ASSET-LIABILITY MANAGEMENT OF MAYBANK DURING 19914997

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ABSTRAK

PENGURUSAN ASET DAN LIABILITI DI MAYBANK 1991-1997

Kajian ini adalah untuk menganalisis pengurusan aset dan liabiliti oleh bank berkenaan. Kajian ini adalah berbentuk kes kajian yang akan meninjau keadan di Maybank yang merupakan salah satu bank yang utama di negara ini. Kami berhasrat untuk menganalisis struktur aset-liabiliti bank berkenaan dalam jangkamasa 1991-1997dengan menggunakan penyata kewangan.

Kajian ini berbentuk penganalisaan data. Ianya adalah satu kajian dan analisa penyata kewangan yang boleh diperolehi dalam laporan-laporan tahunan Maybank. Dengan menggunakan penyata-penyata kewangan kami akan menggunakan kaedah kuantitatif untuk melihat bagaimana aset-liabiliti bank ini diuruskan. Untuk ini, kami juga telah membuat kiraan ratio dan peratusan untuk melihat bagaimana bank ini menguruskan keuntungan dan kecairan mereka untuk menjamin kepercayaan pengguna dan masyarakat terhadap keutuhan bank tersebut.

Hasil kajian menunjukkan aset dan liabiliti Maybank telah diuruskan secara bijak dan kami dapati bahawa bank ini dapat menguruskan perniagaan mereka dengan baik. Dalam kegawatan ekonomi negara sekarang, bank ini masih mampu mencatatkan keuntungan RM 0.50 bilion dari Jun 1997 hingga Jun 1998. Menuju alaf akan datang bank ini perlu menyusun strategi yang lebih berkesan untuk menghadapi cabaran-cabaran yang lebih genting lagi.

ABSTRACT

ASSET-LIABILITY MANAGEMENT OF MAYBANK DURING 1991-1997

This study sought to analyze the assets and liabilities management in banking with a focus on the experience of Maybank which is one of the leading banks in Malaysia. The liabilities and asset structure of this as reflected in its balance sheets for the period of 1991- 1997 have been examined as a case study.

The study is data based. It is primarily based on balance sheet statements of Maybank which is incorporated in its annual reports. With a scrutiny of these annual reports we used a quantitative approach in analysing the significance of major variables such as deposits, credits, investment, loan and among others to see how asset and liability of the bank is managed. Specifically some ratios and percentages have been computed to see how the bank managed its business to achieve its diverse goals of profitability and liquidity in order to win the confidence and trust of its customers and public at large in the country.

The findings on this study shows that Maybank's asset and liability are well managed and it is economically performing well in banking business. Despite the present dismal economic situation in the country, the bank has managed to make some profit around RM 0.50 million in 1997 - 1998(June End) In the next millennium the bank need to prepare for still better strategies to meet the new challenges.

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TABLE OF CONTENT

CHAPTER THREE

A SNAP-SHOT OF CONCEPTUAL IDEAS

CHAPTER FOUR

MALAYAN BANKING BERHAD: IN HISTORICAL PERSPECTIVE

CHAPTER 5

ANALYSIS OF LIABILITY ASPECTS OF MAYBANK

CHAPTER SIX

ASSET-PORTFOLIO MANAGEMENT BY MAYBANK

CHAPTER SEVEN

SUMMARY AND CONCLUSION

LIST OF TABLES

LIST OF GRAPH

ABBREVIATIONS

A	:	Total Assets of Maybank
AA	:	Aggregate Commercial Asset.
ABC	:	Automated Banking Consortium.
AC	:	Aggregate Commercial Bank Credits.
AD	:	Aggregate Commercial Bank Deposits.
AIM	:	Amanah Ikhtiar Malaysia.
ALM	:	Asset-Liability Management.
AMDF	:	Malaysian Industrial Development Finance Sendirian Berhad.
ATM	:	Automatic Teller machine.
BNM	:	Bank Negara Malaysia.
C	:	Credits.
CH	:	Cash Balance.
FD	:	Fixed Deposits.
FELDA	:	Federal Land Development Authority.
FRCD	:	Floating-rate Certificate of Deposits.
LA	:	Loan and Advances.

MARA	:	Majlis Amanah Rakyat.
MC	:	Money at call.
MIMB	:	Malaysian International Merchant Bankers Berhad.
NCD	:	Negotiable Certificates of Deposits.
PERNAS	:	Perbadanan Nasional Berhad.
PETRONAS	:	Petroleum Nasional Sendirian Berhad.
PIKOM	:	Assosiation of the Computer Industry Malaysia.
RISDA	:	Rubber Industrial Smallholders development Authority.
SD	:	Saving Deposits.
SRR	:	Statuary Reserved Requirement.
TC	:	Total Credits.
TD	:	Total deposits.
TL	:	Total Liability.
TMA	:	Total Monetary Asset.

CHAPTER 1

INTRODUCTION

1.0 CONTEXT OF THE PROBLEM

The banking and financial industry is a vibrant and dynamic component of the Malaysian economy. It is gearing itself for the impending era of accelerated industrialisation which will provide numerous opportunities for organisational growth and expansion, especially the commercial bank.

The decade of 1990's is crucial in the economic history of Malaysia. Besides, growth dynamism and remarkable success of economic progress until 1996, the country has also experienced a sudden setback in the later part of 1997. Recent currency crisis in neighboring countries such as Thailand and Indonesia has caused financial sector turmoil as well. Malaysian economy also experienced some major financial crisis. Some institutions have faced some trouble but the government has taken steps to balance this situation. Commercial banking is the pillar of the financial sector of Malaysian economy.

But, unfortunately the commercial banks are beginning to be lagging behind in recents years. From the year 1980-1989 commercial banking asset growth fell third after the financial companies, follow by merchants banks. The growth is only 15.8% for those years. Commercial banking deposits growth is on an average has been 12.1% compare to financial companies that having it 21.8%.
(Shamsuddin Ismail, Ee Kow Keang, 1991)

The commercial banks are now facing stiff competition from other financial institution and the competition is expected to get stiffer during 1990's and beyond.

Banking is, however, both art as well as science, a banker has to reconcile its contradictory objectives of liquidity and profitability through a proper asset and liability portfolio management. A commercial bank balance sheet in economic sense reveals the liability and assets side in operation.

It is essential for a bank to have a strategic liability and asset portfolio management to meet the assets of safety, soundness, sufficient liquidity and maximum return to maximize profits. The present study is confined to as a case of Maybank Berhad, which is one of the leading bank in Malaysia. It sought to analyze the liability structure and asset management of the bank during 1990's.

1.1 OBJECTIVE OF STUDY

This study attempts to identify and examine how Malayan Banking manage their assets and liabilities of the bank and to determine its position within the gamut of the banking objectives.

It is also aimed to find out how asset and liability of Maybank is managed to convince their customers' trust towards their bank.

By and large, the study sought to see how Maybank played its role in serving the development needs of the nations through its banking activity.

1.2 METHODOLOGY OF STUDY AND DATA COLLECTION

The study is data based. It is a case study confined to Maybank Malaysia. It relates to asset-liability analysis and management by the Maybank during the period of 1991-1997. It is primarily based on balance sheets and others information's of the Maybank available in its annual reports.

To capture the policy matter and other details, the study will be substantiated by personal interviews with the Maybank headquarters' officers. A schedule for questionnaire for the interview is prepared. The study used a quantitative approach in analyzing the significance of major variables such as deposits, credits, investment, and loans among others. For analyzing the assets and liability management by the Maybank over the years we have resorted to work out a number of ratios such as, Time Deposit to Aggregate Demand Deposits (TD / DD). Demand deposits as a percentage and Total Liabilities (DD / TL),ratio of Total Deposits to Credits (C / D). Demand Deposits to Total Deposits (DD / TD), Saving Deposits to Total Deposits (SD / TD), Fixed Deposits to Total Deposits (FD / TD) and Negotiable Certificates of Deposits to Total Deposits (NCD / TD). Trend of capital adequacy of Maybank is seen through the core capital ratio and risk weighted capital ratio

We also worked out Total Deposits of Maybank to Aggregate Commercial bank deposits (TD / AD), Credits of Maybank to Aggregate Commercial bank credits (C / AC) and total Asset of Maybank to Aggregate Commercial Assets(A / AA)

Statutory reserves scenario for Maybank also worked out in terms of Statutory Reserved Requirement to Total Deposits (SRR / TD), Statutory Reserves Requirement to Total Monetary Asset (SRR / TMA).

Besides, ratio of loans and advances in asset liability management of Maybank also being worked out, Total Loan and Advances to Total Monetary Asset (TA / TMA) and Total Loans and Advances to Total Liability (LA / TL).Cash funds of Maybank during the period of study is also being worked out. Cash Balance to Total Monetary Asset (CH / TMA), Money at call to Total Monetary Assets (MC / TMA), Total Cash funds to Total Monetary asset (TC / TMA). Ratio for Maybank deposits with financial institution is also being worked out as Total Deposits with financial institution to Total Monetary Assets (TD / TMA).

Above all, growth trends has been estimated to capture the idea of the economic performance of the bank during the period under study: 1991-1997. The data for the study gathered from the annual financial report of Maybank during the period of 1991-1997. So also, a comprehensive questionnaire to interview the Maybank Management was then constructed with the objectives of the study in mind.

The questionnaire was divided into four sections:

Section 1 : Questions about deposits

Section 2 : Questions about advances

Section 3 : Questions about reserves

Section 4 : Questions on other aspects of banking

1.3 LIMITATION OF THE STUDY

The study is limited to the Maybank Berhad only and restricted to examine the scenario of asset and liabilities of the said bank.

The time and scope for gathering and analysing data is obviously limited when one has to complete the study within a time bonded programme

CHAPTER 2

REVIEW OF LITERATURE

2.0 INTRODUCTION

It is no exaggeration to state that very scanty research on the economic performance, especially in the field of Asset-Liability Management (ALM) has been done in banking industry in Malaysia and elsewhere. To our knowledge very little work on individual case study is available. The present study is probably a pioneering attempt to analysis the working and ALM of the Maybank as a case study.

As a background for the analysis presented in the later chapters of this study, a few writings pertaining to theoretical and conceptual ideas in balance sheet analysis of the commercial bank towards ALM have been reviewed and explored. Besides, reviewing some major studies of the banking studies of the banking system in general.

2.1 A SYNOPTIC REVIEW OF RELATED LITERATURE

Since there is no direct study on ALM in banking sector of Malaysia is available we have resorted to survey the research done in Indian banking, of which only a few major studies are briefly reviewed below as a background to our study.

Verghee (1981) provided trend of gross and net profits as well as various profitability in India during 1970-1979.

Pujari (1996) narrated some important aspects of liability and asset management of commercial bank in India during 1992-1993.

Khusro and Sidharta (1972) provided simple econometric model of banking in India and estimated demand and supply of earning assets using time series.

Bhatia (1982) analysed the performance of Indian banking system for the period 1950-1968 by examining the trends of banks deposits growth and profitability as well as operating efficiency.

William Bill (1992) pointed out that asset and liability management as an important strategy for bank's profits. Asset and Liabilities Management used to make sure that the bank's manage the portfolio in a manner consistent with the bank's investment policy to obtain the desire earning while holding risk at acceptable and maintain adequate liquidity at cost consistent with earning goals. Several techniques are also being discussed in how interest-rate risk and its effect on earning must be integral in determining the acceptable risk level. In his book, he also recommended several available tools that can be used by the portfolio manager of banks to manage their asset and liability to make sure that the bank makes profit in short and long term goals of the bank.

Johnson J.H. (1994) had discussed that bank's asset and liability management is a comprehensive treatment of all the issues related to manage bank portfolio of liquid asset, securities, loans, liabilities and capital. The topics of liabilities and capital management were included in the discussion of the cost capital standards. Each of these requires different forms of analysis for a successful management.

Bittner and Goddard (1992) narrated the significance of implementing successful asset and liability management process in commercial banks and thrift institution. He suggested that the forming of asset liability management committee and explained how they can develop a policy and select a simulation model. The main focus is the strategic of asset and liability management to provide the bank with a stable and competitive return on equity or surplus.

Brick R.J. (1980) explored the ideas about asset management with topic related to cash management and reserves, commercial leading consumer and mortgage lending and investment. In the next part also being discuss about liability and capital management where funds used by banks to maintain reserves and to acquire loans, investment and fixed asset obtain primarily from deposits, borrowed fund and capital. He also highlighted the importance on asset-liability management. The joint relationship or linkage between the management of assets and liabilities are also discussed. Recent economic and money market conditions have given rise to a reviewed interest in bank asset and liability management. There is no universally applicable asset-liability management system from all commercial banks. The important of a system for a bank is thorough the understanding of its customer based and market environment.

Gardener and Mills (1991) provided an insight into managing assets-liabilities of financial institutions. More covering are being focus on asset and liabilities management by highlighting the environment of asset-liability management. Being discussed thoroughly is asset-liability management in depository institutions non depository institution.

Rose S.P. (1991) provided a comprehensive study on managing the assets(fund uses) of bank loans, investment, securities and liquidity. Also composed the analysis of bank financial statements. In addition, also being discussed is the rapidly developing technique of asset-liability management that aimed at controlling bank risk exposure.

Herrick G.T.(1978) provided the importance of various issues in evaluating bank. Being analysis in this book are the key operating policies of a bank. The policies which being highlighted is liquidity policy, interest rate policy, profitability policy and capital policy. These policies represent areas of conducting business over which bank exercise considerable control. These policy are being used to manage bank future economic environment regulatory environment, strategy, controls and an evaluation of the accounting of the bank.

Harrington (1987) spelled out the need for formal assets and liabilities management in a greater detail which serve as a useful guide to bank asset and liability management. Asset and liability management concerned with virtually all aspects of banking business both on and off the balance sheet, ranging from the capital structure of the bank to overnight borrowing. Many banks are large and diverse organisations with, in many cases a widespread branch network. Harrington has reviewed demand deposits as a percentage of total bank liabilities for various countries for example Canada 13.8%, Japan 0.9%, United States of America 18.3% in 1984.

Harrington also highlighted the rapid change in banking due to technological change, the internationalisation of banking, increased competition and changing approaches to monetary policy and banking supervision each played an important part in this process of change. Therefore, asset and liability management technique involves a more integrated approach to the balance sheet and of balance sheet. Management system has had to adjust to provide both for the coherent planing and direction of policy and its implication and control.

Shanmugam and Turton (1992) in their study of bank in Australia, discussed the issues and problem relating to the bank liability and asset management in the country during period 1953-1991. The author said; identify Australia Reserves Bank, guidelines on capital adequacy and liquidity management is far from the normal banks in Australia to maintain minimum ratio of capital to risk weighted, assets of 8%.

Furthermore, regarding liquidity management banks have to maintain a minimum portion at least 6% of total liabilities in cash or assets are easily converted to cash.

Srinivasulu Sam L.(1998) pointed out in comparison of analytical methods used in asset and liability management. In his article, is being highlighted that asset liability management is the approach to the management of risk in all financial institution.

2.2 CONCLUSION

The justification for the present study is the evidence from the above narration of literature review of a case study of individual bank performance is worthwhile in the Malaysian context.

CHAPTER 3

A SNAP- SHOT OF CONCEPTUAL IDEAS

3.0 INTRODUCTION

In this chapter, we essentially describe certain conceptual of ideas involved in economic interpretation of a bank's balance sheet. The aim is to provide better view of the terms and items in the balance sheet. Besides, we shall discuss the objectives behind assets and liability management such as liquidity and profitability . These are two variables that are contradictory and need to be reconciled.

3.1 BALANCE SHEET

The balance sheet, sometimes called the statement of financial position is a listing of a firm, assets liabilities and owner equity on a given date. The balance sheet portrays the financial position of a firm at a particular point of time. The balance sheet is a statement showing the capital, assets and liabilities of business entity on a certain date. (Paul H Walgenbach and Earnest I. Hanson,1990)

For a commercial bank, the statement usually prepared at the end of each financial year. An economic interpretation of the bank's balance sheet is very important for the economic performance and the business of the bank is actually reflected through the balance sheet. The financial report of the bank is published for the public to know how the bank managed the funds and the way in which it uses them. Following is the typical formal of the balance sheet of a bank

Liabilities	**Assets**
1. Share Capital	1. Cash in hand
2. Reserve Fund and other reserve	2. Balance in other banks
3. Deposits	3. Money at call
i. Time Deposits (Fixed Deposits)	
ii. Demand Deposits	
iii. Saving Deposits	
4. Borrowing	4. Investment
5. Bill Payable	5. Loans and advances
6. Other Liabilities	6. Other Assets

In balance sheet, it is customary to state the liabilities on the left and assets on the right. The liabilities of a bank are the items which are to be paid by it either to its shareholders or depositors. The assets of the bank are those items from which hopes to get an income. Thus, the assets include all the amounts owed by others to the bank.

3.2 LIABILITIES

Liabilities according to the Webster New World Dictionary refers to "accounting all the entries on a balance sheet showing the debt of a person or business as accounts and notes payable, incurred but not paid obligators and long term debentures (Webster New World Dictionary,1986)

According to Dictionary of Banking, liability is a debt or a claim against a person or entity which will be settled in monetary term. In a business concern, the liabilities are shown in groups in the balance sheet. (G Klein, 1993)

Liabilities or creditor equity are the obligation, or debt that a firm must pay in money or service at some time in future. (Paul H Walgenbach and Earnest I. Hanson,1990)

3.2.1 CAPITAL

Capital is fund invested by a person or persons in a business or funds invested by shareholders in a company. In banking terms there are many type of capital. Issued capital is the part of authorised capital, which issued to shareholders and paid for by them and not necessarily fully paid up. Subscribed capital is the part of the authorised capital which has been issued and taken up. Called up capital is the amount that the shareholders are required to pay. Paid up capital is the nominal amount of capital that has been bought by the shareholders. This may be the same as the authorised capital, it could be less but never greater than the authorised capital. It is the actual cash capital of the bank.

