

Chairman's Statement



Tan Sri Dato' Thong Yaw Hong
Chairman

The expansionary fiscal and monetary policies implemented by Malaysia since 1998 have had the salutary effect of stimulating strong growth in economic activities in 2000 whilst inflation remained low. The pegging of the Ringgit to the US Dollar, besides providing stability for the currency, also helped fuel export earnings which contributed to a strong trade surplus and the build up of the country's foreign reserves.

As a result, market and financial stability prevailed in 2000 and consumer confidence continued to improve under a regime of low interest rates, low inflation and easy liquidity conditions. This translated into increased consumer spending and demand for loans. The Malaysian economy remained buoyant with the growth of Gross Domestic Product (GDP) expected to exceed 7.5% in 2000, compared to 5.4% in 1999.

Financial Performance

The Public Bank Group's positive response to the generally improved economic conditions was reflected by the impressive results of its commercial banking and finance company operations in Malaysia and Hong Kong. Public Bank, Public Finance and JCG Finance continued to expand their lending businesses which registered increases in gross loans and advances by 12.1%, 10.0% and 11.3% respectively.

The Public Bank Group's profit before tax surpassed the RM1 billion mark for the first time in the Group's history to reach RM1.26 billion. Earnings per share increased from 26.2 sen in 1999 to 30.3 sen in 2000.

Return on average equity (ROE) of the Public Bank Group stood at 17.4% while return on average assets (ROA) exceeded 2% in 2000 to reach 2.1%, compared to 1.8% in 1999. These strong return ratios were achieved on the back of the favourable risk-weighted capital ratio which continued to improve from 21.4% in 1999 to 23.7% in 2000.

Business Focus

The strong financial performance and improved returns to shareholders were the result of improved risk return management combined with a high standard of customer service and increased staff productivity.

The Bank's business strategies were focused on lending to retail customers and commercial sectors while deposit mobilisation was aimed at reducing the cost of funding. Loans and advances are therefore being directed towards residential mortgages, consumption credit and financing of small and medium sized enterprises (SMEs) whilst emphasis was placed on lower cost current accounts and savings deposits which expanded by 32.2% and 21.3% respectively in 2000. Fixed deposits contracted

marginally by 0.6%. Sustained efforts to maintain good asset quality and successful recovery measures also contributed to the strong financial performance.

Customer Focus

In the continuing pursuit for excellence and to enhance long term shareholder value, the Group strived to surpass customers' needs and expectations hence further investment of resources was devoted to the ongoing Customer Care Campaign of Public Bank and Public Finance. The focus in 2000 was to reduce customers' waiting time at the Group's 345 domestic bank and finance company branches. The installation of the customer queue management system in every branch of Public Bank and Public Finance, at considerable capital expenditure, and the continuing effort of monitoring every single branch's performance, have yielded positive results. With the allocation of significant financial resources to incentivise customer service excellence in branches and the programme to seek ISO 9001:2000 certification for Public Bank's front line counter service, the Public Bank Group has clearly demonstrated an understanding and fulfilment of customers' needs and provision of quality service.

In order to expand its customer base and promote customer loyalty, the BonusLink Reward Programme was launched on 18 August 2000. The programme offers new deposit products and a loans promotion campaign where BonusLink Reward points are awarded to customers using these new deposits or loans products; and the accumulated reward points may be used to redeem a wide variety of free goods and benefits. Public Bank's tie-up with Asia's largest multi-party customer loyalty reward programme makes the Bank the first and only commercial bank in Malaysia to launch the BonusLink Reward Programme.

Outlook and Strategic Direction

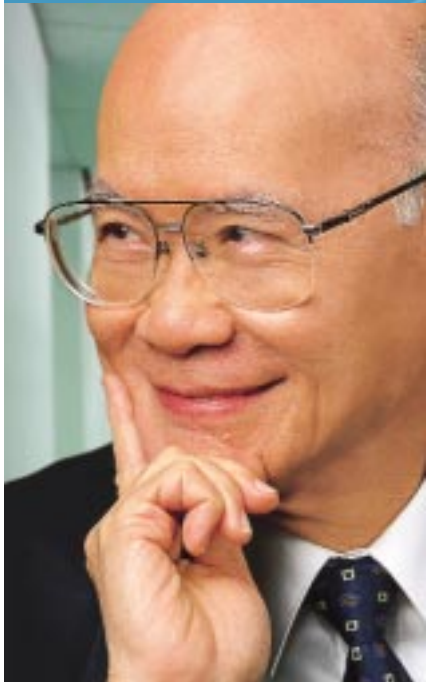
The year 2001 is expected to be another challenging year. The completion of the consolidation programme for domestic banking and financial institutions and the global economic slow down will pose problems and competitive challenges as well as provide opportunities for innovative banking services. The US economy in 2001 is expected to grow much lower than that experienced in its ten-year expansion. This slow down will adversely impact the global economy and Malaysia's export markets. Malaysia's GDP growth rate is expected to range between 5% to 7% in 2001, a lower rate of growth compared to 2000.

However, the domestic economic fundamentals are expected to remain positive given the low inflation and a high national savings rate, and a healthy current account surplus of the balance of payments, the present accommodative monetary policy, characterised by low interest rates and easy liquidity, is expected to be maintained. This is likely to boost private consumption and investments in 2001, which will filter down with positive output and income effects. The government's decision to implement another deficit budget estimated at 4.9% of GNP in 2001 will also spur economic activity and growth. The incentives and priority accorded to the information and technology sector will propel Malaysia on the road towards a knowledge-based economy from a production-based economy.

As one of the ten anchor banking groups, Public Bank is in an advanced stage of completing its merger with Hock Hua Bank. With the liberalisation of the financial services industry and competition from the merged and enlarged banking groups, and foreign controlled Malaysian financial institutions, competition in the financial services industry will further intensify.

Upon completion of Public Bank's merger with Hock Hua Bank, the enlarged Public Bank Group will see an increase in its domestic branch network to 381 branches in Malaysia from 345 branches, comprising 213 commercial bank branches and 168 finance company branches. The Public Bank Group's operations in the state of Sarawak will be significantly enhanced with Hock Hua Bank's strength in the state, where it has an established customer base in the retail consumer and commercial sectors, a niche market which is also the focus and specialisation of the Public Bank Group. In addition to synergetic advantage, there are immediate gains from economies-of-scale savings in the significant investments made in the past few years by the Public Bank Group in its Information Technology infrastructure. The process of post-merger integration has already begun. Public Bank's systems have been installed in all Hock Hua Bank's branches and, together with the training already given to the staff, these Hock Hua Bank branches are ready to operate as Public Bank branches immediately on the first day of the completed merger.

In fact, all the necessary steps have been taken to ensure that the integration of the business and staff of Hock Hua Bank into the Public Bank Group is completed as quickly as possible without disruption to normal operations and progress in the implementation of its business plans and strategies.



As part of its merger integration strategy, the enlarged Public Bank Group offers continued employment to all staff of Hock Hua Bank and Advance Finance Berhad, whose finance company business was acquired by Public Bank on 31 December 2000. With the enlarged customer base arising from the merger, and further growth in the Public Bank Group's lending business to generate increasing returns to scale and efficiency, the issue of staff retrenchment normally experienced in corporate business mergers would not arise.

In its effort to continue being an active partner in progress in Malaysia's transformation into a knowledge-based economy, the Public Bank Group has already established a dedicated E-Banking team to develop its initiatives in e-banking, including internet banking. Priority was accorded by the E-Banking team to address security, confidentiality and operational risk relating to such transactions. The Public Bank Group's plans in this direction is aimed at maintaining its competitiveness under a business environment in which increasing competition is being intensified by the leveling of the playing field, globalisation and liberalisation.

