen its position as the preeminent financial services group in Malaysia.

4. FINANCIAL EFFECTS

4.1 Share Capital

As the Proposed Acquisitions will be satisfied by way of cash, there will be no impact on the share capital of Maybank.

4.2 Earnings

The Proposals are expected to contribute positively to the future earnings of Maybank.

4.3 Proforma Financial Effect

The proforma financial effect on Maybank Group after the Proposed Acquisition of Pacific and Proposed Acquisition of Phileo.

	Audited Accounts of Maybank @ 30/06/2000 RM'000	(1) After Proposed Acquisition of Pacific # RM'000	(2) After (1) and Proposed Acquisition of Phileo * RM'000
Share Capital	2,337,975	2,337,975	2,337,975
<i>Non-distributable reserves</i>			
Share premium	191,749	191,749	191,749
Statutory reserves	2,795,772	2,795,772	2,795,772
Capital reserves	15,250	15,250	15,250
Exchange fluctuation reserves	98,031	98,031	98,031
	3,100,802	3,100,802	3,100,802
<i>Distributable reserves</i>			
General reserves	3,291,534	3,291,534	3,291,534
Retained profits	1,629,410	1,629,410	1,629,410
	4,920,944	4,920,944	4,920,944
Shareholders' funds	10,359,721	10,359,721	10,359,721
Less: Intangibles	-	(541,000)	(835,000)
Net Tangible Assets ("NTA")	10,359,721	9,818,721	9,524,721
NTA per share (RM)	4.43	4.20	4.07

Based on net asset value of the relevant assets and liabilities to be acquired which approximates RM709 million as at 31 December 1999 and a cash consideration of RM1,250 million (before Adjustment). The net assets value of RM709 million has not taken into consideration the additional cash consideration of RM136,986.30 per day for the period from 1 January 2000 until the completion date reflecting the incremental value of the banking business.

* Based on the combined net assets value of PABB and PASSB which approximates RM1,024 million (which includes intangibles of RM38 million) as at 31 January 2000 per the audited accounts of the respective companies and a net cash consideration of RM1,280 million. The net assets value of PABB and PASSB of RM1,024 million excludes the net assets value of the Excluded Subsidiaries and the RM1,280 million is the net consideration after excluding the Excluded Subsidiaries which will be repurchased by PAB for RM20 million.

5. INDUSTRY REVIEW AND FUTURE PROSPECTS

Economic Outlook

The Malaysian economy rebounded strongly in 2000 after recovering from the sharp output decline in 1998 and early 1999 following the financial crisis. Economic turnaround, which began in the second quarter of 1999, has since become well-entrenched, underpinned by the return of confidence and a more stable economic environment made possible by the introduction of selective capital controls and the pegging of the Ringgit.

The economic outlook for 2001 continues to be favourable. Growth is expected to be sustained by the stronger performance of the private sector which will provide the primary stimulus for growth. The Government will, however continue to support the private sector in ensuring that growth in economic activities is sustained. In addition to the fiscal stimulus, the Government will continue to support economic growth through measures that promote expansion in domestic demand, development of new sources of growth, strengthen the nation's competitiveness and resilience whilst improving further the quality of life. Given the favourable external outlook, real Gross Domestic Product growth for Malaysia is forecast at 7.0% in 2001. Despite the strong indications that sustainable growth is achievable, some downside risks exist. These risks include the possibility of a larger than-anticipated slowing down of US economy, which in turn could affect the electronics sector, a slower-than-expected strengthening of a private consumption and lower private investment, both domestic and foreign.

Given the role and importance of the banking system in the economic recovery process, the Government adopted a comprehensive pre-emptive approach to strengthen resilience of the banking sector aimed at preventing the emergence of systemic crisis as well as maintaining public confidence. Financial sector reform continued to be undertaken as part of the move to develop a core group of resilient and dynamic domestic banking institutions capable of competing in a dynamic environment of technological change as well as increasingly diverse and sophisticated consumer demands. Bank Negara Malaysia has also embarked on the formulation of a long-term Financial Sector Master Plan. The main thrust of the Financial Sector Master Plan, is to develop a core of strong and forward-looking domestic banking institutions and to chart strategic directions for the industry in the next decade.