Banks do not call the entire amount of the subscribed capital. Save amount are being kept with the shareholders and can be called up at any period or time. This amount which are not called up usually called as uncalled capital. Uncalled capital is a source of strength for a bank. It is an addition margin of safety for the depositors and creditors of the bank. (S.V. Vasudevan, 1979)

3.2.2 RESERVES FUNDS

Reserve fund is the second item on the liabilities side of the balance sheet. It represents accumulation of profits or a provision containing fund which are set aside to meet some specific contingency or expense. Usually reserve funds are invested in first class securities. If the bank heavily losses the bank can draw upon this reserved. It works as additional security to a bank. According to the Banks Act 20% of the net profits are transfer to the Reserve Fund.

3.2.3 DEPOSITS

Deposits are the largest item on the liabilities side. The principal liability of any bank is its deposits, representing the financial claims held by business, households and government against the banks. Deposits means, public whom save keeping their money in banks in order to earn some interests out of the savings. There are 5 major many type of deposits. These deposits are ; Time Deposits, Saving Deposits and Demand Deposits, Negotiable Certificates of Deposits and Deposits and Balances of banks and agents.

Fixed Deposits or also known as Time Deposits is deposits received for a fixed period and called as Fixed Deposits and the depositors cannot withdraw before the expiry of the agreed period, such as one month ,three months, six months or yearly. In return for the assurance of a fixed deposit as well as for a larger unit deposits(lower transactions costs) banks usually offer higher interest rates on other time deposits.(Rose Peter S, 1992)

Saving Deposits

Saving deposits is the money received from the public in saving accounts. Saving bank accounts help the public of small means to save something out of their earnings. There are many restrictions on the amount that can be deposited in these accounts and also on the withdrawals from these accounts.

Current Deposits

Current deposits, referred to as demand deposits and also called checking account deposits. Funds held in these accounts may be withdrawn on demand by the depositors. The depositor does not need to give any advance notice of his wish to issue a cheque, no obligation to keep his funds on deposits for any period. It carries no interest or a very low rate of interest.

In short, deposits constitute the most important part on the liabilities. The efficiency of the bank depends on its ability to attract more deposits. Every bank depends on their volume of deposits to earn profits.

Negotiable Certificates of Deposits

Deposits evidence by issue of certificate by a bank . The certificate has a defined value which generally must be excess of RM 100,000 thousand to facilitate relative case of trading. Negotiable Certificate of Deposits (NCD) are issued at face value with the holder maturity receiving the face value plus an interest payment. NCD have maturities, that range from a minimum of seven days to twelve months.

Deposits and Balances of Banks and Agents

This is a deposit from other financial institutions for example licensed banks, licensed finance companies that place their deposits in a said bank for interest or it can be defined as a form of interest bearing deposits.

3.2.4 BORROWING

Liabilities that a bank created by borrowing from other banks on temporary basis. Both banks agreed on upon a small or certain interest on their borrowings.

3.2.5 BILLS PAYABLE

This represents a bill of exchange which is either payable at sight or has been accepted payable at some fixed or determinable future date. Since the bank has to pay the money to the customer's concerned it appears in the liabilities side.

3.2.6 OTHER LIABILITIES

This item includes all other liabilities not included before this, such as pension fund, insurance fund, unclaimed dividends, unexpired discounts, interest expense. The amount shown under this item usually is relatively small.

3.3 ASSETS

Assets are the economics resources of a business that can usefully be expressed monetary terms. (Paul H Walgenbach and Earnest I. Hanson,1990)

Accounting all the entries on a balance sheet showing the entire resources of a person or business, tangible and intangible, as accounts and notes receivable, cash, inventory, equipment, real estate, good will and many more.
(New World Dictionary,1986)

Assets are given on the right hand side of the balance sheet. The successful working of the bank depends on how the bank manage to distribute their funds in various kind of investment known as assets (S.V. Vasudevan, 1979)

3.3.1 CASH

It is the first asset in the portfolio of a commercial bank and it is the complete Liquid form of asset. Cash can be referred to as cash in hand and cash with the central bank. The proportion of cash including balances with other banks deposits that a bank holds is called the cash or reserve ratio.

Cash is the main reserve of the bank and the bank knows by experience how much it must keep in cash the deposit liability to meet the demand of its customer. A reserve of 9% to 11% is considered an ideal ratio.
(S.V. Vasudevan, 1979)

The success of a bank depends on the maintenance of adequate cash reserve required to honour the cheques presented by customers. A bank must avoid excessive holding of cash. Cash is an idle asset and hence holding a large balances in cash will affect the profits of the bank.

The cash reserves should not also be very meagre. The amount of cash that a bank must keep in order to carry on its business smoothly depends on several factor:-

a) Cash reserve depends upon the number and magnitude of the monetary transactions in the country. When business is active, for example during the festive seasons (Hari Raya Aidil Fitri, Chinese New Year, Deepavali and Christmas) a large reserve is required to meet the high demand from the customers.

b) The size of the cash reserve depends upon the banking habit of the people. The cheque habit has an important bearing on the magnitude of cash reserves . More people and transaction use cheque then the cash reserves can be smaller but if cash is in demand the bank have to have more cash in turn.

c) The size of the deposits received by banks influences the amount of cash to be held by them. A bank with a small number of depositors with large balances has to be maintained a large cash reserve and vice versa.

d) The cash reserves of a bank are influenced by the amount of cash held by the other banks in the same locality. It is believed that the higher the ratio of cash to deposits, the sounder the bank is.

e)The existence of a clearing house reduces the need for holding large cash balances.

f)The cash holding of a bank is influenced by the nature of its investments. If a bank holds a large proportion of its deposits in

g) the form of assets which are realisable, it an maintain a smaller cash reserve. A larger reserve is required, if its other assets are less liquid.

h) The nature of the business conditions in the country may have some influence on the ash holding of banks. In the period of economic prosperity, a small percentage of cash is sufficient.

In conclusion, a cash reserve of a bank must meet the demand of customers for withdrawal and payments to maintain its high respected bank.

3.3.2 MONEY AT CALL AND SHORT NOTICE

This asset includes loans to the bill market consisting of discount houses and bill brokers, loans to stock brokers and loans between banks and themselves. Money lent at call and short notice is repayable either on demand or at a very short notice, generally less than 24 hours' notice. Cash is an idle asset and the bank must not keep cash beyond the amount considered absolutely necessary.

3.3.3 BILLS DISCOUNTED AND PURCHASED

Bills discounted may be promissory notes, bill of exchanged or Treasury Commercial banks prefer to have assets which mature within a short period for example 90 days. A bill of exchange is one such asset. It is a sound banking asset and it is described as a self-liquidating paper. A bill becomes liquid as it matures for payment.

3.3.4 INVESTMENT

It constitute a banker's fourth line of defence, after cash, money at call and short notice and bills discounted. They give a higher return than obtained from liquid assets but the return is not as good as the return of loans and advances. There are 2 main parts in investment which are investment securities and investment in companies.

Investment Securities

Bonds, notes and other securities held by the bank primarily for their expected rate of return are known as investment securities. They are divided into taxable securities such as government bonds and notes, corporate bonds and notes; and also tax-exempted securities which consist of municipal bonds.

Investment in Companies

Investment in companies can be divided into investment in associated company and investment in subsidiary companies. Investment in companies is only a very small component of overall total asset of commercial bank.

3.3.5 LOANS,ADVANCES,CASH CREDITS AND OVERDRAFTS

Loans and advances are the most profitable of all the assets of a bank. According to Dr Walter Leaf (S.V.Vasudevan, 1979), Banker is brought into direct relation with the public. His capacity and judgement and his usefulness to the community is judged by the way he lends the money left with him by the depositors. In a business world people intends to make huge profits and loans give him the chance to make the profit. Dr Walter leaf, added " a banker has to temper liberality with caution. If he is too liberal, he any easily impair his profits by bad debts and if he is too timid he may fail to obtain an adequate return on the funds which are confided to him for use. It is by his capacity in lending that a bank manager is judged." (S.V. Vasudevan, 1979)

By far, the largest asset item is loan, it will generally accounts for half to almost three quarters of the total value of all bank assets. Generally, there are several types of loan. In the category of commercial loans, there are:

i. Working Capital Loans - This loan provide business with funds to sustain themselves through their operating cycles.

ii. Asset-Based-Loan - Any loan that is secured by assets of the client that are directly related to loan repayment.

iii. Term Loans – terms loans are the loans extend beyond one year. The purpose of the loan may be acquisition of plant or equipment, in which cash funds are advanced in full, right away.

In the category of real estate loans are:

i. *Commercial Real Estate Loans* - These loans are used to complete development of commercial real estate such as constructions loans.

ii. *Real Estate Loans* - Real estate loans made to individuals and families for primary or secondary residences are called residential mortgage. Residential mortgages commonly have original maturates of 25 to 30 years (Herrick Tracy G, 1978)

Consumer loans typically, fall into the following categories:

i. *Installment Loans* - Typically, the borrower makes monthly payments of interest and principal until the balance is repaid.

ii. *Credits Cards* - Credit cards offer consumers predetermined maximum amounts of credit. Bank earns revenues both from their cardholders and from establishments that accept the cards.

iii. *Overdraft Lines of Credit* – Facilities that enable bank customers to write cheque for amounts in excess of their transactions account balance.

iv. *Single-Payment Loans* – Customers request these loans for short periods of time, often until another financial transaction occurs.

3.3.6 OTHER ASSETS

Other bank assets include the net (adjusted for depreciation) value of bank buildings and equipment, investment in subsidiary firms, prepaid insurance and other relatively insignificant asset items. The other asset consists two types of assets that are fixed asset and other asset.

i. Fixed Asset – Buildings, furniture and equipment needed to carry out daily operations are fixed asset. Fixed assets typically generated fixed operating costs in the forms of depreciation expenses . Property taxes and so on that provide operating leverage, enabling the bank to boost its operating earnings if it can earn more from using its fixed assets than those assets cost.

ii. Other asset item requires explanations is account titled customers' liabilities on acceptance outstanding. This pair of accounts increases each time a bank agrees to stand behind a customer's credit, usually to help that customer pay for goods prepared from overseas. Therefore, the bank will pay the full amount printed on the draft's face to the current holder of the instrument. Thus, the creation of banker's acceptance gives rise simultaneously to both asset item, the customer's liability to the bank and a liability item the bank promise to honour the acceptance draft on the date specified.

3.4 ASSET-LIABILITY MANAGEMENT (ALM)

The science of ALM has evolved very rapidly since the early 1980's. Banks used the latest sophisticated modeling of ALM to manage their banks by appointing asset-management committee. Customers are becoming increasingly concerned about financial institutions that either have ALM procedures or use a very rudimentary process. (Bittner and Goddard,1992)

The asset liability management function involves planing, directing and controlling the flow, level, mix, cost and yield of the consolidated funds of the corporation. These responsibilities are interwoven with the overall objectives of achieving the bank financial goal and controlling the financial risk.(Bittner and Goddard,1992)

According to Harrington R (1987), modern assets liability management involves, continually monitoring the existing position of a bank, assessing how this differs from what is desirable and understanding transaction to move the bank towards the deserved position. The objectives is to sustain and where possible enhance profitability while controlling the limiting the different risk inherent in present day banking, as well as complying with the constraints of monetary policy and banking supervision.

According to Srinivasulu Sam L. (1997), ALM is concerned with strategic balance sheet management involving all market risks. Market risks are caused by changes in interest rate risk, foreign risk, commodity price risk and stock market risk. At present risk management has become relatively more important. Therefore, ALM only deals with this risk but also liquidity risk, funding and capital planning ,profitability and growth lastly trading risk.

ALM is becoming the most critical function of a bank or other financial institution. The profitability growth and sometimes even the very survival of a As more of the bank's balance sheet began to be regarded as a portfolio of marketable interest-bearing securities, it is inevitable that models would be developed that would calculate the market value of the assets and the market value of the liabilities to determine the true net worth of the financial institution.

The record number of bank failures in the early 1990's has accelerated. This development as regulators want to determine a financial institution's true net worth or liquidation value financial institution, depends on effective ALM. The assets-liability function is also becoming an important training ground for professional to hold top management position in bank and other financial institution.

3.5 IMPORTANCE OF ALM

There are several reason why ALM became more important. ALM is becoming important because of :

i. financial volatility;

ii. explosion of new financial products;

iii. regulatory initiatives ; and

iv. heightened awareness of top management.

3.6 A FRAMEWORK OF ASSET/LIABILITY MANAGEMENT(ALM)

ALM should be based on a comprehensive and integrated framework. A comprehensive framework integrates strategy, organisation ,operation, analysis, technology, information reporting, performance measurement, regulatory compliance and controls.

The ALM functions should not be only an analytical function but a catalyst for the formulation of business strategies. It should assists line management in product planning and pricing and help operating people to understand the ALM implication of their decisions.

The ALM function should have a fullest support of the top management. This includes proper research allocation and personnel commitment. There should be a well-articulated policy statement (approved by the board of directors) to set overall direction for risk management. A well documented ALM procedures manual, with a chapter for each aspect of the ALM function, should provide detailed guidelines on every aspect of asset/liability management.

There should be consistency among the analytical methods used to measure risk. ALM must review models periodically to confirm their assumptions and verify their predictive accuracy.

The framework should ensure compliance with regulatory requirements for risk-based capital ratios, liquidity ratios, capital adequacy directive and the quality of risk-management infrastructure among others. The bank should be confident that the bank is in safe and sound practices, including institutes adequate controls and taking appropriate risk.

3.7 OBJECTIVES OF ASSET LIABILITY MANAGEMENT

The objective of asset/liability management is to examine the balance sheet of a bank. The principle of profitability, liquidity and safety and nature of the business should be in the mind of the top management or the assets/liabilities committee. The analysis of ALM considers the following aspects :-

i. Profitability : Indicates by earning shown by dividend and growth of surplus and undivided profits. Also having analysis is the deposits and relations to shareholders investment.

ii. Liquidity : Indicates by deposits from customers loans and investment and reserves position.

3.7.1 PROFITABILITY

Profitability is a ratio of earnings to the funds used in the bank. It measures the success of a bank in its use of this investment. Profitability also measures the ability of the management used the resources in the bank. Profitability is the measure linking a bank and its investment. High profitability is the indication that the resources are well managed.

If a bank shows low profitability, the bank might find difficulties in attracting investors or customers to their bank. There are a few ways how profitability being managed.

From the accounting point of view, profitability may be managed by controlling the component of earnings and assets, which serve as a measurement of funds employed. Therefore, managing profitability is not an easy way to manage in banking system.

There are a few technique used to manage profitability:-

i. *Return on assets* : Return on assets is calculated by dividing average total assets by earning before securities transactions.

ii. *Return on equity* : The return on equity is shown for two banks, as well as its components. The return is calculated by earnings before securities by share holders equity.

iii. *Capital Ratio* : The capital ratio is calculated by dividing shareholders' equity by total assets. Rising of capital ratio shows a growing strength in the bank'' capital position.

Implication of Profitability

i. Profitability can effect the ability of bank to manage credit and interest rate risk.

ii. Bank analysts used this profitability as a basic to see the ability of a bank.

iii. Long term shareholders have the asset interest in profitability. If the bank shows rising of profitability can continue business for an expansion in retaining earnings.

If a declining rate of profitability banks provide adequate increment of retained earning to shareholders.

iv. Implication for debt holders : Highly profitable banks are more likely to be able to pay interest and repay principle.

v. Implication for borrowers ; Profitable customers expand their operations rapidly and develops new needs for financial services by maintaining this high profitability the banks can help borrowers from the bank's.

Measuring Profitability

There are a few ways to measuring the profitability. The best measure of profitability is the return an average total assets. This measure cover all activities of the bank. The return on total assets is calculated by dividing incomes before securities transactions by average total assets.

The other method is return on average interest earning assets. This measure provide a sharp focus on particular aspect of a bank's operation.

3.7.2 LIQUIDITY

Liquidity represents the closeness of assets to cash. Banks with liquidity have the numerous strength. In asset management of a bank, liquidity cannot be ignored. A bank is considered to be liquid if it has ready access to immediately spendable funds at the time those funds are required. This means that the bank either has the right amount of cash in hand, or it can raise the funds by borrowing or by selling assets. For most commercial banks, demand for cash comes from two main sources. First, are customers withdrawing from their deposits. Second are credits request from customers. Bank borrowings, paying income taxes or cash dividends to stockholders are also increase the demand for immediately spendable cash. (Rose, Peter S., 1991)

Recent research has indicated that lack of adequate liquidity is often a sign that a bank is in serious financial problem. The troubled bank usually begins to lose depositors, then the bank is forced to dispose its more liquid securities in order to raise its' funds. Following with other banks become unwilling to lend the troubled bank any funds without additional security or higher interest rate. A bank can be closed if it cannot raise enough liquidity.

For example in 1991, The Federal Reserve forced the closure of $10 billion Southeast Bank of Miami because it could not come up with enough liquidity to pay back the loans it had receive from the Federal.

However, there is trade off problem between bank liquidity and profitability. The more resources are tied up to meet its liquidity, the lower the bank's expected profitability. Thus, liquidity management cannot be carried out in isolation from all other service area of the bank.