Whilst resources are channeled into growing its business, and meeting customers' service needs and expectations, the Public Bank Group remains vigilant to maintain its asset quality at

levels well above comparable industry standards. Operational procedures and processes, risk management processes and internal controls are continuously assessed and reviewed to ensure that the Public Bank Group's risk profile continues to be prudently and effectively managed.

To be sure, the Public Bank Group will consolidate its position to build on its strengths and synergies from the merger with Hock Hua Bank, Advance Finance Berhad and the acquisition of Public Merchant Bank Berhad to enter into the next phase of growth as a preferred one-stop financial institution.

Dividends

The Board of Directors is pleased to recommend the payment of a tax exempt first and final dividend of 15% for the year ended 31 December 2000, representing a total distribution of RM179.3 million or an 89.3% increase in distribution to shareholders compared to the previous year 1999.

Recognition

As a measure of the Public Bank Group's high standards, performance and achievements, Public Bank was accorded the following recognitions and awards in 2000:-

- The inaugural Kuala Lumpur Stock Exchange (KLSE) Corporate Excellence Award 2000

for the Main Board and The KLSE Corporate Sector Award 2000 for the Finance Sector. The awards recognise Public Bank's exceptional corporate conduct of self regulation, high level of corporate governance and corporate disclosure, consistent compliance with KLSE listing requirements, accounting standards, laws and regulations, and a high degree of accountability and responsibility to shareholders and investors.

- The Best Domestic Bank in Malaysia Award 2000 by Global Finance Magazine.
- Finance Asia Annual Country Achievement Award for Best Domestic Commercial Bank in Malaysia in 2000.
- Euromoney Awards for Excellence for the Best Bank in Malaysia in 1999, received in year 2000.
- The Asian Banking Awards 2000 for the Most Outstanding Customer Service Programme Category for the Public Bank Group's Customer Care Campaign.
- The National Annual Corporate Awards Industry Excellence Award for the Finance Sector for the 1999 Annual Report, received in year 2000.
- The CITRA Annual Report Award 2000 for the Private sector by Dewan Bahasa & Pustaka.

The Public Bank Group considers it an honour and privilege to receive these awards. Such recognition will indeed provide further impetus for the Board of Directors, the management and staff of the Group to strive even harder to achieve the objective of being the most efficient, profitable and socially responsible financial corporate citizen in Malaysia.

Acknowledgement

On behalf of the Board of Directors, I wish to express our sincere appreciation to the management and staff of the Public Bank Group for their continued dedication, commitment and loyalty to the Group. I also wish to express our sincere appreciation to our customers and shareholders for their continued support. Given the joint commitment of the Board of Directors, management and staff, as well as the co-operation and support of customers and shareholders, the Public Bank Group is poised to meet the new challenges in the years ahead. The Board and Senior Management also wish to thank Bank Negara Malaysia and other relevant authorities for their guidance and advice.

TAN SRI DATO' THONG YAW HONG
Chairman



Tan Sri Dato' Dr. Teh Hong Piow
President/Chief Executive Officer

President's Review of The Year 2000

Overall Business Environment

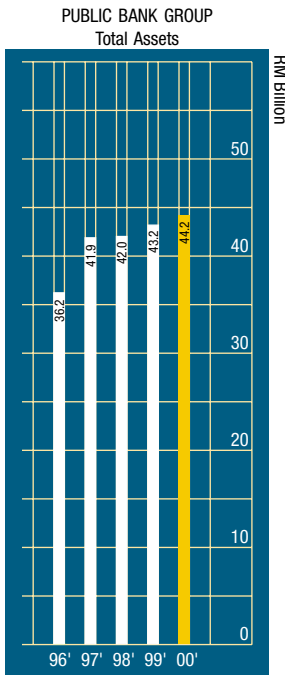
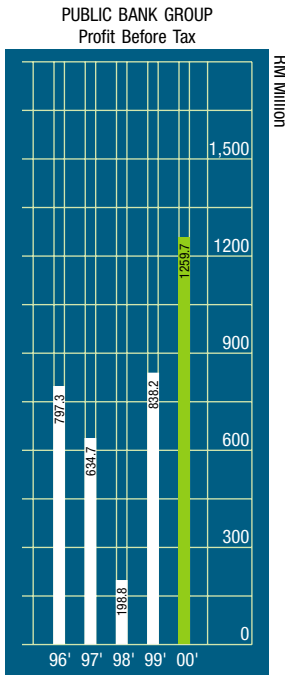
The Malaysian economy got off to a good start in the new millennium with robust quarterly Gross Domestic Product (GDP) growth rates of 11.9%, 8.5% and 7.7% for the first three quarters of the year respectively. This trend is expected to culminate in Malaysia registering an estimated GDP growth exceeding 7.5% for the year 2000. This strong economic growth was principally due to the success of the Government's expansionary fiscal and monetary policies which facilitated the country's robust performance in the manufacturing and services sectors. As a result, macroeconomic and financial stability was enhanced with inflation remaining low.

The Malaysian banking system continued to strengthen in 2000 in line with the strengthening economy and robust growth rates. The risk-weighted capital ratio of the banking system rose appreciably while the level of non-performing loans continued to recede. The revival of domestic private expenditure and private investment was translated into a pick-up in bank lending and the increased issuance of private debt securities. The on-going consolidation of the domestic banking institutions, which will create 10 large domestic banking groups by 2001, will add to the resilience of the financial sector and prepare it for future challenges in an environment of rapid globalisation, liberalisation and technological advancement.

Group Performance

I am pleased to report that the Public Bank Group performed well and achieved a record profit before taxation of RM1,260 million for 2000. This was a very significant milestone for the Public Bank Group as it achieved, and surpassed, the RM1 billion profit mark for the first time in Public Bank's 34 year history. At the same time, the Group registered a 50% increase in profitability over the previous record Group pre-tax profit of RM838 million achieved in 1999.

The strong performance was largely due to improvement in operating income as well as a reduction in loan loss provisions. Net interest income grew by RM234 million or 16% on the back of a 9% increase in the Group's gross loans and advances while loan loss provisions was reduced substantially by RM252 million compared to 1999.



At the profit after tax level, the Group posted a 17% increase in earnings to RM919 million from RM787 million despite the significantly lower effective tax rate of only 6% in 1999 when the Malaysian companies of the Group enjoyed a tax waiver year. The strong growth in pre-tax profit in 2000 has more than made up for the significantly higher tax charge compared to 1999, resulting in the Group's earnings per share improving to 30.3 sen in 2000 from 26.2 sen in the previous year.

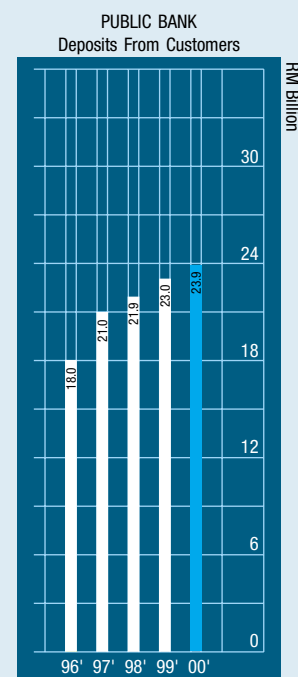
The financial position of the Public Bank Group, as measured by capital strength, continued to be one of the strongest in the industry at the end of 2000. Group shareholders' funds increased by RM574 million to RM4,417 million while Group risk-weighted capital ratio and core capital ratio stood at 23.7% and 21.8% respectively at the end of 2000, up from 21.4% and 19.7% a year ago.