(Source: Ministry of Finance, Malaysia – Economic Report 2000/2001)

Industry Prospect

The prospects for the banking industry depends critically on the pace of loans growth and the success of the corporate debt re-structuring. With regard to the former, despite the relatively strong economic growth, averaging to about 6.7 per cent over the last two years, loan growth for the banking system remained subdued. This was principally due to corporate de-leveraging as well as the selling of non-performing loans to Pengurusan Danaharta Nasional Berhad. Nevertheless, the prospects for loan growth to gain momentum appear to be promising. Loan approval, in particular, has been trending upward. From around RM15 billion during the first quarter of 1998, it went up to around RM20 billion in the first quarter of 1999 and by the second quarter of 2000, it reached RM35 billion. With economic growth expected to be 7% for the year 2001, this trend is likely to be sustained.

In the case of corporate debt re-structuring, the complexity of the exercise as well as the weak sentiment in the equity market may result in the delay of its resolution. Given this situation, it may be possible for the non-performing loans to edge up slightly in the immediate term before showing any improvement. On the whole, the prospects for the banking sector is fair and should be turning positive once asset quality starts to improve significantly.

(Source: View of Maybank's Management)

Malayan Banking Berhad
Information Circular to Shareholders

The risk-weighted capital ratio of the banking system improved to 13.1% at end-August 2000 (end-1999: 12.5%) while the net non-performing loan ratio (6 month classification) was 6.9% at end-July 2000 (end-July 1999: 7.9%), down from a peak of 9.0% at end-November 1998.

(Source: Ministry of Finance, Malaysia – Economic Report 2000/2001)

6. CONDITIONS

The agreements and completion of the Proposals are subject to and conditional upon, inter-alia, the followings being fulfilled:

- (a) approvals being obtained from:
 - i) Minister/BNM (obtained on 9 December 2000);
 - ii) FIC (obtained on 13 October 2000);
 - iii) SC (Licensing Department);
 - iv) KLSE (Membership Department);
 - v) shareholders of PBB and PAB at the EGM to be convened for the Proposals;
 - vi) loanstock holders of PAB (for both ICULS 1996/2001 and ICULS 1999/2004) for the Proposed Acquisition of Phileo at the forthcoming loanstock holders meeting; and
 - vii) any other relevant authorities, if required.
- (b) all inter-company advances by PBB to its subsidiaries or associated companies, other than the PBB Subsidiaries, including such portion of advances to P.B. Pacific Sdn Bhd by PBB in an amount of RM50 million to be included in the Proposed Acquisition of Pacific, shall be fully repaid or restructured into commercial loans;
- (c) satisfactory due diligence review that there are no material adverse conditions which would materially and adversely affect the net assets value of the assets and liabilities to be acquired by Maybank in respect of the Proposed Acquisition of Pacific;
- (d) full settlement of all inter-company advances owed to the Subject Companies in relation to the Proposed Acquisition of Phileo; and
- (e) approvals for reacquisition of the Excluded Subsidiaries by PAB shall have been applied for and obtained.

The Proposed Acquisition of Pacific and Proposed Acquisition of Phileo are not inter-conditional.

7. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Substantial Shareholders' Interests

Save as disclosed below, none of the Directors or substantial shareholders of Maybank or any person connected with them by virtue of section 122A of the Companies Act, 1965 have any interest, direct or indirect, in the Proposals.

The Employee Provident Fund Board is a substantial shareholder of PAB and Maybank with direct and indirect shareholdings of 2.97% as at 2 November 2000 and 7.41% as at 20 November 2000 in PAB and Maybank, respectively.

Malayan Banking Berhad
Information Circular to Shareholders

8. DIRECTORS' STATEMENT

Having considered all of the above, your Directors are of the opinion that the terms of the Proposals are in the Bank's best interest.

9. FURTHER INFORMATION

Shareholders are requested to refer to the attached appendices for further information.

Yours faithfully
For and on behalf of the Board
Malayan Banking Berhad

Datuk Amirsham A. Aziz
Managing Director