Managing Liquidity

Banks have five ways of managing liquidity. They can attempt to manage their liquidity through any one method or combination of these methods:-

i. *Self-liquidating Asset Approach* : The self-liquidating asset approach to liquidity looks to the repayment of funds to the bank as a source of liquidity. These funds are repaid to the bank in line with the terms of loan agreements or the maturity of securities.

ii. *Asset Sale Ability* : The ability of a bank to sell its asset represents another approach to liquidity. This approach is sometimes described as the "shift ability" approach to liquidity. It refers to the ability of a bank to sell its loans and securities to other banks and to open market.

This approach to liquidity looks at the current market value of total assets and as long as the book value of the bank's assets is reasonably close to the immediate market value of those assets, the bank is regarded as having liquidity.

iii. *New Funds* : A new approach to liquidity developed that looked at the ability of a bank to attract new funds. Banks face stiff competition for savings deposits from other financial institutions such as savings and loan associations.

iv. *Borrowers' Earning Flow* : The earnings flow approach to liquidity suggests that loans are not inherently self-liquidating, but rather that they are paid off from the earnings of the borrower. The borrowers' earnings flow approach to liquidity is sometimes supported using interest costs alone as the test for meeting liquidity requirements.

v. *Federal Reserve Discount Window* : The discount window of the one of twelve Federal Reserve Banks is another source of liquidity to member commercial banks. A Federal Reserve Bank has been given authority to lend on any of the assets of a member bank and thereby provide a bank with a way of monetising its assets.

Measuring Liquidity

Three of the five approaches to liquidity can be measured. These measures are only approximations of what could be described as the actual liquidity of a bank. A bank analyst can never know precisely what the real liquidity might be, because he does not have access to the full information of the bank's financial accounts. Nevertheless, the measure available to bank analysts provide, in most instances, reliable indications of a bank's liquidity policy.

Implications of Liquidity

Liquidity represents the closeness of assets to cash and a bank's with liquidity have numerous strengths:-

i. A nearness to cash indicates an assurance to depositors that they would be able to obtain funds for their deposits.

ii. It also indicates assurances to other bank analysts, including investors, borrowers and directors to their investment.

iii. It will attract more depositors and investors to invest or indulge their money in the bank.

3.8 CONCLUSION

In view of the two major objectives of a bank are liquidity and profitability which are contradictory but they have to be reconciled. A good banker is one who follows a wise investment policy and distributes the assets in such a way that both requirement of liquidity and profitability are satisfied. The assets must bring maximum profit and gives the customers maximum security. Therefore, a constant tug of war between the competing aims of liquidity and profitability summarises the action towards ALM of a modern bank.

(Mithani, D.M. , 1995)

CHAPTER 4

MALAYAN BANKING BERHAD : IN HISTORICAL PERSPECTIVE

4.0 INTRODUCTION

After Independence Malayan Banking, now known as Maybank is the first local bank in Malaysia was established in September 1960 and at present it has 200 world-wide operations in Singapore, Brunei, London, New York, Canada, Japan, France, Kuwait, Italy, Sweden, United Arab Emirates and other big cities in the world. Maybank has since became the leading institution in the banking system in Malaysia and in March 1996, Maybank was ranked among the Top Ten Companies in Malaysia according to the Far Eastern Economic Review. Maybank is also the leader in innovative services in Malaysia.It was first to embark on a computerisation programme and first to implement the use of ATMs (Automatic Teller Machine) and establish ATM network, the Automated Banking Consortium (ABC) with its subsidaries. Maybank was also the first to introduce Autophone Banking and first to implement Electronic

Terminal Banking.Malayan Bank and now is known as only Maybank has correspondent banking relation with over 700 foreign banks throught the world and is the largest banking group in Malaysia with 280 branches and 600 ATMs in Malaysia(June 1997).

Maybank , now can stand proudly as it is the leading banking firm in Malaysia with the biggest asset and the Maybank group became the first financial institution in the country to reach RM 1 billion profit level in 1994. Maybank has come a long way to be the leading bank in Malaysia. It started as "a coffee shop bank" to the leading bank for more than three decades. During this time, the Bank's achievement has risen to parallel Malaysia's ascent to international recognition and acclaim.

4.1 THE BANK'S MISSION AND OBJECTIVE

When Malayan Banking Limited applied for a banking licence in June 1960 to set up a local bank, the idea was greeted with much enthusiasm. It aims were clear and simple, that is :

- To assist in financing new industries under the Government's development programme.

- to extend banking facilities to rural ares where there is banking service.

These aims were suitable to the Bank negara's scheme of things, the more urgent being to make banking more local in character,both in terms of ownership and retention of asseste in the country. They also coincided with the recommendations of a World Bank Mission that the newly independent country was seen to grow best with systematic planning of the available resources,natural and financial. The recommendations were later incorparated into the Malaysia's First Five Year Plan 1960-65.

After being in the banking industry for more than three decades,it has changed its aims to meet the more challenging and sophiscicated customer's world.The main objective of Maybank is to provide quality services to meet the needs of a wide range of customer segment in Malaysia and selected customer segment in Singapore and Brunei. In support of this, Maybank is committed to:

- Reach out to service their targetted customer through the most effective and efficient delivery channels.
- Provide their employees with the best opportunities for personal and professional growth.
- Use technology for competitive advantage in a cost effective way.

- Optimize synergy by harnessing the Group's resources.
- Generate profit and earnings growth that will support their operation,fund development,sustain quality and rewards staff and shareholders.

The managing director in his annual report of the 1996 financial year said," The vision of Maybank goes far beyond being at the forefront of the national financial industry. It extends towards keeping Malaysians in touch with the global financial marketplace."(Amirsham A Aziz,1997) The strategiic focus for Maybank is to maintain its premier position in the financial industry. The group will continue to expand its regional presence but this will not be limited to commercial banking activities only but also other activities such as insurance and stockbroking in which the Group has expertise.

Maybank is committed to providing quality customer service as well as enhancing productivity. A service quality underprint the diverse human resource activities within the Group as Maybank's competitive advantage lies with total customer satisfaction. Maybank continued its efforts to contribute to the progress and welfare of the community during the year 1996.

As the saying goes, "the power that turns the wheels of an industry is its people". Therefore, proper management of human resources in the areas of skills upgrading,staff productivity,staff welfare and the promotion of industrial harmony are crucial to the progress of the industry.Thus, Maybank has been providing a good employees environment for its staff to ensure their commitment to the group and this will definately help the growth of the bank.

4.2 THE PROGRESS OF MAYBANK

4.2.1 THE EARLY YEARS

Maybank was incorparated on 31 May 1960 and commenced operations on 12 September 1960.The first operation started at 92, High Street, Kuala Lumpur and it was like an"island" bordered by streets on each side. In the begining there was none of the incessant flow of traffic and people nor the continuous drone of revving engines and intermittent hornblast of the impatient, but was busy enough, and it had character and potiential.Then, it became the headquarters of the bank. Later, the application to open its branch went to rural towns like Pontian Kechil, Johore, Kajang and Port Dickson and hoped to contribute the Government's programme of rural development.

With its concept and supported by the regulatory authorities, the idea became a reality. The Bank name and its logo were deliberately chosen to reflect its national identity. The founders of Malayan Banking Limited are the first Board of Directors, Mr Oei Tjong Ie, Dato' Haji Abdul Rahman bin Mohamed Yasin, Tan Sri Khoo Teck Puat,Mr Gan Boon Khoo and Mr Wong Aun Phui. Tan Sri Khoo's concept still lives in the Bnak, that is to have a wide deposit base through large network. This would ultimately bring banking to people's doorsteps.

The second branch was opened in Johore Bahru on 15 September 1960 and the third branch was opened in Pontian Kechil on 3 October 1960. On 22 October 1960, the fourth branch was opened in Penang and followed by the fifth in Malacca on 8 November in 1960. The expansion went on just like wildfire and there were several occasions when two or three branches were opened on the same day. There were incidents where people wlking into a wet paint branch or electricians were doing the installation of lights. These show that the bank were in good demand of its customers in the early years.

By the first anniversary, Malayan Banking Limited had a network of 30 branches. At the end of 1961,the Bank's branches made up 60 percent of the 58 for all domestic banks. The 112 branches of the 18 foreign banks averaged of 6 branches per bank. The growth of Malayan Banking was unprecedented in local banking history and it drew polilitical attention.

Our first Prime Minister's message on the first annivesary was remarkable, "I comment the entripise and the hard work with which you have set about the task of establishing your bank in the past twelve months. Malaysia has today a sound economy in addition to stable government. As a big bank you have an important part to play to maintain and develop the economy of our country" (25th Anniversary Of Malayan Banking Berhad)

Tun Abdul Razak bin Hussein, then our Deputy Prime Minister commeted, " The establishment of your bank marks an important event in the banking history of this country; At a time when all our resources are directed towards the economical development of this country,such local commercial bank can play a useful part in meeting many of our banking needs" (25th Anniversary of Malayan Banking Berhad) He added, As Minister of Rural Development, I note with particular pleasure the opening by the Bank of branches in the rural areas,thus bringing direct banking facilities to the 'rakyat' in these areas" . (25th Anniversary of Malayan Banking Berhad)

It all strated at a coffee shop,as most of the branches was set up in a corner lot of a shophouses where the former operation was a coffee shop and was not doing very well.

The establishment of the Malayan Banking Limited then was very successful. The net profit of the Bank's in its first nine months of the financial year was $19,809 but it was a significant achievement. Deposits amounted to $72.7 millions and loans and advances $45.8 million. Although both contributed only seven percent of the industry's total,it nevertheless reflected the potential for savings and loans among the average and small customers who formed the bulk of the Bank's clientele.

The challenge from foreign banks in Malaysia was great but through the commitment of the Bank's staffs,it managed to overcome the "inferior" feeling. Then, many staffs from the Oversea-Chinese Banking Corporation jointed the force in Malayan Banking to meet the challenge in our new financial industry."Of course,money was part of the consideration," said one of the old timerson the cross-over to Malayan Banking. "But more important perhaps was the sense of challenge. In a new establishment,one could do very much more."(25th Anniversary of Malayan Banking)

Nevetheless, the determination and challenge existed and very much more was indeed done. Times were hectic and opening of branches continued. "It was very exciting and often very tiring", remeinisced Mr Oei."

But there was a very friendly relationship between the directors,despite the different backgrounds. Because we were small,it was very informal. We were all very happy and enthusiastic" (25th Anniversary of Malayan Banking)

The growth of Bank in the early years was remarkable. By June 1966, Malayan Banking had established 108 branches,one in London,Kowloon and Hong Kong respectively. At its peak of brach expansion, 31 branches were opened in 1962 alone. In the first seven years 108 branches were established . For the rest of the banking industry in that period, only 83 branches were opened. As the saying goes, "No pain., no gain", so much so that the competition had made the Bank to grow and not only it had generated but also increased the Bank's own corporate strategy.

4.2.2 THE TURNING POINT

The years 1966-1970 proved to be the turning point in the history of the bank. The run on the Bank in October,1966 made a deep dent in the image of the Bank. there was no doubt, a need to reappraise the organisational structure and to seriuosly review the direction that the Bank was heading. Above all, there was a need to regain the confidence that the Bank once enjoyed.

The years from 1967 to 1970 saw the Bank undergoing major changes and restructuring and consolidation. The number of directors on the Board were trimmed from 18 in 1966 to 9 in 1970. All were to take an active interest and responsibility for the Bank's affairs. An Executive Committee comprising directors was appointed to run the Bank.

4.2.3 THE SEVENTIES

The sixties had been a pioneering period of setting up the Bank,of rapid branch expansion and consolidation. The emergence from the run, to say that the run was timely. The newly-forged ties with the Government and Malayan Banking at the beginning of the Seventies,stronger than ever before. The timing was right for the Bank to grow roots bank which is truly national.

The implementation of the Second Malaysia Plan(1966-1970), The new Economic Policy and the industrialisation was gathering momentum give the new perspective to the Bank's involvement both socially and economically.
Throughout the Seventies,the call was for mobilasation of savings and the direction of loans to manufacturing sector,residential hausing and to the 'smallman' - the farmer,fisherman,the small businessman and the man in the street.

The ten years experience in the operations, together with a network of branches have gear up the respond to the national call . Tan Sri Taib said, " well-placed for the future and to play its proper role in the development of the country's"(25th Anniversary of Malayan Banking Berhad)

In the direction of lending, the manufacturing,commerce,housing,construction and agricultural sectors were given priority. Loans were also directed towards small scale businesses,under the Credit Guarantee Corporation Scheme and to Bumiputras. In response to the national objective of a house-owning democracy,loans to individuals for the purchase of houses multiplied. In 1972, Credit Guarantee Corporation Berhad was set up and the Bank was actively involved. The corporation was formed to monitor and encourage commercial bank lending to small borrowers in a positive way by providing guarantee for such loans.

In 1974, the pioneering spirit reared again. The pilot Rural Credit Schme was introduced. This was a further innovation to the Bank's orginal role in assisting rural development. The idea of the Scheme was to bring the Bank and its various services "to the people in the rural sectors of the country."

Through the scheme, the Bank continued to give its special assistance to "viable small scale industries and businesses and to Bumiputra and Bumiputra concerns in line with the Government's objectives to correct the economic imbalance among the populace."

The pioneering 10 project field officers formed an integral part of the Rural Credit Scheme. Their ask was to look out for viable rural projects to finance. They worked closely with village penghulus and with statory bodies and developmentmental agencies such as MARA,RISDA and FELDA. The Bank's faced a lot of difficulties; inhospitable terrain, the inaccesibility of the kampung or project location, the hostility of the ignorant and the mistrust of 'outsiders' were some of the constraints. It never give up, in 1975, project officers were sent to east malaysia to extend the Bank's scheme there. By 1979, the number had risen to 39.

By the end of the Seventies, Malayan Banking Berhad had emerged a leader in the direction of lending to the priority sectors. It was the largest contributor to the Credit Guarantee Scheme, emphasising its responsibilty to the small businessman. Its housing loans portfolio constituted 31 percent of the industry's total-demonstrating its support for the goverment's policy of a house-owning democracy.

By then, its network of branches had reached 149 and representative office (later upgraded to a branch) had been set up in Hamburg,West Germany.The late seventies is also known as corporate growth and financial deepening in the Bank's operations. In the Seventies the Malayan Banking Berhad had to be expanded in order to be in line with the growth of the nation. The Malaysian economy, by then, had grown considerably in maturity. The corporate sector was increasing in size and complexity. Successfully run family businesses underwent reconstitution and new corporate giants were incorporated; such as; Pernas, Petronas,Genting Berhad,Sime Darby,Kuala Lumpur Kepong and Perangsang. Large industrial and commercial projects were implemented. Oil exploration was accelerated and large residential estates were sprouting.

The banking industry began to feel the need to accomodate the demands of a rapidly developing economy, funding and other allied requirements of large-scale ventures. Malayan Banking saw the need to diversify its activities. It had to effectively participate in a growing economy and remain competitive. At the beginning of the Seventies, Malayan Banking only had interests in finance,nominee and trustee companies through its four subsidiaries- Malayan Finance Corporation Berhad, Malayan Finance (Singapore) Limited, Mayban Nominees Berhad and Maybank Trustees Berhad. Another blitz began.

In July 1970, an initial 50.4 per cent equity holding was acquired in Kwong Yik bank Berhad, making it a subsidiar. The percentage was later increased to 51.15 per cent. In December 1970, Malaysian International Merchant bankers Berhad (MIMB) was incoprated. Malayan Banking with an equity holding 20.5 per cent, was one of them. MIMB became an assosiate company. In the same year, the Bank acquired a 14.3 per cent interest in the Malaysian Industrial Development Finance berhad, making it the largest single institutional shareholder.

In September 1973, through an international joint-venture with Perbadanan Kemajuan Negeri Sarawak and six international financial institutions, Asian and Euro American Merchant Bankers Malaysia Berhad, or Aseambankers was formed. The Bank's 46 per cent shareholding placed Aseambankers in the category of associate company. In another joint venture with Arab Invesment Fund(based in Kuwait) and Malaysia Industrial Development Finance Sendirian Berhad (AMDF) was formed. The Bank held 20 per cent interest, making this another associate company. In June 1974 a new subsidiary, Mayban Phoenix Assurance Berhad was incorparated with the Bank holding 70 per cent majority share.

Before the end of the decade, the bank had already ventured into merchant banking and insurance,in addition to having interests in finance,nominee and trustee companies. Thus the complements were added to what strated out as ordinary banking some twenty years ago. A semblance of a one-stop financial centre was slowly taking shape. Banking was becoming increasingly competitive the establishment of branches by other banks, the rise of finance companies and merchant banks in the financial scene added to the intensity of the competition.

Even as the bank embarked aggressively into other spheres of business activities, syudies and the groundwork for eventual computerisation of the bank's operations had already been initiated. For the bank, however, computerasisation not only provided an added edge, but opened a vast challenging range of possibilities. When the Bank's first branch at Kuala Lumpur main was computerised in October 1978, Malayan Banking became the first Malaysian bank to offer on-line computerised banking services. Another challenge has just begun. There were over 140 branches to be computerised and these were distributed throughtout East and West Malaysia and in Singapore.

4.2.4 THE EIGHTIES

The early eighties were a period of modernisation and greater sophistication for Malayan Banking Berhad. By July 1980, 18 branches in Malaysia and Singapore were already on-line and research was being undertaken into possibilities of introducing the automated teller machines (ATM) as a further development to the Bank's computerisation programme.