The Public Bank Group recorded a decline in the amount of non-performing loans of RM59 million during the year whilst operating in an environment of strong loans growth. Net non-performing loans ratio stood at 2.1% at the end of 2000, considerably lower than the industry average and an improvement from the ratio of 2.3% a year ago. The Group's ratio of loan loss reserves to non-performing loans was a prudent 97%.

Commercial Banking Operations

Public Bank recorded a pre-tax profit of RM634 million in 2000, a 46% increase compared to the previous year after excluding the exceptional gain of RM88 million arising from the restructuring of the Group's share broking and fund management business in 1999.

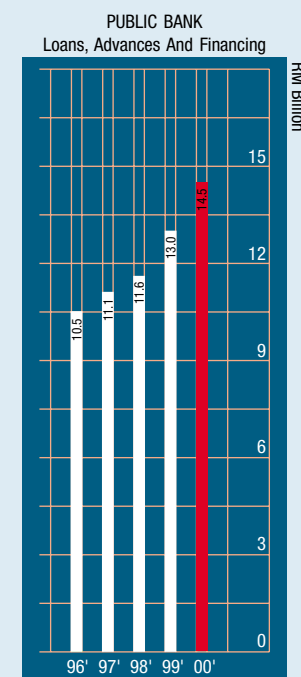
The increase in the Bank's net interest income by 15% or RM95 million was driven by growing loans volume and improving net yields. Since 1999, Public Bank had undertaken a strategic shift in the allocation of assets on its balance sheet from lower yielding interbank assets to higher yielding loan assets, particularly retail consumer and commercial lending, in order to improve the overall yield of the Bank's assets. At the same time, Public Bank was able to expand its retail deposit base towards



lower cost current accounts and savings deposits which also contributed to better interest spreads. These efforts have resulted in net interest margin on earning assets widening by 0.25% compared to the previous year.

This conscious asset and resource allocation decision has also resulted in domestic loans growth exceeding 12% for 2000, on top of the 11% expansion of domestic lending in 1999. Domestic lending activities continued to be focused on the retail commercial sector with loans to small and medium scale enterprises (SMEs) accounting for approximately 43% of total new loans approved during the year. The Bank continued to support Government priority sector lending programmes and have surpassed all the requirements of all such programmes in 2000.

The Bank's total deposits expanded by 4% in 2000. The focus on lower cost current accounts and savings deposits has resulted in such



deposits growing by 26% and 21% respectively in 2000, which more than offset the 2% decline in fixed deposits.

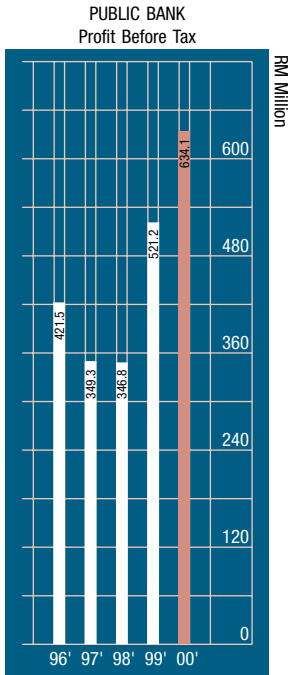
The Bank's non-performing loans fell by RM45 million during the year and the net non-performing loans ratio of 1.3% at the end of 2000 was an improvement from the 1.5% recorded the year before. The Bank's asset quality compares very favourably with the commercial banking industry's net non-performing loans ratio of 5.4% at the end of November 2000. Loan loss reserves cover for non-performing loans remained prudent, standing at 107% at the end of 2000.

Public Bank's strong risk-weighted capital ratio of 15.9% was well above the minimum requirement of 8.0%. The Bank's core capital ratio, at 15.9%, was at the same level as its risk-weighted capital ratio. The risk-weighted capital ratio remained at the same level as the end of 1999 despite the Bank injecting total new capital of RM300 million into Public Consolidated Holdings Sdn. Bhd. and Public Merchant Bank Berhad, two of the Bank's wholly owned subsidiaries.

Public Bank's past and current investment in information technology and process re-engineering continued to bear fruit. The Bank's improved cost efficiency was reflected in the decline of the cost to income ratio to 39.1% in 2000 from 41.3% in the preceding year.

Public Bank continued to be accorded Awards in 2000. The Bank was named The Best Bank in Malaysia by both Asiamoney magazine and Global Finance magazine. This recognition by





Asiamoney was for the second consecutive year. Public Bank was also recognised by the Kuala Lumpur Stock Exchange (KLSE) with the Award of the inaugural KLSE Corporate Excellence Award 2000 and the KLSE Corporate Sectoral Award 2000 in the Main Board Finance and Closed-End Fund Category. The Bank's Customer Care Campaign was given the Asian Banking Awards 2000 for the Most Outstanding Customer Service Programme. For its financial reporting, the Bank won the NACRA Industry Excellence Award – Finance Category, and the Main Award for the 2000 CITRA Award for private sector annual reports.

The Bank is rated AAI by the Rating Agency of Malaysia, primarily on the strength of its high capital ratios, asset quality, highly liquid balance sheet and prudent management.

Finance Companies' Operations

Public Finance posted a set of record results for 2000 with pre-tax profit jumping by 69% to RM332 million from RM197 million in 1999. The significantly higher profitability was mainly the result of strong gross loans growth of 10% in 2000 and higher interest margins which translated into a 21% increase in net interest income compared to 1999. In line with the Group's focus on retail banking and financial services, Public Finance's loans growth came primarily from the financing of passenger vehicles, residential mortgages and lending to SMEs.

Loan loss provisions fell by RM57 million compared to 1999 due to improved asset quality. The net non-performing loan ratio of Public Finance was 2.6% at the end of 2000, an improvement from 3.9% a year ago and well below the finance companies industry net non-performing loans ratio of 9.2% at the end of November 2000.

The risk-weighted capital ratio and the core capital ratio of Public Finance at 16.5% and 14.9% respectively remains significantly above the minimum requirement of 8%.

The Group's Hong Kong finance company subsidiary, JCG Finance Company, Limited's performance was also commendable. In the difficult market conditions prevailing in Hong

Kong in 2000, characterised by weak demand for loans and intense competition from banks and other finance companies, JCG Finance maintained its market leadership in consumer finance business and posted a 11% increase in gross loans and advances. Together with lower interest cost of customer deposits, JCG Finance recorded an increase in profit before tax of 7% to RM253 million (HKD520 million).

Winton Holdings (Bermuda) Limited (Winton), which is principally engaged in the financing and trading of taxi licences in Hong Kong, turned around with a net profit of RM3 million (HKD6 million) in 2000 compared to a loss of RM32 million (HKD65 million) in 1999. The turnaround in Winton's performance after two years of losses reflected the improved taxi financing market in Hong Kong which resulted in higher and more stable valuations for taxi licences. Although the gross loans and advances of Winton fell by RM167 million (HKD343 million) as a result of scheduled repayments and early settlement of taxi financing loans, decrease in interest cost, increase in commission and other income from taxi related operations, together with lower charges for bad and doubtful debts have helped Winton return to profitability.