In 1981, Malayan Banking celebrated its twenty-first anniversary. The first ATM was introduced in its Ampang Park Branch in Kuala Lumpur and the Bank became the first to provide such a facility. Its total assests exceeded $9 billion and its paid up capital had increased to $180 million. Its network of branches totalled 153, of which 17 Malaysian and 16 Singapore branches were already on-line with computerised savings and current accounts and Mayban Nominees (Singapore) Limited was incorporated.

Dato' Jaffar bin Hussein said, "Bigness is no longer a factor in winning new accounts," on taking up his new appointment as Chairman and Chief Executive of the Bank on December 1981. "We have to grow big in order to provide the wide covrage necessary, both in the domestic and international scene.

But we have to also look after the basic and sophisticated needs of our customers" . Later, in 1982, the bank reassesed its corporate goals /objectives and implemented new strategies; namely:

- to consolidate and streamline the domestic operations for greater effiency and effectiveness.
- to lay a solid and self-sustaining foundation for the bank's future growth and development.
- to build upon the Bank's group strength and to expand into new financial-related business, and
- to provide the requisite corporate leadership for the nation's financial industry.

The Head Office was reorganised into seven Divisions: Administration, Treasury, Planning, Domestic Banking, International banking, Audit and Secretarial. Its purpose was to structure the Bnak for greater operational effiency and more effective market penetration. Of particular importance was the streamlining of the Bank's internal loan adminitration procedures. In May 1982, the Government appointed the Bank to lead-manage a US$ billion loan for its development expenditures.

The bank issued its first floatingrate certificate of deposit in September 1982. The FRCD was US$60 milion, divided into three trenches of US20 million each. In december 1982, the Bank lead-managed a US$400 million projret fianncing loan for Esso Production Malaysia Incorparated to finance oil and gas developments off Terengganu and for the construction of the constrution of the Terengganu crude oil terminal. In December 1983, the Hamburg office was upgraded to a branch component of the US$150 million and Yen 10 millions of the Sabah . The Million and Yen 10 billion of the Syndicate Loan Package for Sabah was estabilsh.

The Bank's New York branch was officially opened in October and in November,1984 the Jakarta Desk Office was establised. On 21 August 1983, it set up its first mini -branch in Fraser's Hill. The services of the mini -branch was trimmed to their bare essential to cater for small community. The Bank has then introduced its International Visa Card in December 1980 and in June 1983 the Bank launched its prestigious Premium Visa Card to provide better benefit of a credit card to its customers.

The Bank expanded its financial services into leasing with the establishment of Aseambankers in September 1983. Aseambankers Malaysia Berhad,previously an assiosate, had become a subsidiary by then.

Mayban Nominees(Hongkong) Limited was established in 1984. In 1985, Mayban Factoring berhad was established to provide a specialised means of financing. With these additions, Malayan Banking Berhad as a group of financial institutilons has been able to provide a comprehensive range of financial services to meet the needs of a modern customer.

Although Malayan Banking Berhad has emerged to be in great success, the Bank did not forget its responsibility towards the employees. The Bank set up a Staff Training Centre in Bangi, encourages its staffs to further their studies through special scholarships and in 1981. The Bank set up a Foundation in Financial Management and Banking in the Faculty of Resource Economics and Agribusiness at University Pertanian Malaysia (now known as Universiti Putra Malaysia). This was to create qualified young people in agriculture and finance. In 1976, the Bnak started its annual Branch Managers' Convention for greater staff rapport and exchange of ideas. All these show that Malayan Banking Berhad does not only think about profit making but it also emphasized on its employees for a better rapport and better working environment.

In the early Eighties, the bank also implemented its integrated Management Information System. This is part of the Bank's longer -term corporate strategy to position itself in coming Information Age.

This Management Information System integrates the whole operations of the Bank now owns. With the computer-based system, the Bank would create a new range of customer-related services and once again play its leadership role in the local banking and financial industry. In September, 1983,, the foundation stone was laid for the 58-storey building by the Prime Minister, Y.A.B. Dato' Seri Dr Mahathir Mohamed. This new Head Office building symbolises the growing confidence of the public in the Bank as a major finacial institution in Malaysia.

In the last 25 years (1985), Malayan Banking Berhad had made remarkable progress. before the end of financial year 1985, the Bnak had abranch network of 201 branches. Its authorised and paid-up capital had risen from \$20 million and \$7.5 million when it was established in 1960 to \$500 million and \$270 million in 1985.

Malayan Banking Berhad owes its achievements to the efforts and accomplishments of Maybank men and women,who now together exceed 8,000 persons. (25th Anniversary of Malayan Banking)

4.2.5 THE NINETIES

The nineties can be described as the "achievements years" for Maybank as it receive awards for excellence thrice(1993, 1995 and 1996) for being the Best Domestic Bank in Malaysia. It also received award from Asian banking Digest Awards in 1997 for outstanding progress in regional expansion. In 1991, Maybank receive Computimes It Organisation of the Year Award and in 1992 from Asian Institute of Management Award for Information Technology Management. In 1994, the maybank Group became the first financial institution in the country to breach RM1 billion pofit level . In March 1996, Maybank was ranked third among the Top ten Companies in Malaysia according to the Far Eastern Economic Review.

Maybank enjoys a great success in its third decade in Malaysia, apart form the awards the group began to gain more profit paralel to our economy growth, especially manafacturing and construction sectors grew 15% in 1995. In line with this developmenr, loans extended by the banking industry increased at a faster rate of 26.8% against 8% in the previous period. (Malayan Banking Berhad, Annual Report, 1995) The Bank were enjoying growth of 20% per annum in past three years, growth in deposits for the banking industry moderated to 13.2%.

It was a healthy development as strong deposit growth during the 1991-1993 period attributable to the relatively large inflow of short term capital. On a net basis this capital inflow more than doubled from RM6.7 billion in 1991 to RM13.9 billion in 1993. (Malayan Banking Berhad, Annual Report, 1995) Maybank are compelled to excel, driven by the needs of their customer. Maybank's progress is a trail of bold innovation arising from their dedication to exceed customers' expectation.

Within the Maybank Group, this segment of business recorded the highest profit growth. The most important was the growth in business volume. Total loans for Mayban Finance Berhad increased by 19.0% to RM 8,352.5 million against an increase of 11.9% in the previous year.

About 54.8% of the increase was attributable to the financing of invesment in shares, particularly for the purchase of Amanah Saham Bumiputra, while housing and shophouse loans accounted for another 15.0%. Like a person, a corporation is a living entity. It moves, it grows and it has a heart. Maybank is very much aware of its responsibilities to the community within which it operates. The Maybank Group remains committed to its responsibilty as a caring corporate citizen.

The group undertook numerous community relations programmes to emphasise its close assosiation with the community. Maybank donated RM119,000 worth of incubators and pulse oximeters to the Neonatal Unit, Department of Pediatrics, Universiti Kebangsaan Malaysia in 1993, donated RM10,000 to the Tabung Projek Ikhtiar under the Yayasan Pembangunan Ekonomi Islam Malaysia. In addition, Maybank contributed an initial sum of RM1 million to Amanah Ikhtiar Malaysia (AIM) for the establishment of a Maybank-AIM Loan Scheme to help the hard-core poor. (Maybank, Annual Report 1993)

In the area of education, the Maybank group sponsored the setting up of an Accounting chair at the University of Malaya. The group also contributed computers to the Ministry of Education and the Hypermedia Centre in Kuala Terengganu to promote computer education among school children. Maybank Group also presents Academic Excellence and Scholarship Awards to students as well as the co-sponsorship of educational programmes in the mass media. In line with the government's efforts to promote a caring society, the Maybank Group continued to play an active role in various community welfare projects. The Group contributed donations of the "Greg Storm" in sabah as well as donations of transportation and wheelchairs to Community rehabilitation centres, old folks homes and hospitals.(Maybank, Annual Report 1997)

4.3 LEADERSHIP IN SERVICE INNOVATIONS

The Maybank Group had made pioneering attempts in the Malaysian banking sector to meet the expectations of its varied customer segments. It has led the way in its innovative use of technology and product development delivering modern and efficient financial services to the Malaysian public.

1. In 1979, Maybank became the first Malaysian bank to embarked on a computerisation programme. It has since maintained its position as a leader in innovative financial services.
2. The first bank in Malaysia to implement the use of Automated Teller Machines (ATMs) and to establish a shared network with its susidiaries.
3. Maybank is he first bank to introduce Kawanku Phone Banking. A telephone banking services which allows customers to conduct their banking transactions using the telephone.
4. Maybank introduced Desktop Banking System, which allows corporate customers to carry out banking transaction via computers from their offices.
5. .Maybank and Maybank Finance cardholder enjoy the convenience of paying for their domestic air tickets simply and conveniently through the Kawanku ATM.

This ticketless travel convenience is available for travel on Malaysian Airlines. All customer as to do is make a cofirmed booking and then make payment through the Kawanku ATM.A first for ticketless travel in Malaysia.

6. The first bank in South East Asia to offer Bankassurans. A personalised financial planning service provided at no cost to the customer. Under this scheme, specially trained Financial Executives at Maybank branches help assess customer's financial needs. They then recommend a combination of insurance and other banking packages to help customers plan their financial future, wisely.

Lastly Maybank intruduce an innovative service which allows customers to perform their banking and other business transaction electronically through a palm size computer terminal hooked onto a telephone line.

4.4 MAYBANK'S ACHIEVEMENTS

Maybank's achievements have been recognised in Malaysia and abroad. Awards received over the years include :-

- 1991 : Assosiation of the Computer Industry Malaysia (PIKOM) - Computimes IT Organisation of the Year Award.

- 1992 : Asian Institute of Management Award for Information Technology Management.
- 1993 : Euromoney Awards for Excellence- Best Bank in Malaysia for its impressive profitabilty and innovation.
- 1995 : Euromoney Awards for Excellence- Best Domestic Bank in Malaysia for its impressive return on equity
- 1995 : Asian Institute of Management Award for General Management.
- 1996 : Euromoney Awards for Excellence- Best Domestic Bank in Malaysia for increasing profitability and a healthy return on equity.
- 1997 : Asian Banking Digest Awards - Winner for outstanding progress in regional expansion.

4.5 CONCLUDING REMARKS

With this historical background we sought to examine the ALM (Asset-Liability Management) scenario of the Maybank which is the main forms of the present study in the following chapters.

CHAPTER 5

ANALYSIS OF LIABILITY ASPECT OF MAYBANK

5.0 Introduction

Maybank today, deals in a very wide range of financial instruments both of asset and liabilities is reflected from its balance sheets statement during nineties. Indeed, its balance sheet over the year has become more and more complex. Besides, off-balance sheets business containing a variety of contingence liabilities is also grown significantly. In presuit of earning more and more profits, but is not without causing the bank expose to many spacious and aditional risks.

For any bank, if assets and liabilities are ill managed. It may find itself, short of adequate liabilities or it may expect itself to greater risk may cause a larger lost than profits. The prudency that for required that a bank has to adopt and increasingly structured approach in adjusting asset's and liabilities in a proper way. In short, asset and liability management of and appropriate managed is crucial.

The major objective of ALM (Asset Liability management) is to sustain and improve profitable in one hand and minimize and control the different risk inherent in asset portfolio, complying with the regulation of central banking, monetary policy and banking supervision.

Things never remain steady in a dynamic economy, therefore the bank is required to adjust asset and liability continuously. As such, continual monitoring and assessing the asset liability adjustment became a major task of bank management.

In this chapter, we shall look at the development of asset and liability management overtime (1991-1997) by the Maybank.

The following discussion are aimed at the major aspects of liability management in the present chapter and analysis of asset management by the Maybank is there to be dealt with in the following chapter.

5.1 TREND OF LIABILTY MANAGEMENT

The major issue of liability management is raising and managing of appropriate resources that is funds, a competitive cause. Looking through the balance sheet of Maybank we find that in general following are the major sources of reserving the funds by the bank :

i. Share capital

ii. Reserves Fund

iii. Deposits

iv. Bills and Securities

v. Other liabilities

To capture the trend of liability management over the year of Maybank we have estimated the major type of liabilities of the bank by year basis in Table 1 (on page 69)

TABLE 1:MAJOR TREND OF LIABILITIES OF MAYBANK
(AS ON BALANCE SHEETS AS ON JUNE 30) RM MILLION

TYPE OF LIABILITIES	YEAR						
	1991	1992	1993	1994	1995	1996	1997
1.SHARE CAPITAL	752 (**2.56**)	758 (**2.28**)	758(**1.95**)	1141(**2.10**)	1143(**1.91**)	1143(**1.71**)	1143(**1.38**)
2.RESERVE FUND	2040(**6.94**)	2178(**6.55**)	2373(**6.11**)	2318(**4.26**)	2743(**4.57**)	3280(**4.90**)	5831(**7.03**)
3.DEPOSITS							
i)Demand deposits(current)	3352	3918	4936	6299	7709	8454	10692
ii)Saving deposits	3777	4053	4521	5824	6654	7661	8368
iii)Fixed deposits	7553	8955	12948	16498	18670	20428	25363
iv)Negotiable certificates of deposits	2521	3447	1737	1860	3250	2757	2496
v)Other deposits	6273	6475	8434	13481	11267	12110	16174
TOTAL DEPOSITS	23476(**79.85**)	26847(**80.74**)	32576(**83.89**)	44408(**81.67**)	47550(**79.24**)	51410(**76.83**)	63093(**76.10**)
4.BILLS AND SECURITIES	2380 (**8.10**)	2540 (**7.64**)	2089(**5.38**)	4969(**9.14**)	6879(**11.46**)	8229(**12.30**)	9686(**11.69**)
5.OTHER LIABILITIES	752(**2.55**)	927(**2.79**)	1027(**2.64**)	1538(**2.83**)	1693(**2.82**)	2849(**4.26**)	3152(**3.80**)
TOTAL	29400(**100**)	33250 (**100**)	38823(**100**)	54374(**100**)	60008(**100**)	66911(**100**)	82905(**100**)

SOURCE: VARIOUS ANNUAL REPORTS OF MAYBANK (1991-1997)

The liability and shareholders funds side of Maybank balance sheet separate all the bank's sources of funds broadly into two groups:

i. Capital and reserves is the own funds.

ii. Banking Business – obtained through deposits of individuals, corporation, government's organization.

Besides other liabilities includes interest payable, proposed dividends, taxation, deferred taxation, general insurance fund, life assurance fund and other creditors, provision and accruals.

The trend analysis of the major liabilities component of Maybank will be discussed below.

5.2 CAPITAL AND RESERVE

Being a joint stock bank, Maybank is based of share capital and accumulation of reserves funds over the year. Looking to trend of growing of capital fund is essential because capital adequacy is regarded as financial berometer for indicating the strength and stability soundness of the bank.

The growth of share capital of Maybank in nineties reflexes a rising trend in the initial years. In 1991 the bank had share capital of RM752 million which marginally increase to RM758 million in 1992, and RM1142 million in 1994 which had slight improvement raising it to RM1143 million in 1995 and in 1996,1997 it remain the same. This rising trend is seen only in pecuniary sense only. In relative sense, however when we measured, share capital is a percentage of total liability shows a decline trend from 2.56% 1991 to 2.28% in 1992, then goes to 1.95% in 1993, 2.10% in 1994, in 1995 to 1.91% , then 1.71% in 1996 to 1.38% in 1997.

The Maybank, however, has a growing accumulation of reserves funds during the period studied. The reserves funds has increase from RM2040 million in 1991 to RM2178 million in 1992 to RM3280 million in 1996 to RM5831 million in 1997. As such between 1991 to 1997 the reserves funds has increase by 185.8%. In a relative sense the reserves funds is a percentage of liabilities of Maybank has decrease from 6.9% in 1991 to 6.1% in 1993 and further down to 4.3% in 1994. But in 1995 it is marginally improved to 4.6% and further to 4.9% in 1996 and substantially improved 7% in 1997. This reflects that Maybank has made an improvement in its profitably over the years and could accumulate more reserves funds by holding some of its underestimated profits.

Looking to the capital adequacy norm, the international standard requirement is around 8%. On this criteria Maybank performance in maintaining the capital adequacy is commentable. The table 2 (on page 73) is referred to capital adequacy of the Maybank. It can be seen that the core capital ratio of the bank has been 10.8% in 1994 which however through marginally decline to 9.6% in 1995 and further to 9.4% in 1996 but again improve to 11.6% in 1997. Similarly risk weigh capital ratio of the bank has been improved from 11.5% in 1994 to 11.8% in 1996 and further to 14 % in 1997.

TABLE 2:TREND OF CAPITAL ADEQUACY OF THE MAYBANK 1991-1997 (RM MILLION)

ITEM	YEARS						
	1991	1992	1993	1994	1995	1996	1997
1.TOTAL CAPITAL				4613	5209	6869	9763
2. TOTAL CAPITAL BASE				4613	5209	6869	9763
3. CORE CAPITAL RATIO (%)				10.75	9.56	9.37	11.60
4. RISK WEIGHTED CAPITAL RATIO (%)				11.46	10.08	11.77	14.00

SOURCE : VARIOUS ANNUAL REPORTS OF THE MAYBANK

5.3 DEPOSITS

Banking has a vital role to play in mobilization of saving through deposits. It involves the process of intermediation infacts raising resources through mobilization of depositors though reflected in liabilities side forms a major source of asset indication in banking system. Growth of deposits is therefore as an indicator of the growth of banking business. Growth of deposits also reflects the confidence, trust and business reputation acquired by the bank in public image.

Reviewing the balance sheet of the Maybank we found 5 major groups composing the total deposits, namely :

i. Demand deposits (Current deposits)

ii. Saving deposits

iii. Fixed Deposits (time deposits)

iv. Negotiable certificates of Deposits

v. Other deposits (Deposits and placement of banks and other financial institution)

The performance of the bank can be judged in terms of the growth trend of the major types of deposits with bank.

Reviewing the data in Table 1,(on page 69) 3 (on page76) and 4,(on page77) 5,6,7 (refer to pages 79,79,80 respectively) we may observe the following striking points.

i. In pecuniary terms the total deposits of Maybank has continuous increase from RM 23476 million in 1991 to RM26847 million in 1992 to RM32567 million in 1993 to RM44408 million in 1994 to RM47550 million in 1995, to RM51410 million in 1996 and to RM63093 million in 1997. This means Maybank deposits have increase by 168% percentage between 1991 to 1997.

ii. Looking to the deposits growth rate annually we find a high degree of uneveness in 1992. The annual growth of total deposits is estimated to be 14% which increase to 22% in 1993 and there been a quantum jump of 36% of growth rate in 1994. But it is surprising that the bank has failed to maintain the tempo of deposits growth rate and in 1995 the annual growth rate is worked out only 7% with a marginal important of 8% in 1996. Creditable efforts are however seen in 1997 when the deposits have grown by the rate of around 23%.

TABLE 3:PERCENTAGE OF TIME DEPOSITS TO AGGREGATE DEMAND DEPOSITS (RM MILLION)

ITEM	YEAR						
	1991	1992	1993	1994	1995	1996	1997
1.TIME DEPOSITS(TD)	7553	8955	12948	16498	18670	20428	25363
2.AGGREGATE DEMAND DEPOSITS(DD)	9650	11417	1194	13983	17612	18872	21555
3.TD/ DD (%)	**78.3**	**78.4**	**115.7**	**118.0**	**106.0**	**108.2**	**117.7**

SOURCE : WORKED OUT ON THE BASIC OF DATA IN TABLE 1

TABLE 4: DEMAND DEPOSITS AS A PERCENTAGE AND TOTAL LIABILITIES (RM Million)

ITEM	YEAR						
	1991	1992	1993	1994	1995	1996	1997
1. DEMAND DEPOSITS(DD)	3352	3917	4936	6299	7709	8454	10692
2.TOTAL LIABILITIES (TL)	29400	33250	38823	54374	60008	66911	82905
3. DD / TL (%)	11.4	11.78	12.71	11.58	12.85	12.63	12.90

SOURCE : WORKED OUT ON THE BASIC OF DATA IN TABLE 1

TABLE 5 : PERCENTAGE OF MAJORS TYPES OF DEPOSITS TO TOTAL DEPOSITS

YEAR	DD/TD(%)	SD/TD(%)	FD/TD(%)	NCD/TD(%)
1991	14.28	16.09	32.17	10.74
1992	14.59	15.1	33.50	12.84
1993	15.15	13.88	39.75	5.33
1994	14.18	13.11	37.15	4.19
1995	16.21	14.00	39.26	6.83
1996	16.44	14.90	39.74	5.36
1997	16.95	13.26	47.77	3.96

DD : DEMAND DEPOSIT.
SD : SAVING DEPOSIT
FD : FIXED DEPOSIT
NCD : NEGOTIABLE CERTIFICATES OF DEPOSIT
TD : TOTAL DEPOSITS

SOURCE : WORKED OUT ON THE BASIC OF DATA IN TABLE 1

TABLE 6: MARKET SHARE OF MAYBANK

YEAR	TD/AD(%)	C/AC(%)	A/AA(%)
1991	41.62	16.41	19.35
1992	39.13	19.32	19.13
1993	38.06	18.60	17.47
1994	45.56	18.81	22.73
1995	38.58	18.60	20.54
1996	26.65	16.70	18.69
1997	27.28	16.41	17.23

SOURCE : WORKED OUT ON THE BASIC OF DATA IN TABLE 1

TD: TOTAL DEPOSITS OF MAYBANK

C:CREDIT OF MAYBANK

A: TOTAL ASSETS OF MAYBANK

AD:AGGREGATE COMMMERCIAL BANK DEPOSITS

AC:AGGREGATE COMMERCIAL BANK CREDITS

AA:COMMERCIAL BANK ASSETS AGGREGATE

TABLE 7: ANNUAL GROWTH RATE OF TOTAL DEPOSITS, DEMAND DEPOSITS AND FIXED DEPOSITS

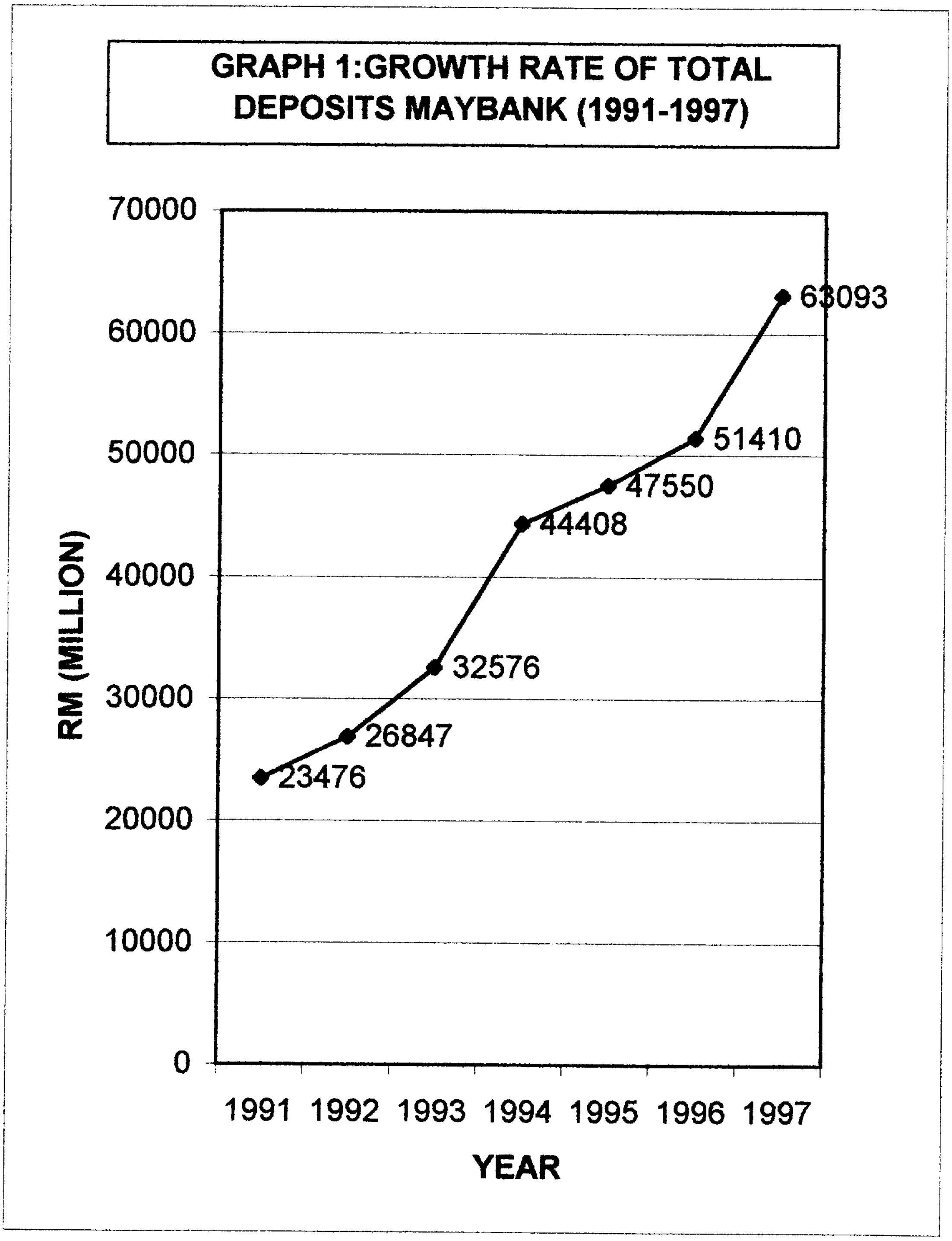
YEAR	TD(%)	DD(%)	FD(%)
1991			
1992	14.1	16.9	18.6
1993	21.8	26.0	44.6
1994	36.3	27.6	27.4
1995	7.1	22.4	13.2
1996	8.1	9.7	9.4
1997	22.7	26.5	24.2

TD : TOTAL DEPOSITS

DD : DEMAND DEPOSITS

FD : FIXED DEPOSITS

SOURCE : WORKED OUT ON THE BASIC OF DATA IN TABLE 1


GRAPH 1:GROWTH RATE OF TOTAL DEPOSITS MAYBANK (1991-1997)
70000
60000
50000
40000
30000
20000
10000
0
RM (MILLION)
23476
26847
32576
44408
47550
51410
63093
1991 1992 1993 1994 1995 1996 1997
YEAR

This pattern of uneven growth rate can easily be visualized in

Graph 1:Growth rate of total deposits of Maybank during 1991-1997

(on page 81)

Graph 2: Growth of Demand Deposits of Maybank during 1991-1997

(on page 84) and

Graph 3 : Annual Growth of Fix deposits of Maybank during 1991- 1997

(on page 87)

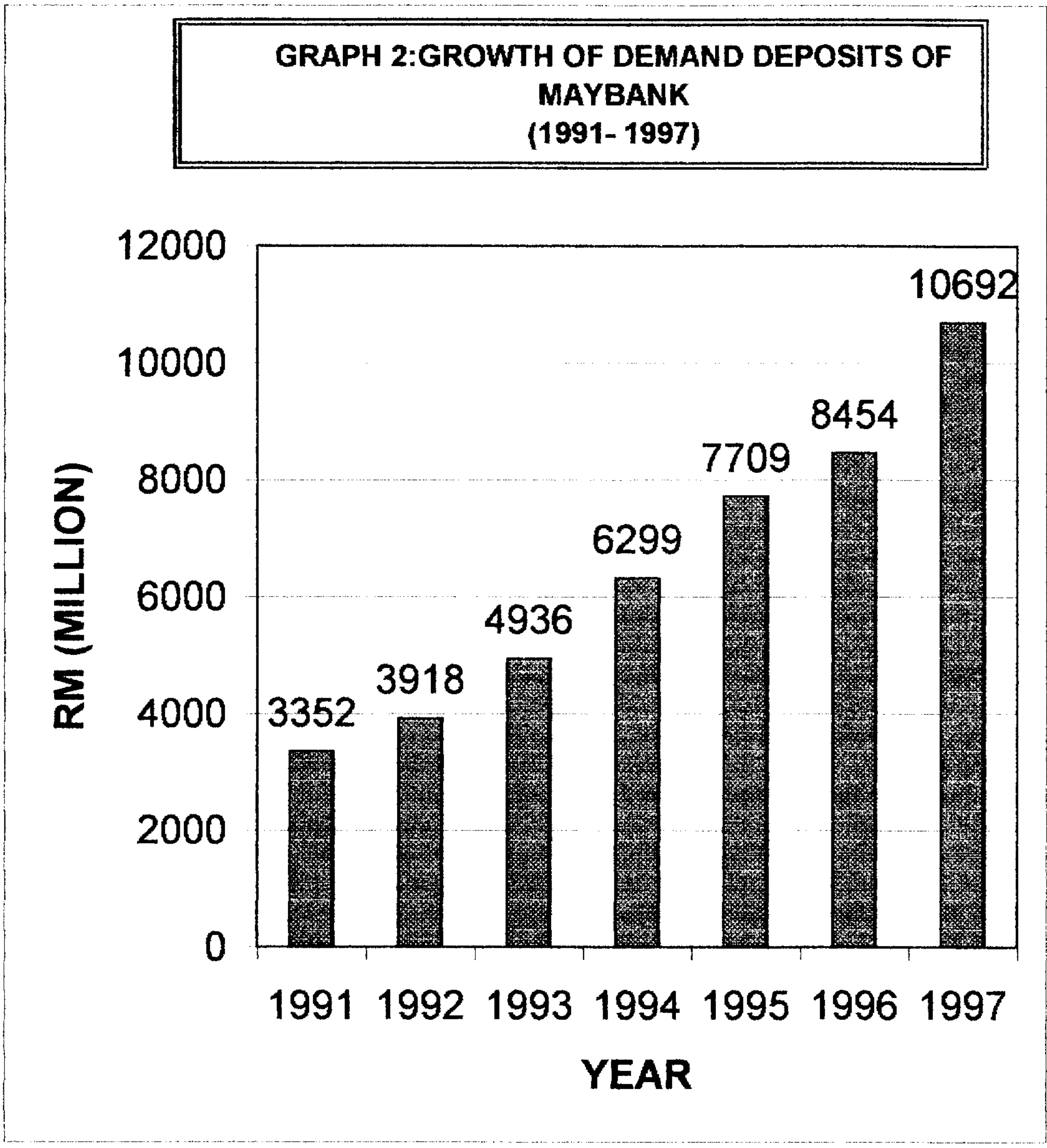
iii. Total deposits is a percentage of total liability has been moving around 50% between 1991 to 1995 but 1996 and 1997 this percentage has decline to 76%. That means deposits component of funds raising has recently decline in relative terms. The management of Maybank, therefore must take a serious note of this position in liability management and try to make efforts to make an improvement in this situation.

iv. Current account deposits of the bank have remarkably increased from RM3352 million in 1991 to RM10692 million in 1997. The increase is over three fold.

The current account deposit of the bank has grown by 17% in 1992, 26% in 1993, 28% by 1994 but decline to 22% in 1995 and further down to 10% in 1996. In 1997 it has improved to 27%.The annual average growth rate of demand deposits is thus, 21.5% the growth rate of demand deposits is reflected in Graph 2.(on page 84)

The graph suggests that bank has been accommodating the business community to a greater extent.

The bank does estimate operating cost associated with handling current deposits accounts. Maybank charges RM 0.15 cents stamp duty per cheque. Surprisingly the bank does not insist on borrowers to maintain a deposit balance with the bank.


GRAPH 2:GROWTH OF DEMAND DEPOSITS OF MAYBANK
(1991- 1997)
RM (MILLION)
12000
10000
8000
6000
4000
2000
0
3352
3918
4936
6299
7709
8454
10692
1991 1992 1993 1994 1995 1996 1997
YEAR

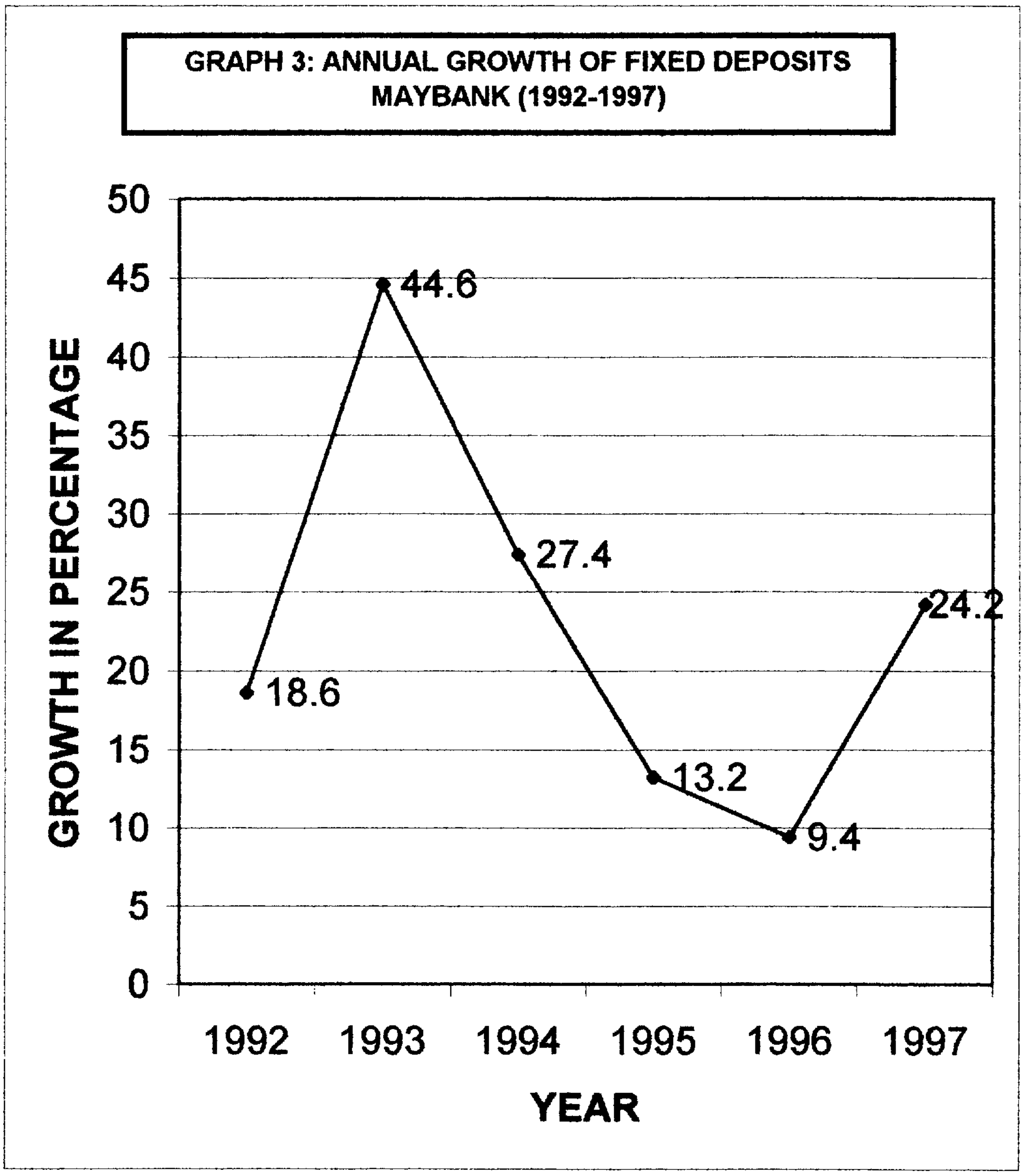
The data in Table 4 (on page 77) indicate the ratio of demand deposits to total liabilities over the years the demand deposits as a percentage of total liabilities has been around 12% on an average.

v. Interestingly enough the percentage of DD upon TD (the ratio of demand deposits to total deposits) of the Maybank has been between 14% to 15% from 1991 to 1994 and 16 % to 17% during 1995 to 1997.

vi. Fixed Deposits or Time deposits is an important component of bank deposits in raising the fund. In fact it is the time deposits which permits the bank to create more profitable assets. Our studies of balance sheet over the years reveals that the fixed deposits of Maybank has increased remarkably well from RM7553 million in 1991 to RM25363 million 1997. Thus regestering a 236% growth.