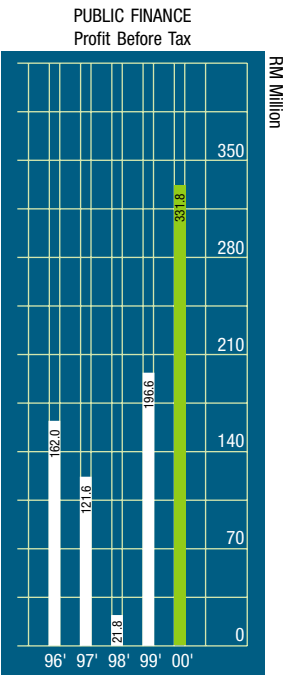
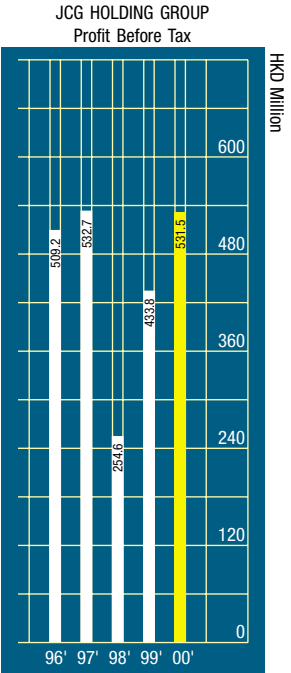
Stock Broking and Fund Management

The operating conditions for the stock broking and fund management industries in 2000 was very challenging. After a promising start in the first quarter of 2000, the KLSE experienced

thin trading volumes and generally falling share prices for the rest of the year. The KLSE Composite Index (KLCI) ended the year at 679 points, down 16.3% from the 1999 closing KLCI of 812 points.

Together with generally lower volumes and a downtrend of the KLCI, the stock broking industry had to contend with the issues of liberalisation and consolidation in 2000. The liberalisation of brokerage commission rates with effect from 1 September 2000 has resulted in a significant reduction in brokerage commission income, as brokerage commission rates, particularly for retail customers have all been reduced. Despite the difficult operating conditions, PB Securities Sdn. Bhd. recorded a profit before taxation of RM10 million in 2000 compared to RM22 million in the previous year.

The unit trust industry however benefited to some extent from the strong economic environment operating alongside a weak stock market and low interest rates as investors looked towards unit trusts for higher returns and long term capital growth. Competition was intense with the entry of new players in the market and the introduction of institutional unit trust agents, which are primarily financial institutions distributing third party unit trust funds. With its market leadership position in the private sector fund management industry, Kuala Lumpur Mutual Fund Berhad chalked up a record gross sales of RM1.83 billion in 2000 representing an increase of 53% over the gross sales in 1999. The total net asset value of funds increased 8% to RM4.1 billion at the end of 2000 compared to the end of 1999, with the peak level of net asset value



of funds managed reaching RM4.7 billion in February 2000. As a result of its strong sales and growing net asset value under management, Kuala Lumpur Mutual Fund achieved an 8% improvement in profit before tax to RM45 million.

Bank Mergers

On 26 December 2000, Public Bank announced to the Kuala Lumpur Stock Exchange that Public Bank and Hock Hua Bank had entered into a supplemental agreement to the merger agreement between the two banks which was signed on 26 June 2000, revising the merger scheme to effect the merger of Public Bank and Hock Hua Bank. The revised merger scheme will involve the acquisition of the shares of Hock Hua Bank by the issue of 3.4 new Public Bank shares by Public Bank for every 1 Hock Hua Bank share, resulting in Hock Hua Bank becoming a wholly owned subsidiary of Public Bank. The banking business of Hock Hua Bank will be transferred and merged with the banking business of Public Bank. As part of the revised merger scheme, Public Bank is also proposing a bonus issue of 3 new Public Bank shares for every 10 existing Public Bank shares held after the completion of the merger.

Public Bank anticipates to complete the proposed merger with Hock Hua Bank by the first quarter of 2001 under the terms of the revised merger scheme. The revised merger scheme has received the approval of the Minister of Finance and Bank Negara Malaysia and is pending approvals from

other relevant authorities, shareholders of Public Bank and Hock Hua Bank and the High Court of Malaya for the vesting order to effect the merger.

Public Bank and Hock Hua Bank have, throughout 2000, been working together to prepare for the operational merger of the two banks. A merger joint steering committee, comprising members of senior management staff of both Public Bank and Hock Hua Bank, had since the last quarter of 1999, been guiding the integration planning and implementation process. Public Bank's IT and operational systems will be adopted for operating the merged entity's business. In this respect, the necessary preparation and testing of the IT capabilities have been completed, and the staff of Hock Hua Bank branches have been undergoing intensive training on the Public Bank systems since mid-2000. On the first day of operations of the enlarged merged bank, the customers of Hock Hua Bank will have access to the entire network and services of the Public Bank Group and the Hock Hua Bank branches will merge seamlessly into the Public Bank network and operate fully as Public Bank branches.

The Public Bank Group also expanded into the merchant banking business with the completion of the acquisition of Sime Merchant Bankers Berhad, which is now renamed Public Merchant Bank Berhad, in October 2000. With a fresh capital injection of RM150 million and the backing of the Public Bank Group, Public Merchant Bank Berhad is well positioned to develop its presence in the domestic merchant banking industry. Public Bank's merger with

Advance Finance Berhad was completed with the transfer of the finance company's business to Public Bank on 31 December 2000.

Prospects for 2001

The Malaysian economy is expected to register a moderation in GDP growth for 2001 to between 5% and 7%. This takes into account the still favourable external environment and the expected slowdown of the US economy towards a soft landing. The domestic environment will remain conducive as the positive impact of the accommodative monetary and fiscal policies, implemented since 1998, continue to sustain a respectable rate of growth of economic activities.

2001 will continue to see keen competition in the banking industry as the ten domestic banking groups complete their mergers. Arising from the consolidation process, the domestic banking playing field will be levelled. Looking further ahead, the Public Bank Group is challenged to remain relevant in its way of doing business, as globalisation, liberalisation and customer expectations for improvement intensifies competition in the financial sector. The Group will therefore continue to develop and bring the right products and solutions to anticipate the needs of its customers.

The Public Bank Group's unwavering commitment towards achieving world class banking excellence will fortify its determined effort to meet the challenges ahead.

Acknowledgement

On behalf of the management of the Public Bank Group, I would like to thank all the staff for their commitment and effort in 2000. Our thanks also go to our shareholders and customers for their confidence and support. We would also like to express our deepest appreciation to the Governor, Deputy Governors, Assistant Governors and Senior Officers of Bank Negara Malaysia for their invaluable guidance and advice.

TAN SRI DATO' DR. TEH HONG PIOW

President/Chief Executive Officer

DOMESTIC BANKING Banking Operations

The year 2000 marked another milestone year for customer service at Public Bank as we renewed our emphasis on the Bank's customer care campaign throughout our network of branches. Within a year the Bank's effort paid off when the Bank received the coveted Asian Banking Awards 2000 for 'The Most Outstanding Customer Service Programme' on 25 May 2000.

With customers becoming more demanding and sophisticated and in order to meet such rising expectations, the Bank is continuously seeking ways to improve our customer service delivery channels and processes. This has led the Bank to pursue an ISO certification for its

Review of Public Bank's Operations

Quality Service Management System to ensure the set standards and policies are consistently met. Towards this end, the Bank's front line customer service has been certified by SIRIM and was awarded the ISO 9001 : 2000 certificate for the 'Provision of Customer Service at the Front Office' for our Kuala Lumpur City Main branch on 29 January 2001. On-going efforts are being made to extend such ISO certification to all branches in Malaysia.