The annual growth of fix deposits has been widely varied. It was around 19% in 1992 and jumped to 45% in 1993 and decline to 27% in 1994 and again to 13% in 1995 and further down to 9% in 1996. The bank, however manage to improve it to 24% in 1997. This reflects unevenness of deposits management aid funds raising device of the bank and probably during the period 1994 to 1996,(the boom period of the share market in Malaysia).

This has happened because of the boom in share market and the public was more interested in shifting their money from money market to capital market. In 1997, probably the trend has been reverse. The annual average growth rate of fixed deposits during this period is worked out at 22.9%. The pattern growth rate of fixed deposits of the bank is depicted in Graph 3. (on page 87)


GRAPH 3: ANNUAL GROWTH OF FIXED DEPOSITS
MAYBANK (1992-1997)
GROWTH IN PERCENTAGE
50
45
40
35
30
25
20
15
10
5
0
44.6
27.4
24.2
18.6
13.2
9.4
1992
1993
1994
1995
1996
1997
YEAR

Fixed deposits as a percentage or total in the case of Maybank has been 32% in 1991 increased to 34% in 1992, 40% in 1993 decline to 37% in 1994 again rose to 39% in 1995 and 40% in 1996 and 48% in 1997.

It is interesting to note that the Maybank paid interest- rates on fixed on fixed deposits (1- yearly) in 1997 at 7.20 percent and in June 1998 at 10 percent, whereas its base lending rate has been 9.10 percent in 1997,raised to 10.90 percent in June 1998. A spread margin of two percent is quite reasonable in this case.

5.4 OTHER LIABILITIES ITEMS

Other liabilities items including bills and securities and other liabilities included such as interest payable, proposed dividends, taxation, deferred taxation, general insurance funds, life insurance funds and other creditors, provision and accruals. All these items , together constitute around. 10% of total liabilities in 1991 and has increase to 14% in 1995 and around 15% in 1997.

CHAPTER 6

ASSET-PORTFOLIO MANAGEMENT BY MAYBANK

6.0 INTRODUCTION

In the commercial bank balance sheet statements assets side represents the credits side. This is because the banks assets represent the use of fund (i.e. liabilities) raised by the bank. The asset portfolio management is very important for reconciling the twin contradictory objectives of the bank such as liquidity and profitability. An economics analysis of the Maybank asset portfolio management will give us an idea of how skillfully the funds have been managed by the bank in achieving both the ends of earning profits without sacrificing liquidity. In other words we shall try to capture the idea of asset management by the bank over the years in meeting its' aims and objectives.

Customarily, asset management function of a bank is looked upon in terms of following functions:

i. Cash management

ii. Reserves management

iii. Investment management

iv. Credit management(Loans and Advances)

v. Management of other asset

The behaviour of Maybank in this regards during the period of 1991-1997 is analyzed in following sections.

6.1 CASH MANAGEMENT

Banks basic goal is to maintain liquidity to sustain the customers confidence cash balances are given the top priority. Cash management however is a dynamic function and has to be done effectively by the bank. Indeed cash balances are the ideal asset representing 100% liquidity but zero profitability and have to be maintain adequately to run the smooth banking business but had to be kept in a minimum level to convert the surplus fund (liabilities) into profitability asset. Indeed cash balance requirement of the banks depends on the trend of payment system inflow and outflow of cash in its cyclinical and seasonal nature.

From the Table 8 and Table 9 (on the following pages 92,93 respectively) it is observed that cash balances is a percentage of total monetary assets (constituting total working fund of the bank roughly). In the year 1991 to 1993 was around 1%

however on 1994 onwards it has a quantum jump to 14%. From Table 9, it can further been observed that percentage of cash balances to demand deposits of the balance has been around 10% during the period with the peak of over 34% in 1994. (a mysterious phenomenon)

Data in table 10 (on page 94) shows the amount of Maybank deposits with financial institutions over the years. On an average it has been over RM5000 million. The annual growth rate of these deposits has been grossly uneven ranging from negative 48% to positive 58%. It can be seen from Graph 4. (on page 98)

TABLE 8: MAJOR TREND OF ASSETS OF MAYBANK 1991-1997 (RM IN MILLION)

TYPE OF ASSETS	YEARS						
	1991	1992	1993	1994	1995	1996	1997
1.CASH FUND	6833(23.24)	4983(14.99)	6833(17.60)	17567(32.2)	13116(21.9)	14434(21.6)	18608(22.4)
STATUARY DEPOSITS WITH BN	713 (2.43)	1405(4.23)	1290(3.32)	1860(3.4)	3170(5.3)	3968(5.9)	4818(5.81)
3.SECURITIES	184 (0.63)	269(0.81)	594(1.53)	995(1.8)	441(0.7)	304(0.5)	355(0.43)
4. INVESTMENT	4884 (13.64)	5313(15.97)	7353(18.94)	7785(14.3)	9720(16.2)	10666(15.9)	12362(14.91)
5.LOANS AND ADVANCES	15950(54.25)	20423(61.42)	21801(56.15)	25231(46.5)	32543(54.2)	36374(54.4)	45298(54.64)
6.FIXED AND OTHER ASSETS	836 (2.84)	857(2.58)	953(2.46)	937(1.7)	1019(1.7)	1165(1.7)	1463(1.76)
TOTAL	29400(100)	33250(100)	38825(100)	543754(100)	60008(100)	66911(100)	82905(100)

SOURCE : VARIOUS ANNUAL REPORTS OF THE MAYBANK

TABLE 9: CASH FUNDS SCENARIO OF MAYBANK 1991-1997 (RM MILLION)

YEAR	CASH BALANCE(CH)	MONEY AT CALL(MC)	TOTAL CASH FUND(TC)	CH/TMA %	MC/TMA %	TC/TMA %	TMA= TA-FA	CH/DD %
1	2	3	4	5	6	7	8	9
1991	306	96	402	1.1	0.3	1.4	28770	9.2
1992	411	792	1203	1.3	2.4	3.7	32608	10.5
1993	414	452	866	1.1	1.2	2.3	38194	8.4
1994	8464	1130	9594	15.7	2.1	17.9	53745	34.4
1995	8367	579	8946	14.1	1.0	15.1	59387	8.5
1996	9360	1302	10662	14.1	2.0	16.1	66290	10.7
1997	11635	1768	13403	14.1	2.1	16.3	82277	8.8

TMA: TOTAL MONETARY ASSETS

TA : TOTAL ASSETS

FA : FIXED ASSETS

DD : DEMAND DEPOSITS

SOURCE: VARIOUS ANNUAL REPORTS OF THE MAYBANK

TABLE 10: MAYBANK'S DEPOSITS WITH FINANCIAL INSTITUTIONS.

YEAR	AMOUNT OF DEPOSITS (D)	D/TMA %	ANNUAL GROWTH RATE(D *)
1991	6430	22.3	
1992	3781	11.6	-4.1
1993	5968	15.6	57.8
1994	7973	14.8	33.6
1995	4170	7.0	-47.7
1996	3772	5.7	-9.5
1997	5205	6.3	38.0

TMA : TOTAL MONETARY ASSETS
SOURCE: WORKED OUT FROM DATA IN TABLE 1 AND TABLE 8

Indeed, the figures are indicated and bank has to take appropriate steps for the improvement.

For the high cash assets ratio maybe good for liquidity while it will be affecting the profitability of the bank. With improved organization structure high cash requirement at operational level can be minimized.

6.2 RESERVES MANAGEMENT

Under this central bank regulatory framework statuary reserve requirement for the bank constitutes the first charge on the fund and only thereafter, the bank can have the surplus fund to operate in the banking business. In time with controversy policy of the country the banks statuary deposits with Bank Negara Malaysia(BNM) over the years have steady increase in absolute and relative term. Statuary reserve is a percentage of total deposits and a percentage of total monetary assets have been reported in Table 11.(on page 96)

TABLE 11: STATUARY RESERVES SCENARIO OF MAYBANK1991-1997

YEAR	STATUARY RESERVE REQUIREMENT(SRR)	SRR/TD %	SRR/TMA %	ANNUAL VARIATION %
1991	713	3.0	2.5	
1992	1405	5.2	4.3	97.1
1993	1290	4.0	3.4	-8.2
1994	1860	4.2	3.5	44.2
1995	3170	6.7	5.3	70.4
1996	3968	7.7	6.0	25.5
1997	4818	7.6	5.9	21.4

TD : TOTAL DEPOSITS

TMA : TOTAL MONETARY ASSETS

SOURCE: VARIOUS ANNUAL REPORTS OF THE MAYBANK

6.3 INVESMENT MANAGEMENT

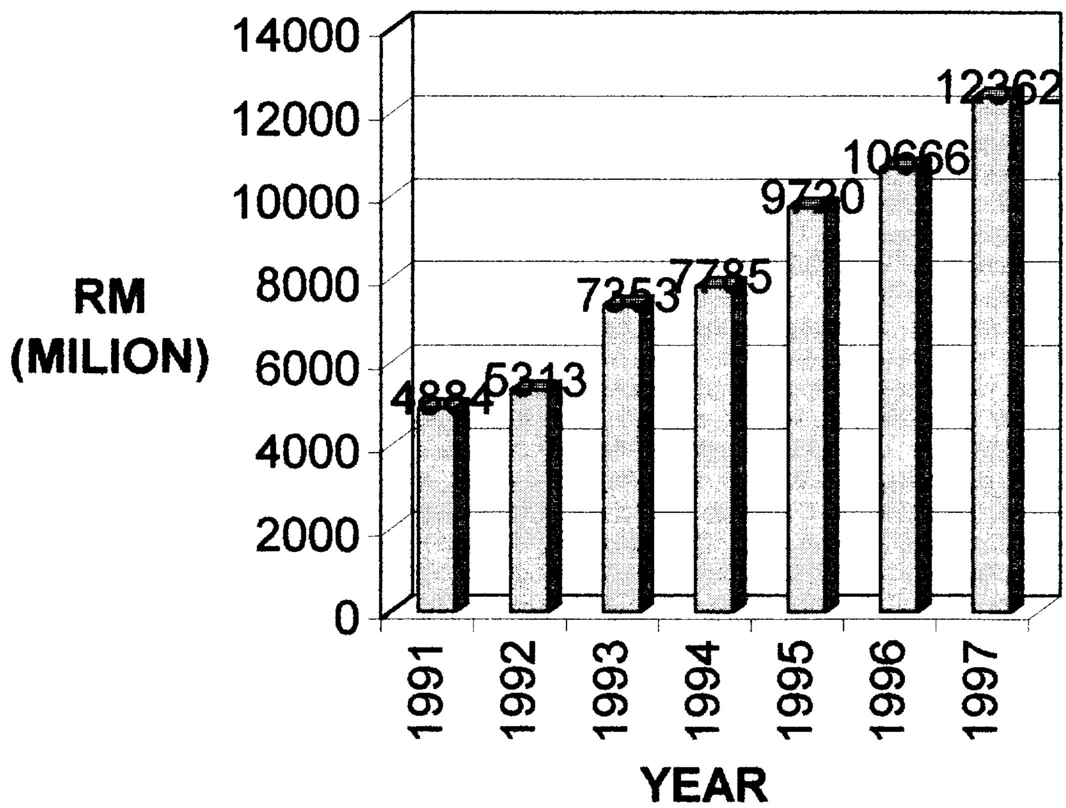
Investments constitute profitable assets with the bank investment management is a dynamic function of the banking business. Investment of the Maybank comparison unquoted shares, at cost share, cost, share of post, acquisition retained profits, share quoted in Malaysia, at cost, unquoted shares in Malaysia and outside Malaysia.

Over the year investment volume of the banks has steadily gone up from RM4884 million in 1991 to RM12362 million in 1997. The bar chart given in the next page indicate of the year wise growth of investment during 1991 – 1997.

In relative terms, however the investment total assets ratio of the bank has been around 15% on an average.

Maybank ,purchases a securities have gone up from RM184 million to Rm995 million in 1994 but thereafter decline to RM355 million in 1997. Thus, securities percentage is a percentage of total asset of the bank has decline from 1.8% in 1994 to less than 0.5% in 1997.

GRAPH 4: GROWTH OF INVESTMENT: MAYBANK (1991-1997)



Regarding, investment aspect of the bank we however suggest that the bank need more professional and profit orientated approach.

6.4 CREDIT MANAGEMENT (LOANS AND ADVANCES)

Credit creation is the main function of the commercial bank but the credit expansion need to be well-managed by the bank. Bank credits implies, loans and advances given by the bank. Through loans and advances the bank's performance the rules of mobilization of the service for real industrial and commercial activities. Besides, loans and advances imply a high degree of profitability in the asset portfolio management of the bank.

Data in Table 12 (on page 100) shows a continuously increasing trend of Loans and Advances made by Maybank over the years. The amount of loan and advances has gone up from RM15950 million in 1991 to RM45298 million in 1997. On an average, Maybank credits expansion has been at the rate of around 19% per annum. Further on an average the ratio of loans and advances to total monetary asset of the bank have been around 55%. So, also the ratio of bank credits to total liabilities has been around the same.

TABLE 12: LOANS AND ADVANCES IN ALM OF MAYBANK 1991-1997

YEAR	LOANS AND ADVANCES(LA)	ANNUAL VARIATION(%)	LA/TMA %	LA/TL %
1991	15950		55.4	54.3
1992	20423	28.0	62.6	61.4
1993	21801	6.7	57.1	56.2
1994	25231	15.7	46.9	46.4
1995	32543	29	54.8	54.2
1996	36374	11.8	54.4	54.4
1997	45298	24.5	55.1	54.6

TMA: TOTAL MONETARY ASSETS

TL: TOTAL LIABILITY

SOURCE : WORKED OUT ON THE BASIC OF DATA IN TABLE 8

The Maybank credits deposits ratio has increased from 68% in 1991 to 76% in 1992 but decline to 57% in 1994, however improved to 68% in 1995 and further went up to 71% in 1996 and 72% in 1997.(Table 13 on page 102)

This indicates that the bank was more conscious towards profitability of the funds raised through the deposits. However, the economy performance of the bank needs to be judged from the pattern of deployment of credits rather than its' growth alone. One has to see the generalization of the bank credits whether had been directed towards the productive use of resources of unproductive uses of resources, because this determine the real sector economy growth and banks contributions towards economy development of the nation. In the absence of detail available on this count our analysis remain some what silent on this issue.

Data in Table 14 (on page 103) show trends in component of loans and advances of the bank. The proportion of term loans and overdraft claim a major part of the total advances. Data in Table 15 (on page 104) represent bad debt position of the bank. Total bad debt as a percentage of the total loan and advances has increased from RM 0.76 million in 1991 to RM 1.26 million in 1993, declined to RM 0.66 million in 1995, but again rose to RM 1.15 million in 1997. The percentage of total bad debt of the bank to its total liabilities is around 0.4 percent at present.

TABLE 13:MAYBANK CREDITS DEPOSITS RATIO (RM Million)

ITEM	YEAR						
	1991	1992	1993	1994	1995	1996	1997
1.TOTAL DEPOSITS (D)	23476	26847	32576	44408	47550	51410	63093
2.CREDITS(LOANS AND ADVANCES) (C)	15950	20423	21801	25231	32543	36374	45298
3. C/D RATIO (%)	**67.94**	**76.07**	**66.92**	**56.82**	**68.44**	**70.75**	**71.80**

SOURCE : WORKED OUT ON THE BASIC OF DATA IN TABLE 8

TABLE 14: TRENDS IN COMPONENT OF LOANS AND ADVANCES OF MAY BANK (RM MILLION)

ITEM	YEARS						
	1991	1992	1993	1994	1995	1996	1997
1.OVERDRAFT	5354	6351	6746	7585	8829	10156	12066
2.TERM LOANS	9104	12392	13914	15840	19870	21854	28594
3. CREDIT CARD	0	0	0	245	254	249	342
4. BILLS AND ACCEPTANCE	2104	2421	2351	2848	4952	5458	5809
5. STAFF LOANS	240	253	280	293	292	289	285
6.HIRE PURCHASE	0	0	0	0	0	0	0
7.OTHERS	483	669	517	621	772	988	1154
TOTAL (1 - 7)	17285	22086	23808	27432	34969	38994	48250
8. UNEARNED INTEREST AND INCOME	111	164	197	209	304	216	348
9. GROSS LOAN	17174	21922	23611	27223	34665	38778	47902
10. BAD DEBTS	1223	1499	1809	1991	2122	2403	2604
11. NET LOANS AND ADVANCES	15951	20423	21802	25232	32543	36375	45298

SOURCE: VARIOUS ANNUAL REPORTS OF MAYBANK (1991-1997)

TABLE 15: BAD DEBTS SCENARIO OF MAYBANK 1991-1997 (RM MILLION)

YEAR	SPECIFIC(NET)	GENERAL	WRITTEN OFF	RECOVERED	TOTAL(TB)	TB/LA %	TB/TL %
1991		116	5		121	0.76	0.41
1992		213	16		229	1.12	0.69
1993		253	23		275	1.26	0.71
1994	12	258	13	8	276	1.09	0.51
1995	6	190	24	6	214	0.66	0.36
1996	90	200	20	5	305	0.84	0.46
1997	146	343	38	6	521	1.15	0.63

LA: LOANS AND ADVANCES

TL: TOTAL LIABILITIES

SOURCE : VARIOUS ANNUAL REPORTS OF THE MAYBANK

Defaults in payments by the creditors is considered to be the main reason of bad debt by the bank management. However, the bank has been taking remedial measures in general such as, follow-up for payment -(e.g calling or sending reminder letters). To minimise bad debt the bank tries to ensure the credit-worthiness of creditors by making thorough investigation before approval is granted.

In our opinion, to improve its economic role, the bank needs to undertake a SWOT (Strength, Weakness, Opportunities, Treat) of its portfolio management and overall banking business and also the commercial and investment set up and growth situation of the country economy.

Of course, the bank, in order to improve its role and ALM (Asset Liability Management) should construct a cell to create a data base to various industries and prominent trade activities and the real needs of the priority sector and its growth as desired by the economy policy of the government in national agenda.

6.5 MANAGEMENT OF OTHERS ASSETS

Other assets and fixed asset constitute the residual part of the bank balance sheet. Fixed assets are the least liquid, there are also not contributing directly to the profits but the real asset of the bank has the important of their appreciation or revaluation can help the bank's to extent in enhancing his super structure of capital, in the case of Maybank. Other assets of the bank include receivable, other debtors, deposits and prepayment ,investment properties and foreclosed properties. The ratio of fixed and other asset to total asset of the bank has decline from 2.8% in 1991 to 1.8% in 1997.

6.6 CONCLUDING REMARKS

The above analysis of asset portfolio management of the Maybank suggest, that the bank approach towards managing asset has been rational in certain manners. The up coming challenges in the economy may requires the bank to constantly review its' business policy and aspect management in responding to the changing economic financial situation in the country.

CHAPTER 7

SUMMARY AND CONCLUSION

7.0 SUMMARY

Our study detects that over the years Maybank has achieved a commendable economics performance in Asset- Liability Management as reflected through Annual Reports of its balance sheets during the period 1991 to 1997.An account of achievements of Maybank has been presented in Chapter 5 on the analysis of liability aspect of this bank and in Chapter 6 on the analysis of assets aspects of the bank.

Some of the major points in this regard may be highlighted at this stage. From the analysis of the liability part of the Maybank we found that the growth of bank deposits in the bank's reflects the confidence, trust and business reputation acquired in the public image. In absolute terms the total deposits have continuously increased from RM 23476 million in 1991 to RM 63093 million in 1997. In terms of percentage growth rate the total deposits has increase by 168 % during 1991 to 1997.

Demand deposits of the bank also have increase from RM 3352 million in 1991 to RM 10692 in 1997. Our anatomy of the balance sheet shows that fixed deposits of the bank showing a very good sign, of expansion, as it increased from RM 7553 million in 1991 to RM 25363 million in 1997, regestering the increase of 236 per cent.

Malayan Banking Berhad as a group had recorded achievement of pre tax profits largely from Maybank during the last four years between 1994-1997. The pretax profits has jumped from RM 1.3 billion in 1994 to RM 3.9 billion in June 1997. From the analysis of assets portfolio of the bank we found that this bank will gain more trust from the customers and public for its good performance in reconciling varied banking objectives. The investment of the bank steadily increase from RM 4884 million in 1991 to RM 12362 in 1997. This shows that this bank is making profitability out of its investment and this will pull more resources with winning confidence to invest in this bank. The loans and advances of the bank also have gone up from RM 15950 million in 1991 to RM 45298 million in 1997.The ratio of the loans and advances to total monetary assets have been around 55%.

Even though, it has been a challenging year from 1997 to this moment and the banking sector has been operating in difficult economic environment, this bank manages to make at least some profit. By June end 1998 the profitability of the bank has declined to RM 0.5 billion, regestering about 75 per cent decline within a year June 1997 to June 1998. (See Graph 5 in Appendix A) This shows that this bank even in such crucial situation could make some profits by adopting conservative provisioning policies and managing their assets and liability in a very careful manner. Nevertheless, this bank assure that if there were "any erosion of profits during this economics crisis they would strive to stay above water." (Annual Financial Report, 1998) From this point of view this bank will gain more confidence from the public. The Maybank has been cautiously making current assessment with quantitative and qualitative analysis to minimize risk in portfolio management.

7.1 CONCLUDING REMARKS

The Maybank management expresses its preferences and strategies for banking business over high ratio of current assets to current liabilities, excellent past record of loan repayments, low ratio of debt to net worth, good deposit balances, good profits, rapidly expanding firm in the industrial sectors.

The bank should take into consideration that in the 21st. century many changes will take place and the bank has to be prepared to meet the new challenges. Towards corporate financing the bank must recognise that corporate ability to borrow funds from banks and financial institution would depend on the strength of their cash flow, balance sheets, the soundness of their business fundamentals as well as the management of their credits ratings.

In is interesting to note that Maybank management see through dynamic changes in the banking sector in Malaysia. By the year 2000 there will be more computerisation and by 2020 it is hoped to have electronic banking in full swing and the bank is preparing itself for the task.

In future, even there may be stricter rating for the banks in the Malaysian financial circle, Maybank then may have to acquire still a better image and higher rank. Malaysian banks without exception of Maybank have been focussing primarily on mobilisation of deposits, complying with statuary reserve requirements and extending credit to meet priority sector targets with a discriminatory approach and a minimum formal business planning towards ALM. Upcoming challenges demand that the Maybank should adopt the planning framework with concrete actions.

The bank has to play the best trade-off on a regular basis between the conflicting ideals of banking business for improving its economics performance in the best interest of the nation. While profitability is to be sought, capital adequacy norms should never be missed. It is heartening to note that the Maybank is cautious and satisfactorily considerate in this matter.

Nonetheless, the new environments developed in the country these days would insist that the bank has to be more accountable for its quality of the assets and liabilities through better management and transparency on both side of the balance sheet.

Needless to say that the bank is required to plan and manage the assets side on a more dynamic basis. The bank should have better strategic choice than what is being practiced now. It has also to meet the target of increasing its lending growth rate by more than eight percents as has been prescribed by the Bank Negara Malaysia. It is heartening to note that chairman of the Maybank has declare to have the bank focus on preserving asset quality through appropriate remedial and prevention majors in the coming years the bank will support an expansion of leading to productive sectors and to improve on efficiency and productivity.

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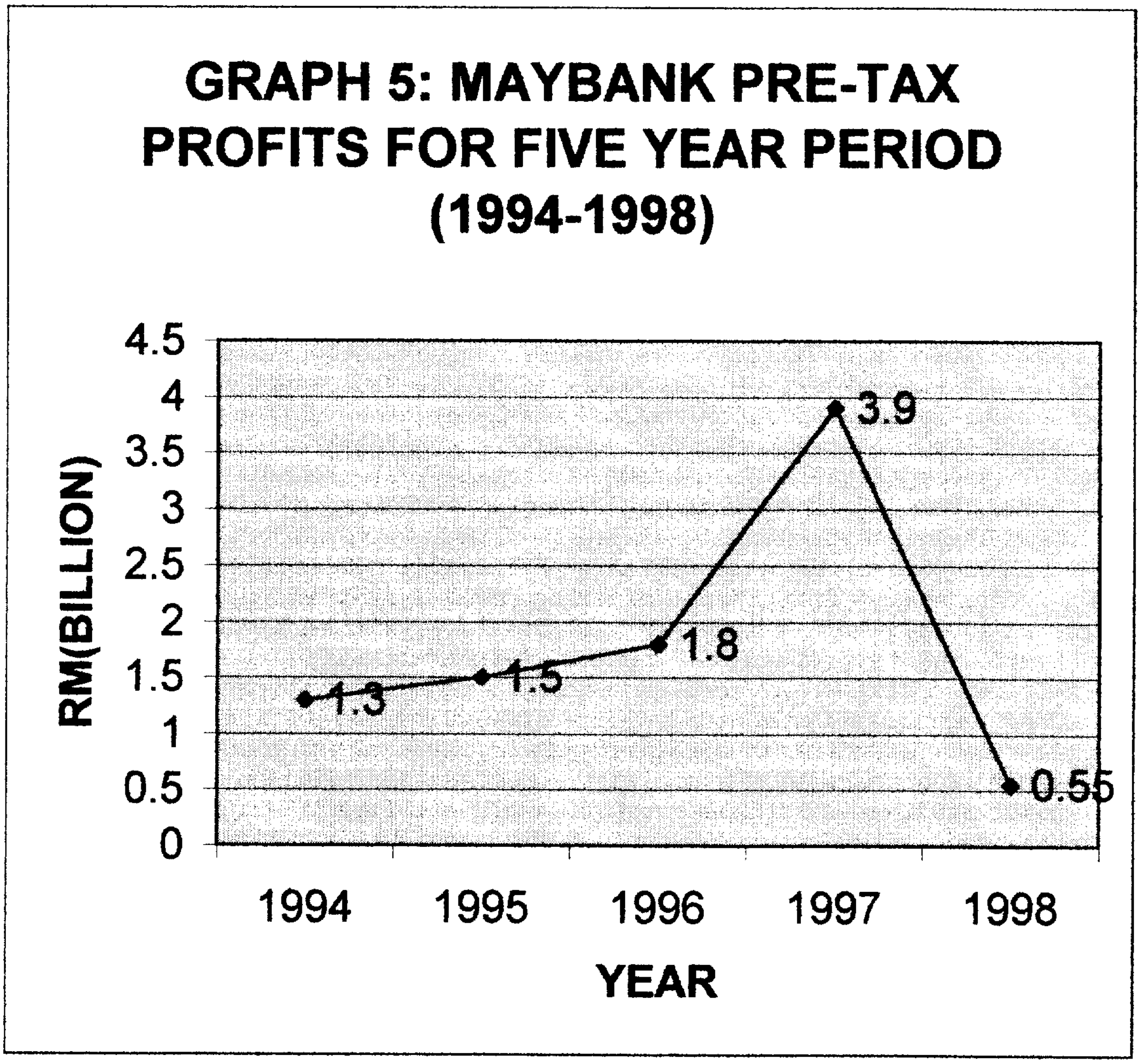
APPENDIX A

SOURCE:NEW STRAITS TIMES 21-09-1998



APPENDIX A 1

TABLE : FUNDS MANAGEMENT BY MAYBANK 1991-1997 (RM MILLION)

ITEM	YEAR						
	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
1. FUNDS OPERATED FROM OPERATIONS	518	636	882	1311	1585	1928	2269
2. FUNDS FROM OTHER SOURCES							
i)Increase in deposits from customers	5395	5958	4516	10808	629	6928	11507
ii)Increase in other deposits	2038	933	1509	3129	0	771	2862
iii)Issue of share	1241	31	3	276	349	31	3
iv)Others	1073	3624	1011	3198	8512	6431	5009
TOTAL	9747	9946	7039	17411	14890	14161	21650
3. APPLICATION OF FUNDS							
i)Increase in cash and short term funds	584	0	2348	8679	0	1556	2018
ii)Increase in statutory deposits in Bank Negara	64	1125	0	857	1468	1621	1504
iii)Increase in loans and advances	6797	7189	2148	5015	9948	7523	14158
iv)Increase in invesment securities	762	1118	1420	114	2307	1725	1636
v) Taxation Paid	129	23	241	324	380	584	548
vi) Misclenous Group	411	311	3230	2422	787	2773	1786
TOTAL	9747	9946	7039	17411	14890	14161	21650

SOURCE: VARIOUS ANNUAL REPORTS OF MAYBANK (1991-1997)

Appendix B
MAYBANK BALANCE SHEET 1991-1997

Balance Sheet
as at June 30, 1991

	Note	The Bank 1991 MYR '000	The Bank 1990 MYR '000	The Group 1991 MYR '000	The Group 1990 MYR '000
ASSETS					
Cash and short-term funds	3	**6,832,681**	5,451,404	**7,654,451**	6,070,012
Trading account securities	4	**183,739**	169,629	**947,380**	953,714
Investments	5	**3,239,806**	2,973,844	**4,614,752**	3,853,064
Loans and advances	6	**15,950,219**	11,818,855	**24,638,820**	17,841,834
Amounts due from subsidiary companies	7	**874,121**	240,152	**182,589**	–
Investment in an associated company	8	**2,700**	2,000	**2,794**	2,007
Investments in subsidiary companies	9	**767,064**	546,258	**229**	–
Statutory deposits with Bank Negara Malaysia		**713,433**	790,077	**1,244,440**	1,180,594
Fixed assets	10	**630,057**	598,669	**765,264**	712,981
Other assets	11	**206,334**	210,608	**406,261**	382,227
		29,400,154	22,801,496	**40,456,980**	30,996,433
LIABILITIES					
Deposits from customers	12	**17,203,008**	13,987,016	**26,028,509**	20,633,946
Deposits and balances of banks and agents		**6,273,227**	4,657,755	**7,496,261**	5,458,598
Bills and acceptances payable		**2,240,490**	1,773,524	**2,714,859**	2,140,549
Amounts due to subsidiary companies	13	**139,319**	67,070	**–**	–
Other liabilities	14	**730,207**	552,700	**1,256,699**	909,390
		26,586,251	21,038,065	**37,496,328**	29,142,483
SHAREHOLDERS' FUNDS					
Share capital	15	**752,055**	374,508	**752,055**	374,508
Reserves	16	**2,039,825**	1,365,540	**2,144,244**	1,423,309
		2,791,880	1,740,048	**2,896,299**	1,797,817
8% IRREDEEMABLE CONVERTIBLE UNSECURED NOTES	17	**22,023**	23,383	**22,023**	23,383
MINORITY INTEREST		**–**	–	**42,330**	32,750
		29,400,154	22,801,496	**40,456,980**	30,996,433
COMMITMENTS AND CONTINGENCIES	28	**10,245,513**	7,840,757	**11,421,951**	8,882,934

Balance Sheets

As At June 30, 1992

	Note	The Bank 1992 MYR '000	The Bank 1991 MYR '000	The Group 1992 MYR '000	The Group 1991 MYR '000
ASSETS					
Cash and short-term funds	3	4,983,149	6,832,681	5,896,325	7,654,451
Trading account securities	4	268,905	183,739	718,618	947,380
Investments	5	3,979,402	3,239,806	5,732,929	4,614,752
Loans and advances	6	20,423,178	15,950,219	31,828,231	24,638,820
Amounts due from subsidiary companies	7	447,974	874,121	—	182,589
Investment in an associated company	8	2,700	2,700	2,771	2,794
Investments in subsidiary companies	9	882,870	767,064	—	229
Statutory deposits with Bank Negara Malaysia		1,404,513	713,433	2,369,386	1,244,440
Fixed assets	10	641,913	630,057	806,281	765,264
Other assets	11	214,964	206,334	475,965	406,261
		33,249,568	29,400,154	47,830,506	40,456,980
LIABILITIES					
Deposits from customers	12	20,371,962	17,203,008	31,986,142	26,028,509
Deposits and balances of banks and agents		6,474,787	6,273,227	8,429,065	7,496,261
Bills and acceptances payable		2,196,743	2,240,490	2,700,545	2,714,859
Amounts due to subsidiary companies	13	342,883	139,319	—	—
Other liabilities	14	905,519	730,207	1,539,308	1,256,699
		30,291,894	26,586,251	44,655,060	37,496,328
SHAREHOLDERS' FUNDS					
Share capital	15	757,769	752,055	757,769	752,055
Reserves	16	2,178,053	2,039,825	2,347,068	2,144,244
		2,935,822	2,791,880	3,104,837	2,896,299
8% IRREDEEMABLE CONVERTIBLE UNSECURED NOTES	17	21,852	22,023	21,852	22,023
MINORITY INTEREST		—	—	48,757	42,330
		33,249,568	29,400,154	47,830,506	40,456,980
COMMITMENTS AND CONTINGENCIES	28	14,224,762	12,535,265	15,297,550	13,711,703