The Bank launched Phase 3 of the Customer Care Campaign on 3 April 2000 with the main theme 'Doing It Right For You' and sub-tagline 'Our Service Commitment Continues'. The primary objective of the campaign was to reinforce and sustain the momentum already achieved in the previous phases of the Customer Care Campaign. As an incentive, the Bank has allocated a total reward of RM1



Mr. Chang Kat Kiam
General Manager,
Retail Banking Division

million to deserving branches providing consistently high standards in customer service.

The third phase of the campaign also saw the formation of a Customer Service Focus Group (CSFG) in every branch, to spearhead initiatives to improve customer service of the respective branch. The CSFG is empowered to formulate and implement practical solutions to address customer service issues with a sense of immediacy. Arising from this, valuable feedback and suggestions have been received from the Bank's branches, many of which were adopted for bank-wide implementation.

The Bank's Customer Care Campaign has achieved resounding success, judging from the positive responses received from customers and the overall improvement in service. This campaign has made the Bank's service

providers conscious about key dimensions of service quality such as courtesy, efficiency and accountability in excellent service delivery. The visible nature of the Bank's customer care campaign which encourages customer feedback has clearly demonstrated to both potential and existing customers, the Bank's firm commitment to provide the highest quality of service.

Products & Services

In the Bank's effort to attract new customers and promote customer loyalty, the Bank has taken a bold step to become the first and only commercial bank to participate in the BonusLink Reward Programme (BonusLink). BonusLink is the largest multi-party customer loyalty reward programme in Asia whereby its members can redeem a wide variety of attractive gifts through accumulation of points from its participating companies throughout Malaysia.

The Bank's various BonusLink reward packages launched on 18 August 2000 included two new deposit products, namely PB SaveLink Account and PB CurrentLink Account, and a BonusLink loans promotional campaign.

Under the BonusLink loans promotional programme, points are given to those who introduce or apply for a new housing/fixed loan facility with a minimum loan quantum of RM50,000. There is no maximum loan quantum to qualify for BonusLink points which means customers can collect BonusLink points up to the loan quantum.

PB SaveLink Account, a savings account which is open to all individuals, pays attractive multi-tier flat interest rates and rewards customers with BonusLink points. PB CurrentLink Account is a checking account which is open to all individuals aged 18 and above also carries BonusLink points.

Further enhancements have been made to our PB Telebanking service. Additional services introduced include fund transfer facilities from credit/debit card accounts and the 'open concept' bill payment service which allows

subscribers to pay their bills without having to pre-register their billing accounts. Selected telebanking services have also been made available to non-individual entities like partnerships and limited companies for their banking convenience. PB Telebanking service is offered free to all customers.

The Bank's extensive branch network coupled with its powerful computer and IT system, have proven to be strengths in promoting the Bank's Cash Management Services (CMS) products among companies with widely distributed operating networks and high transaction volumes. From over-the-counter and ATM-Giro services, the Bank's CMS have expanded to provide electronic credit payment, lockbox and bulk cheques issuance services. The Bank continues to provide high quality CMS to an expanding list of payee corporations which include large utilities, telecommunication, stockbroking and insurance companies.

Loan Products

The home financing market continued to be one of the major lending sectors for the Bank in year 2000. The terms for the existing 5 HOME Plan and MORE Plan housing loan packages were revised in tandem with market trends to make home ownership more affordable. Housing loans were packaged together with valuable benefits and incentives to further enhance their attractiveness.



The Menara Public Bank from a distance.

The Bank's 'Red Carpet Banking' located at the 7th Floor of Menara Public Bank.



The Shophouse, Warehouse, Industrial Factory & Trade Financing (SWIFT) Plan which was launched the previous year continued to receive very encouraging response from business enterprises. This innovative package with competitive financing rates was designed to help businesses save on interest cost.

Applicants for 5 HOME Plan, MORE Plan and SWIFT Plan and their BonusLink member-introducers also enjoyed receiving reward points under the Bank's BonusLink Reward Programme.

The Bank introduced several share financing packages in year 2000. The PB ShareLink, an electronic client ordering system which facilitates real-time sales and purchases of shares listed on the Kuala Lumpur Stock Exchange, via our subsidiary, PB Securities Sdn. Bhd., through selected Public Bank branches was launched in early 2000. The Share Margin Financing facility was introduced in July 2000 to provide financing for the purchase and investment in listed shares. It is expected that these facilities will gather momentum with stronger interest in the stock market. To further provide liquidity and avenues for personal investment and financing, the Instant Share Loan Plan was launched in September 2000. This plan provides individual customers fast financing against stocks and shares pledged.

Competition remains stiff in the domestic market for loans where banks are constantly on their toes to provide better service and to increase market share, particularly the loan refinancing market. The Bank continues to be market and customer-driven and will constantly pursue initiatives to enhance its products and services to meet the ever-rising demands and expectations of its customers.



E-Banking

As banking technology is expected to evolve towards electronic banking, the Bank has established a dedicated E-Banking team to introduce E-Banking facilities to our customers as an alternative delivery channel to complement the existing branch-based business model. It can be regarded as an inevitable form of investment as the use of the internet and related technologies grows and the demand for E-Banking increases in the new economy. Hence, the Bank plans to extend its operations to provide a comprehensive range of virtual banking products and services and other forms of e-banking facilities to cater to customers who prefer to conduct banking conveniently anytime and anywhere. These facilities are scheduled to be launched in phases throughout year 2001.

CREDIT CONTROL

The Bank remains focused in maintaining good asset quality through sound credit risk management and prudent lending culture. During the year, the Bank's internal Credit Risk Rating System was further enhanced. This provides management with an effective tool to constantly monitor the overall health of the Bank's loan portfolio and check any deterioration in asset quality. The loan quality monitoring system also prompts management to initiate pre-emptive credit control measures to prevent emergence of new non-performing loans.

The Bank managed to reduce its non-performing loans in terms of absolute amount as well as percentage to total loans during the year under review. Stringent credit control measures and prudent lending have resulted in low gross and net non-performing loans ratios of 4.1% and 1.3% at the end of 2000 compared with the banking industry's ratios of 10.6% and 5.4% respectively as at 30 November 2000.

In line with the Bank's continuous effort to further strengthen its credit operations, the Credit Control Centre and Securities Documentation Centre were set-up at Menara Public Bank to centralise loan recovery and securities documentation functions of selected branches in the Klang Valley. For greater efficiency, these centres are manned by a pool of staff who are experienced in their respective fields. Drawing from the success of the first centres for the Klang Valley which commenced operations from March 2000, the Bank is planning to set up similar centres covering other regions in 2001.

ISLAMIC BANKING

The year 2000 saw a continuation of steady growth in the Bank's performance in Islamic Banking. The Bank's Islamic deposits improved by 54.5% from RM794.2 million in 1999 to RM1,227.0 million in 2000. There was an all round increase in the number of *Al-Wadiah* savings accounts, *Al-Wadiah* current accounts as well as in *Al-Mudharabah* general investment accounts, reflecting increased customer's desire for Islamic deposits instruments.

Financing based on Islamic banking concepts recorded a growth of 54.7%. Total Islamic financing improved by RM132.1 million to RM373.6 million in 2000, largely for house financing under the *Al-Bai Bithamin Ajil* or ABBA Five Home Plans. Islamic Banking posted a higher profit before tax and *zakat* of RM16.7 million for year 2000 compared to RM12.3 million recorded in 1999. During the year 2000, consumer financing under the *Bai Al-Einah* concept was introduced. To meet the higher demands for Islamic financing, several new products are in the pipeline for launching soon.

Islamic Banking is now well received by our customers, judging from the 100% active participation by all 177 branches of the Bank. The Bank will continue to enhance the staff's skills and competencies through classroom training and courses aimed at deepening their understanding of Islamic Banking, particularly in financing concepts and methodologies.

Arising from the acquisition of the finance company business of Advance Finance Berhad, the Bank's Islamic Banking Division will expand the niche in retail consumer financing in Sarawak, developed by Advance Finance Berhad, and develop the market for such retail consumer finance products through Public Bank's network of branches nationwide.

In line with Bank Negara Malaysia's direction to further expand Islamic Banking assets, Public Bank will continue to build its Islamic deposits and financing in tandem with the growth of its conventional banking assets.

CORPORATE BANKING & TRADE FINANCE

With Malaysia's economic rebound clearly felt in the year 2000, Corporate Banking continued to sustain a steady loans growth. New credits disbursed in the form of revolving credit and term loans were channelled mainly to support medium to large scale business enterprises engaged in manufacturing, low medium cost property development, information technology, agriculture and education.

During the year under review, the Bank participated actively in the Capital Market. As a primary market player, the Bank acted in the capacity of guarantor, underwriter and tender panel member. In the secondary market, the Bank was active in the bidding of Private Debt Securities. With the strong support and emphasis placed by the Government in further



Some of the products offered to our customers.

E-banking will be available in phases in the year 2001.

En. Ismail bin Ibrahim
General Manager,
Credit Control & Islamic Banking
Division





Ms. Chan Chew Fung
Director,
Corporate Banking & Trade Finance Division

developing the Capital Market, the Bank is committed to play a proactive role in contributing towards its growth.

The improved economic well being of the country also continued to avail opportunities for successful restructuring of the Bank's corporate non-performing loans through direct negotiations with the borrowers and constructive debt restructuring via Bank Negara Malaysia's sponsored Corporate Debt Restructuring Committee. This was also evidenced by better debt recoveries recorded for the year.

Coupled by continuing tight credit control, corporate-related non-performing loans have not only stabilised but trended marginally downwards. Corporate Banking has also enhanced and upgraded its credit evaluation and loans gradation mechanism for more efficient monitoring of credit risk to be in line with the Bank's stringent credit culture.

Notwithstanding another challenging year ahead, Corporate Banking has targetted for further loans growth and would continue to book in strong quality assets which are consistent with the Bank's prudent lending policy.

The Bank's trade financing business, both foreign and local, has also increased in tandem with the improved economy. New and cost effective trade finance products and services are continuously being developed and packaged with omnibus credit lines to better meet customers' needs and to capture a bigger market share. Enhanced automation and ongoing computerised integration of the trade finance business with the overall operations of the Bank are also being undertaken to improve operational efficiency and to better serve our clients. This will assist the Bank to make a major thrust and realise the potential in expanding its trade finance business.

OVERSEAS OPERATIONS

The Public Bank Group has overseas operations in six countries with branches located in Hong Kong Special Administrative Region (SAR), Sri Lanka and Laos, subsidiaries in Hong Kong SAR and Cambodia, a joint-venture bank in Vietnam with four branches and a representative office in Myanmar.

Overseas operations contributed RM284 million or 22% to the Group's total profit before tax of RM1.3 billion for the year 2000. Total assets for Overseas Operations at the end of year 2000 stood at RM3.0 billion, an increase of 3% as compared to RM2.9 billion at the end of 1999. Deposits from customers at the end of year 2000 stood at RM887.2 million, reflecting an increase of 8.2% as compared to RM820.1 million in 1999. Total net loans and advances stood at RM2.2 billion, reflecting a slight decrease of 4.3% from 1999.

The Group's operations in Hong Kong SAR were faced with difficult economic challenges posed by a depressed property market and weak demand in loans. This resulted in a very

competitive banking sector where yields on loans were under pressure as evidenced by the intense price competition on loan products, particularly on property mortgage loans. Despite the very competitive market place, our operations in Hong Kong SAR showed satisfactory performance for the year 2000. The JCG Group, comprising JCG Finance Company, Limited (JCG Finance) and Winton Holdings (Bermuda) Limited (Winton) has recorded a profit before tax of RM258.9 million, an increase of 22.1% as compared to RM212.1 million in the previous year. The Bank's Hong Kong SAR branch also showed improvement with profit before tax of RM3.4 million for the year 2000 as compared to RM2.4 million in the previous year.

Our Sri Lanka branch recorded satisfactory profit before tax of RM2.3 million, an increase of 35.3% as compared with the profit recorded in 1999 of RM1.7 million despite the relatively slow economic recovery in Sri Lanka. Political instability and the long drawn out conflict between the separatist movement and the Sri Lankan Government have further deterred new investments into the country despite the attractive benefits accorded to foreign investors and this in turn has negatively affected the

Mr. Lai Kim Leong
General Manager,
Overseas Operations



banking industry. The Sri Lankan Government continues to be burdened by its war expenditure on its civil strife and this has put pressure on local interest rates and the Sri Lankan Rupee, the local currency.

The business environment in Laos has remained relatively unchanged throughout the year 2000. The economy continued to experience a trade deficit with a high rate of inflation as well as the depreciation of the Kip, the local currency. Foreign direct investments slowed down significantly as the countries around the region were still recovering from the aftermath of the economic crisis in 1998 with some foreign businesses scaling down or withdrawing from the country. There was also a spate of politically motivated bombings in Laos which has negatively affected the tourism industry and the promotion of the Visit Laos Year 2000. Despite the adverse economic conditions, our Vientiane branch showed better performance in terms of profitability by registering an increase of 21.4% in profit before tax of RM1.7 million in the year 2000 from RM1.4 million in 1999.

In Vietnam, competition among banks had been intense due to the continuous slowdown of foreign direct investments into Vietnam. The Vietnam Government implemented stringent foreign exchange control measures which made it more difficult for the banking industry, especially the foreign and joint-venture banks, to operate as well as affecting the flow of foreign investments into Vietnam. The State Bank of Vietnam's imposition of several restrictions on all foreign and joint-venture banks also affected their scope of operations and performance in the country. Operating under such restrained conditions, VID Public Bank recorded a slight increase in profit before tax of RM9.5 million in 2000 as compared to RM9.1 million in the previous year.

Meetings and discussions are an essential part of our working environment.



The business environment in Cambodia remained challenging as economic reforms remained sluggish due to the lingering contagion effects of the regional financial crisis. Cambodia is still highly dependent on foreign aid vital for the implementation of certain infrastructure projects and structural changes in the country. A new banking law in Cambodia which was promulgated in November 1999 was implemented in the year 2000. The requirement for the re-licensing of all banks and the introduction of higher paid-up capital had resulted in the closure of some weaker banks. This new banking law is expected to have a positive impact in the banking operations as the commercial banks are expected to be financially stronger and they have increased the public's confidence in the banking system which contributes to a more conducive environment for banks in Cambodia. Our wholly-owned subsidiary, Cambodian Public Bank Limited recorded an encouraging net profit before tax of RM13.7 million in the year 2000 or an increase of 31.7% as compared to RM10.4 million in the previous year.

Looking ahead, the Bank is mindful of the growing signs of an economic slowdown in the United States of America and the impact this will have on South-East Asian markets. Nevertheless, the Bank is confident of enhancing its position in the regional markets in which the Bank operates, by building on the foundations which the Bank had established over the years.