Balance Sheets

As At June 30, 1993

	Note	The Bank 1993 RM'000	The Bank 1992 RM'000	The Group 1993 RM'000	The Group 1992 RM'000
ASSETS					
Cash and short-term funds	3	6,833,435	4,983,149	8,243,927	5,896,325
Trading account securities	4	594,311	268,905	1,065,623	718,618
Investments	5	5,145,352	3,979,402	7,152,586	5,732,929
Loans and advances	6	21,800,731	20,423,178	33,976,695	31,828,231
Amounts due from subsidiary companies	7	1,288,393	447,974	-	-
Investment in an associated company	8	2,700	2,700	2,855	2,771
Investments in subsidiary companies	9	916,481	882,870	-	-
Statutory deposits with Bank Negara Malaysia		1,289,828	1,404,513	2,260,622	2,369,386
Fixed assets	10	630,208	641,913	811,044	806,281
Other assets	11	322,933	214,964	704,678	475,965
		38,824,372	33,249,568	54,218,030	47,830,506
LIABILITIES					
Deposits from customers	12	24,142,649	20,371,962	36,502,399	31,986,142
Deposits and balances of banks and agents		8,433,581	6,474,787	9,937,745	8,429,065
Bills and acceptances payable		2,031,894	2,196,743	2,633,995	2,700,545
Amounts due to subsidiary companies	13	56,909	342,883	-	-
Other liabilities	14	1,008,869	905,519	1,693,641	1,539,308
		35,673,902	30,291,894	50,767,780	44,655,060
SHAREHOLDERS' FUNDS					
Share capital	15	758,339	757,769	758,339	757,769
Reserves	16	2,373,046	2,178,053	2,615,291	2,347,068
		3,131,385	2,935,822	3,373,630	3,104,837
8% IRREDEEMABLE CONVERTIBLE UNSECURED NOTES	17	19,085	21,852	19,085	21,852
MINORITY INTEREST		-	-	57,535	48,757
		38,824,372	33,249,568	54,218,030	47,830,506
COMMITMENTS AND CONTINGENCIES	28	15,129,180	14,224,762	18,383,404	15,297,550

Balance Sheets

As At June 30, 1994

	Note	The Bank 1994 RM'000	The Bank 1993 RM'000	The Group 1994 RM'000	The Group 1993 RM'000
ASSETS					
Cash and short-term funds	3	9,593,641	1,985,727	10,716,011	2,036,544
Securities purchased under resale agreements		21,630	41,808	21,630	43,808
Deposits and placements with financial institutions	4	7,973,293	6,191,129	8,035,071	6,207,383
Dealing securities	5	973,548	594,311	1,355,002	1,081,414
Investment securities	6	6,856,550	6,887,646	8,720,364	8,606,112
Loans and advances	7	25,230,794	22,529,646	38,991,333	33,976,695
Investment in an associated company	8	2,700	2,700	2,869	2,855
Investments in subsidiary companies	9	925,558	916,481	-	-
Other assets	10	306,733	349,427	705,739	704,678
Statutory deposits with Bank Negara Malaysia	11	1,859,753	1,289,828	3,117,875	2,260,622
Fixed assets	12	630,046	630,208	822,305	811,044
		54,374,246	41,418,911	72,488,199	55,731,155
LIABILITIES					
Deposits from customers	13	30,480,780	23,661,907	46,360,188	35,552,062
Deposits and placements of banks and other financial institutions	14	13,926,923	9,416,795	13,576,593	10,447,994
Obligations on securities sold under repurchase agreements		1,828,841	1,630,402	2,510,870	1,953,213
Bills and acceptances payable		3,139,782	2,544,203	3,714,633	2,633,995
Other liabilities	15	1,271,657	1,015,134	2,098,736	1,693,641
Subordinated floating rate certificates of deposit	16	260,070	-	260,070	-
		50,908,053	38,268,441	68,521,090	52,280,905
SHAREHOLDERS' FUNDS					
Share capital	17	1,141,383	758,339	1,141,383	758,339
Reserves	18	2,318,247	2,373,046	2,744,746	2,615,291
		3,459,630	3,131,385	3,886,129	3,373,630
8% IRREDEEMABLE CONVERTIBLE UNSECURED NOTES	19	6,563	19,085	6,563	19,085
MINORITY INTEREST		-	-	74,417	57,535
		54,374,246	41,418,911	72,488,199	55,731,155
COMMITMENTS AND CONTINGENCIES	31	24,087,384	19,952,914	29,492,008	23,509,755

BALANCE SHEETS

AS AT JUNE 30, 1995

	Note	The Bank 1995 RM'000	The Bank 1994 RM'000	The Group 1995 RM'000	The Group 1994 RM'000
ASSETS					
Cash and short-term funds	3	8,945,907	9,595,641	10,321,766	10,716,011
Securities purchased under resale agreements		3,494	21,630	16,718	21,630
Deposits and placements with financial institutions	4	4,170,459	7,748,102	4,064,104	7,809,880
Dealing securities	5	437,251	973,548	1,496,064	1,875,119
Investment securities	6	8,610,043	6,856,550	10,507,573	8,200,247
Loans and advances	7	32,542,946	25,230,794	48,959,501	38,991,333
Investment in an associated company	8	2,700	2,700	3,341	2,869
Investments in subsidiary companies	9	1,186,903	923,558	-	-
Other assets	10	396,345	306,733	785,054	705,739
Statutory deposits with Central Banks	11	3,170,303	2,084,944	4,811,083	3,343,066
Fixed assets	12	622,240	630,046	834,048	822,305
		60,008,593	54,374,246	81,779,252	72,488,199
LIABILITIES					
Deposits from customers	13	36,282,406	30,480,780	52,388,960	46,360,188
Deposits and placements of banks and other financial institutions	14	11,266,626	13,926,923	13,166,626	13,576,593
Obligations on securities sold under repurchase agreements		2,438,850	1,828,841	2,954,408	2,510,870
Bills and acceptances payable		4,440,332	3,139,782	5,375,294	3,714,633
Other liabilities	15	1,449,595	1,271,657	2,605,935	2,098,756
Subordinated floating rate certificates of deposit	16	243,950	260,070	243,950	260,070
		56,121,759	50,908,053	76,735,173	68,521,090
SHAREHOLDERS' FUNDS					
Share capital	17	1,143,414	1,141,383	1,143,414	1,141,383
Reserves	18	2,743,420	2,318,247	3,555,322	2,744,746
		3,886,834	3,459,630	4,698,736	3,886,129
8% IRREDEEMABLE CONVERTIBLE UNSECURED NOTES	19	-	6,563	-	6,563
MINORITY INTEREST		-	-	345,343	74,417
		60,008,593	54,374,246	81,779,252	72,488,199
COMMITMENTS AND CONTINGENCIES	31	34,488,057	24,087,384	42,181,883	29,762,058

Balance Sheets
As At June 30, 1996

	Note	The Bank 1996 RM'000	The Bank 1995 RM'000	The Group 1996 RM'000	The Group 1995 RM'000
ASSETS					
Cash and short-term funds	3	**10,662,806**	8,945,907	**11,877,406**	10,321,766
Securities purchased under resale agreements		**26,536**	3,494	**26,510**	16,718
Deposits and placements with financial institutions	4	**3,771,657**	4,170,459	**3,211,190**	4,064,104
Dealing securities	5	**277,753**	437,251	**1,974,143**	1,496,064
Investment securities	6	**9,341,146**	8,610,043	**12,233,040**	10,507,573
Loans and advances	7	**36,373,997**	32,542,946	**56,462,778**	48,939,501
Investment in an associated company	8	**2,700**	2,700	**4,336**	3,341
Investments in subsidiary companies	9	**1,322,217**	1,106,903	–	–
Other assets	10	**544,472**	396,345	**1,099,821**	785,054
Statutory deposits with Central Banks	11	**3,968,479**	3,170,305	**6,431,852**	4,811,083
Fixed assets	12	**620,748**	622,240	**881,432**	834,048
		66,912,511	60,008,593	**94,202,508**	81,779,252
LIABILITIES					
Deposits from customers	13	**39,300,236**	36,282,406	**59,316,837**	52,388,960
Deposits and placements of banks and other financial institutions	14	**12,110,374**	11,266,626	**13,937,183**	13,166,626
Obligations on securities sold under repurchase agreements		**2,535,033**	2,438,850	**3,614,597**	2,954,408
Bills and acceptances payable		**5,694,312**	4,440,532	**6,679,327**	5,375,294
Other liabilities	15	**1,675,975**	1,449,395	**3,463,760**	2,605,935
Subordinated obligations	16	**1,173,425**	243,950	**1,173,425**	243,950
		62,489,355	56,121,759	**88,185,129**	76,735,173
SHAREHOLDERS' FUNDS					
Share capital	17	**1,143,414**	1,143,414	**1,143,414**	1,143,414
Reserves	18	**3,279,742**	2,743,420	**4,457,832**	3,555,322
		4,423,156	3,886,834	**5,601,246**	4,698,736
MINORITY INTEREST		–	–	**416,133**	345,343
		66,912,511	60,008,593	**94,202,508**	81,779,252
COMMITMENTS AND CONTINGENCIES	30	**35,989,300**	34,488,057	**50,330,104**	42,181,883

	Note	The Bank 1997 RM'000	The Bank 1996 RM'000	The Group 1997 RM'000	The Group 1996 RM'000
ASSETS					
Cash and short-term funds	3	13,403,510	10,662,806	13,895,825	11,877,406
Securities purchased under resale agreements		77,677	26,536	87,258	26,510
Deposits and placements with financial institutions	4	5,204,914	3,771,657	5,962,989	3,211,190
Dealing securities	5	277,753	277,753	1,508,590	1,072,257
Investment securities	6	10,992,793	9,341,146	14,694,048	13,134,926
Loans and advances	7	45,297,719	36,373,997	64,741,843	56,462,778
Investments in associated companies	8	6,180	2,700	8,616	4,336
Investments in subsidiary companies	9	1,363,245	1,322,217	-	-
Other assets	10	835,738	544,472	1,503,460	1,106,106
Statutory deposits with Central Banks	11	4,818,204	3,968,479	7,215,666	6,431,852
Fixed assets	12	627,164	620,748	819,947	875,147
		82,904,897	66,912,511	110,438,242	94,202,508
LIABILITIES					
Deposits from customers	13	46,918,402	39,300,236	65,100,711	59,316,837
Deposits and placements of banks and other financial institutions	14	16,174,231	12,110,374	21,797,122	13,937,183
Obligations on securities sold under repurchase agreements		3,432,157	2,535,033	4,314,251	3,614,597
Bills and acceptances payable		6,253,671	5,694,312	6,074,491	6,679,327
Other liabilities	15	1,968,164	1,675,975	3,492,647	3,463,760
Subordinated obligations	16	1,183,645	1,173,425	1,183,645	1,173,425
		75,930,270	62,489,355	101,962,867	88,185,129
SHAREHOLDERS' FUNDS					
Share capital	17	1,143,414	1,143,414	1,143,414	1,143,414
Reserves	18	5,831,213	3,279,742	7,129,481	4,457,832
		6,974,627	4,423,156	8,272,895	5,601,246
MINORITY INTEREST		-	-	202,480	416,133
		82,904,897	66,912,511	110,438,242	94,202,508
COMMITMENTS AND CONTINGENCIES	31	49,862,295	39,169,732	60,678,339	53,510,536

APPENDIX C

QUESTIONNAIRE

1. Name of Bank:____

2. Address of Head Office:_________________________________
____

3. Name and title of respondent:_____________________________________

All answers to the following questions are strictly confidential. That is, in the report of this research the source of quotations or numbers obtained in interviews will not be identified.

SECTION 1:Question about deposits

1. I would like to know the level of your bank's current, fixed and saving deposits at the close of the day on certain month in 1997-1998 (**Thousand of ringgits will be sufficiently accurate for this question).**

Date	Current	Fixed	Savings
Jan 1997			
March 1997			
June 1997			
Oct 1997			
Dec 1997			
Current ( )			

2. How many

   a) Current deposit accounts____________________/____________________

   b) Savings deposit accounts____________________/____________________

   c) Fixed deposits account ____________________/____________________

   Did your bank have on December 31, 1997 and on 30 June 1998

3. What was the ringgit volume of deposits/ debits to your bank's

   a) Current deposit accounts____________________/____________________

   b) Savings deposit accounts____________________/____________________

   c) Fixed deposits account ____________________/____________________

   in end 1997.

4. How many deposits/ debits were there to your banks

   d) Current deposit accounts in end 1997?________________/________________

   e) Savings deposit accounts in end 1997?________________/________________

   f) Fixed deposits account in end 1997?________________/________________

5. Does your bank have a fixed schedule of activity charges for current deposits?
   YES / NO
   If yes, how much per cheque?____________________

Please explain other details_______________________________________

With regards to activity charges on saving deposits- How much do you

charges per cheque?__________________

Per deposit?__________________

What interest rate on balances do you allow to used to offset activity charges?________Please explain others details,_________________

---

6. Does your bank estimate operating costs associated with handling current deposit
   Accounts? YES / NO. If so what was this figure for the year end 1997?____________

7. Do you require that persons or firms receiving advances maintain a deposit balance with your bank? YES / NO. Please briefly explain your bank's policy about advances and deposits.

If yes do you require that these deposits be

a) current deposits
b) fixed deposits
c) any kind of deposit
d) other(please specify)

(*Check the appropriate answer*)

SECTION 2: Questions about Advances

1. What percentage of the advances granted by your bank in 1997 defaulted or were
   more than 2 months behind in scheduled repayments at any time during the period of
   the advance?

Less Than 0.5 Percent
0.5 – 0.99
1.0 - 1.49
1.5 – 1.99
2.0 –2.49
2.5 – 2.99
3.0 – 3.49
3.5 - 3.99
4.0 - 4.99
5.0 – 6.99
6.0 – 9.99
10 - 14.99
15 or over

2. If the following data concerning a firm, rank the three which your bank would place the most emphasis on when deciding upon a request for a secured advance with a nominal 90 days maturity.

__________(1) High ratio of current assets to current liabilities

__________(2) Excellent past record of loan repayments with your bank.

__________(3) Low ratio of debt to net worth.

__________(4) Good deposit balances with your bank.

__________(5) Good profits in the last three years.

__________(6) Very steady moderate profits over a long period of time.

__________(7) Firm is in an industry which is rapidly growing.

__________(8) Close ties(friendship) between officers of the firm and officers of your bank.

__________(9) Officers of the firm enjoy a very good reputation with others firm in its industry and with the firm's suppliers

__________(10) Firm uses very small amount of imported machinery and raw material.

__________(11) Competition among firm in the firm's industry is not severe.

__________(12) The firm has a very rapid turnover of inventories.

__________(13) The product manufactured by the firm has a high priority to it by the government or planning commission.

__________(14) Others (please specify)______________________________

____

3. What amount of secured loans did your bank have outstanding on December 31,

   1997?________________

1) How much was secured by plantation sector?____________
2) How much was secured by industrial sector?____________
3) How much was secured by iron, steel, engineering product?____________
4) How much was secured by construction sector?________________

4. Would you say that your bank specialized in loans to any particular industry or industries?____________________

   If so, which industries?____

   Why?____

   Please rank the following factors in order of important as explanations for this specialization:

   __________(a) Geographical proximity to the industry.

   __________(b) Particularly skilled credit officer in this area.

   __________(c) Belief that business with this industry will be particularly good in the future.

__________(d) Previous experience with this industry.

__________(e) Interlocking directorates between your bank and firm in this industry or other strong personal ties.

What other factors account for this specialization__________________

5. What was the interest rates on deposits?

Date	**Fixed (1-yearly)**	**Fixed (3-Yearly)**	**Saving**
1 Jan 1997			
1 June 1997			
1 Dec 1997			
1 Jan 1998			
1 June 1997			
Current ( )			

6. Lending Rates Charged by your bank

Date	1-year loan	3-year loan	5-year loan	Consumption Loan	Call Money Rate
1 Jan 1997					
1 June 1997					
1 Dec 1997					
1 Jan 1998					
1 June 1998					
Current					

7. How do you determine lending rate? Specify.

____

SECTION 3: Question about revenue

1. What was the total interest income earned on advances by your bank in 1997?___________

2. What was the total interest and realized capital gains income earned by your investment portfolio in 1997?_________________

3. What was the total interest paid on fixed deposits by your bank in 1997?________________

4. What was the total interest paid on saving deposits by your bank in 1997?________________

SECTION 4: Question on other aspects of banking.

1. During 1997 what was the average amount of outstanding borrowing from the Bank Negara` by your bank?________________

2. Your bank probably frequently lends to and borrows from others banks. What was the average absolute value of your net surplus or deficit at the close of a typical day in 1977?____________

3. Do you think that the present level of capitalization of Malaysian Bank is too high? Too Low? Or about right______________Why?__________

____

____

4. When building a new branch office what rate of return on your investment does your bank expect?____________________

5. What changes in Malaysian Banking practices do you see taking place in

   a) Next 2 years (by 2000):______________________________

   b) and by vision of 2020:_______________________________

6.What is the extending non-performing loans (NPL) given by your bank?

Year	Amount	% of total credit
End 1991		
End 1992		
End 1993		
End 1994		
End 1995		
End 1996		
End 1997		
Current		

7.How much bad debt the bank has during:

Year	**Total Amount**	**Business Loan**	**Consumption Loan**	**%**
End 1991				
End 1992				
End 1993				
End 1994				
End 1995				
End 1996				
End 1997				
Current				

8. What are the causes do you think of such bad debt?

a)______________________________

b)______________________________

c)______________________________

d)______________________________

What measures your bank undertake for recovery of loans?

a) In general____

b) to minimize bad debt

i)____

ii)____

9. Do you think AMC (Asset Management Corporation) can be of any help to you?
Please specify,

____

____

____

10. What steps your bank has taken to improve capital adequacy ratio? In your opinion
what should government do in this regards?

____

____

____

____

____

11.What specific measures your bank has been undertaking or proposing to minimize risks in portfolio management and to augment the profitability under the present situation?

____

____

12. What monetary policy measures do you suggest to be more appropriate for the financial/banking sector under the present situation?

THANK YOU