TREASURY

Events in the financial markets during the year provided a reminder to all who have an interest in them, whether as direct participants or dependents, that volatility is the only constant



Mr. Leong Kwok Nyem
General Manager,
Treasury & Corporate Operations

in financial markets. The local business community was sheltered from fluctuations in U.S. Dollar movements by the Ringgit's peg to the Greenback. However, they were not immune to volatility in other major currencies. In the domestic money market, the year witnessed the first rise in short term interbank interest rates since July 1998, precipitated by rising oil prices and the accompanying threat of inflation. However, yields of Ringgit long term securities fell during the year, as investors sought out these assets for their higher yields.

Sharp movements characterised nearly all major markets. Stock indices in many developed countries recorded all-time highs during the year, only to be followed by large reversals, while crude oil prices surged to decade-high levels before closing markedly lower. With markets becoming increasingly intertwined, movements in stocks and commodities, as well as major political events, produced equally dramatic gyrations in currency rates. For example, the Euro swung between USD1.03 and USD0.83 and the Japanese Yen between JPY101/USD and JPY114/USD during the year.

Fluctuations of such a large magnitude present a major risk for business entities with exposures in foreign currencies. In recent years, one of the business focus of Treasury Division has been the enhancement and marketing of our foreign exchange services to the Bank's retail and corporate customers to help them mitigate such foreign exchange risk. This has been achieved by a gradual build-up of resources in our treasury marketing unit to develop customer relationships, and also through constant review of existing and potential agency and correspondent relationships with major international banks, in order to provide customers with quality remittance and trade financing facilities. During the year 2000, we were able to increase our fee income from our foreign exchange business with customers despite slimmer margins and increased competition.

In the domestic money and capital markets, short term interest rates were raised by between 25 to 30 basis points in July 2000. Surging crude oil prices in world energy markets caused domestic petrol prices to be raised for the first time since 1990. Bank Negara Malaysia raised short term interbank and retail deposit rates to fend off potential inflationary tendencies. Nonetheless, long term interbank deposit rates were unaffected by this move as ample liquidity and the absence of long term borrowers prevented any increases. The volume of funds traded in the interbank deposit market shrank in 2000, as it did the previous year. Subdued loan growth and the ample liquidity situation in the banking system had resulted in a reduced reliance on the interbank market for funding needs. Meanwhile, trading volumes in longer term debt securities rose significantly, as banks

and investors alike sought out higher yielding assets to replace lower yielding short term assets.

Although the Bank has traditionally placed its excess funds in the interbank deposit market, it has since the previous year, recognised that the low interest rate environment and the reduced demand for interbank deposits would necessitate a shift from this policy. Consequently, in 1999 Treasury Division began to lengthen the duration of its assets through investments in longer term government securities and private debt securities. This process was continued in 2000, although the amounts of long term assets remained small in comparison to the overall size of the Bank's interbank asset portfolio.

Our activity in the Malaysian capital market was not only confined to the accumulation of assets as an end-investor, but also included a significant presence as a trader of specified securities such as Malaysian Government Securities, Treasury and Bank Negara bills, and bonds issued by Danamodal Nasional Berhad and Khazanah. The Bank continued to be an active Principal Dealer with the renewal of its Principal Dealership by Bank Negara Malaysia in 2000.

Another process in which we continued from the previous year was the refinancing of the Bank's Hong Kong Dollar liabilities. An issue of HKD1.2 billion Floating Rate Certificates of Deposit (FRCD) which were raised in 1997 matured in July 2000. After having refinanced a portion of this in 1999, the Bank issued a further HKD700 million of three year FRCD in June 2000. This subsequent issue, like the earlier issue in 1999, was well received and subscribed by a consortium of international banks.

The Bank's dealing room which is located on the 28th Floor of the Menara Public Bank.



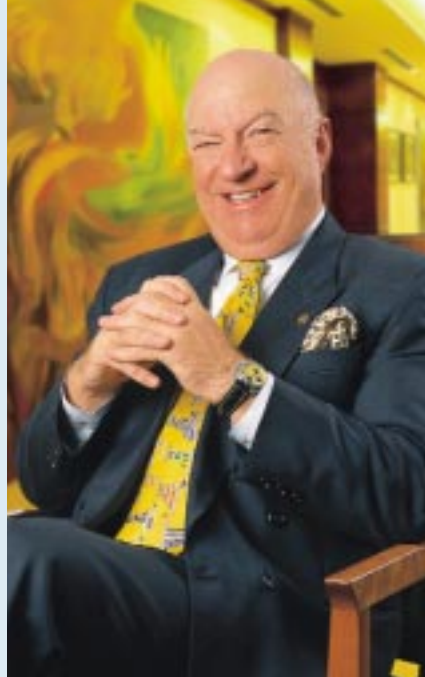
Looking ahead, Treasury Division recognises that the expected reduction in the number of domestic financial institutions in 2001 following the completion of the consolidation programme for domestic banking institutions would present further challenges for the Bank. Not only do we anticipate that competition amongst the providers of foreign exchange services to customers is likely to be keener, but the reduced number of participants in the interbank deposit market would mean that our planned shift from this market to the capital market must be undertaken at a faster pace. Despite the size of the challenge ahead of us, we are encouraged by the fact that initiatives by the relevant authorities to develop the marketplace, such as the preparation of the Malaysian Capital Market Master Plan, will provide us with the benefit of well-designed blueprints for guidance in 2001 and beyond.

INFORMATION TECHNOLOGY

With the successful transition of the Bank's computers and their associated business applications systems into the Year 2000, the Information Technology Division (ITD), was in a position to resume normal computing and systems development operations. This involved applying a number of systems enhancements required to promote the Bank's introduction of additional customer services. Such improvements included:

1. Share Margin Financing;
2. E-Commerce;
3. Mobile Phone Pre-paid Payments; and
4. BonusLink Services.

From an operational point of view, the technical teams in ITD had been preparing, and testing an upgrade of the operating systems of



Mr. Joseph A.P. Heathcote
IT Consultant

the main computer, to the latest improved versions, which offer greater levels of computer performance and efficiency.

The second half of the Year 2000 had been absorbed with planning and testing for the impending implementation of the merger of Public Bank with Hock Hua Bank Berhad and the acquisition of the finance company business of Advance Finance Berhad. These activities are primarily geared to facilitate Public Bank's transition into the merged operating environment, with the capability to immediately offer Public Bank's entire facilities to all new entities joining the Public Bank Group. These activities were to fulfill the objective of instituting a single systems environment which commences from the first day of the merger, with fully integrated customer services, management reporting and without any disruption to the on going operations of the Public Bank Group. This involved the enlargement of Public Bank's data communications infrastructure in East Malaysia and re-tuning its total communications network so that the total merged network achieves the Bank's existing high levels of availability even with the additional work load. Systems tuning and testing have also been carried out to allow

expansion of the systems to cater for the expected growth in volume of transactions of the merged operations and accommodating the additional transactions types and business to be processed after the merger. As at December 2000, Public Bank's computer systems were ready and fully tested to cope with the combined merged network of branches and new channels of business opportunity.

PB CARD SERVICES

The continued improvement of the Malaysian economy in the year 2000 had resulted in the credit business of the Bank achieving its desired results.

Overall, the credit card industry experienced strong growth as a result of positive consumer confidence. In addition to increased card issuance activities, credit card holders were more pre-disposed to transacting with credit cards again, resulting in increased retail receivables. This contributed to the Bank's credit card operations in the year 2000, achieving its best results since the inception of its card business in 1992. The strong financial performance was also the result of maintaining a balance of increasing card acquisition, sales volume and sound credit control.

The continuous downward trends in delinquency rates and specific provisions were the results of the Bank's prudent credit culture and the implementation of effective credit risk processes for proper control of receivables.

Success in achieving the objective of continuously enhancing customer service delivery was attained through the concerted efforts made to upgrade the efficiency of the credit and the debit card

operations. The constantly-monitored service indicators reflected that service standards were strictly complied to create a competitive advantage in an industry where credit and debit card products are becoming increasingly generic. This was further supported by ongoing internal staff training to ensure a higher competency level.

In January 2000, the Bank launched a high-prestige credit card product, the Visa Platinum Card, to become the first local bank in the country to offer this premium card product. This coveted Platinum Card comes with a multitude of benefits and is available by invitation only.

With the advent of new technology and in line with the Government's advocacy to transform Malaysia into a knowledge-based economy, the Bank was one of three banks to participate in the 'Business to Business' (B2B) Electronic Commerce Project in August 2000. E-Commerce is an area of business with huge potential, as Malaysia becomes more computer savvy and moves toward embracing the IT Age.

The Bank remains the only issuer of the Visa Purchasing Card in the market. Greater progress was achieved as more corporations had become better acquainted with the quantitative and qualitative benefits of this card product. The positive end-results reaffirmed the status of Visa Purchasing as an excellent alternative to the traditional and costly procurement processes and procedures.

The Bank's Visa Electron Debit Card, which was first introduced in the country by the Bank in December 1999, continued to record commendable growth, with acceptance and awareness becoming more apparent.

Ms. Chong You Lin
Director,
PB Card Services & Support



continuous commitment to provide efficient and excellent service. Public Finance's net non-performing loans ratio improved further to 2.6% which continues to be well below the finance company industry average.

The capital adequacy ratio of Public Finance remained strong with a risk-weighted capital ratio and core capital ratio of 16.5% and 14.9% respectively as at the end of 2000. The risk-weighted capital ratio of 16.5% is well above the Bank Negara Malaysia's minimum requirement of 8.0%. The high capital adequacy ratio will enable Public Finance to be resilient and allows Public Finance to seek further

Review of Subsidiaries' Operations

PUBLIC FINANCE BERHAD

Public Finance achieved another year of record profit by registering a profit before tax of RM331.8 million for the year 2000 as compared to RM196.6 million in the previous year. The operating profit of Public Finance has further strengthened to RM421.8 million in the year 2000 from RM343.8 million in 1999. Consequently, earnings per share rose to 70.3 sen from 59.5 sen in 1999. The excellent performance achieved in the year 2000 has increased Public Finance's net tangible assets to RM3.44 per share from RM2.90 per share in the previous year.

The strong performance of Public Finance was attributed to the continued prudent credit administration, strong loans growth, effective asset and liability management as well as our

opportunities to expand its lending operations in enhancing shareholders' value.

In line with the country's robust economic performance, Public Finance recorded a loans growth of 10.0% for the year. The increase is mainly attributed to the growth in Public Finance's retail-based financing, particularly the financing of passenger vehicles, residential properties and viable Small and Medium Scale Enterprises (SMEs). Public Finance will remain focused on its retail-financing for the coming year to further enhance its loan base.

Public Finance's customer deposits showed a marginal drop of 1.8% in the year 2000 which was the general trend experienced in the finance company industry. Retail-deposits continued to form a major portion of Public Finance's total customer deposits. Savings deposits increased

by 20.3% due to Public Finance's continued efforts to provide excellent and convenient service to its customers. Notwithstanding the small decline in overall customer deposits, the liquidity position of Public Finance remained strong with a loan-to-deposits ratio of 77.2%.

Public Finance will continue to remain prudent in the management of its assets and liabilities; and position itself firmly to meet the challenges in the coming year.

JCG HOLDINGS LIMITED

JCG Holdings Limited and its subsidiaries (the JCG Group) which are principally involved in consumer credits, property mortgage loans, deposits taking, taxi trading and taxi financing, recorded a strong growth in profit after tax and minority interests of 22.3% or HKD81.3 million (RM39.6 million) to HKD446.6 million (RM217.6 million) for the year 2000. As a result, the JCG Group's earnings per share rose to a record high of HKD0.63 (30.8 sen) per share from HKD0.52 (25.3 sen) per share in 1999.

The strong growth in profits of the JCG Group was mainly attributed to the continued growth in profit after tax of its wholly owned subsidiary, JCG Finance Company, Limited (JCG Finance) and the turnaround to profitability of its 75% owned subsidiary, Winton Holdings (Bermuda) Limited and its subsidiaries (the Winton Group). For the year 2000, Winton Group rebounded sharply from a loss of HKD65.6 million (RM32.1 million) in 1999 to a profit after tax and minority interests of HKD4.9 million (RM2.4 million).

The JCG Group's net interest income grew by 5.0% to HKD778.5 million (RM379.3 million) from HKD741.2 million (RM362.4 million) in 1999, as a result of a marginal increase in interest income and a reduction in interest expenses. During the year, the JCG Group's interest income

increased marginally by 2.3% to HKD945.0 million (RM460.4 million). The increase in interest income resulted from the strong growth in gross loans and advances of JCG Finance by 11.3% or HKD326.0 million (RM158.8 million). This increase was offset by the decrease in gross loans and advances of the Winton Group by 22.0% or HKD343.2 million (RM167.2 million). Interest expense declined by 8.9% to HKD166.5 million (RM81.1 million) mainly due to lower cost of customers deposits in JCG Finance, and the decrease in funding costs and decline in bank borrowings of the Winton Group.

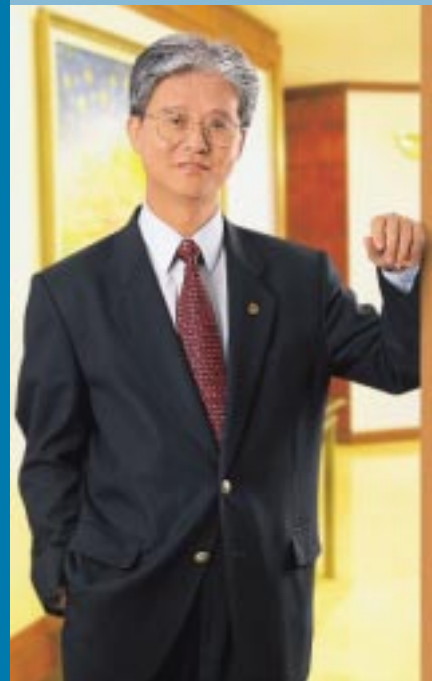
The JCG Group's other operating income increased by 10.7% to HKD216.0 million (RM105.2 million) from an increase in loans processing and related fees of JCG Finance and the increase in commission and other income from the taxi related operations of the Winton Group.

The cost management measures were successful in containing the operating expenses during the year. The JCG Group's operating expenses decreased slightly by HKD0.2 million (RM0.1 million) or 0.1% to HKD234.1 million (RM114.1 million) from HKD234.3 million (RM114.6 million) in 1999.

The JCG Group continued to adopt a prudent and conservative provisioning policy for its bad and doubtful debts. During the year, the JCG Group's net charge for bad and doubtful debts fell significantly by HKD41.4 million (RM20.2 million) or 15.5% to HKD226.3 million (RM110.3 million) mainly due to the decline in defaults of taxi financing loans of the Winton Group. The Winton Group together with the co-financing banks continued to adopt positive measures in restructuring taxi financing loans whilst market sentiment of the taxi industry continued to improve. These resulted in the decrease in repossessions of taxis under the taxi financing loans.

Mr. Paul Gan
Executive Vice President,
Public Finance Berhad

Mr. Tan Yoke Kong
Director,
JCG Holdings Limited





Mr. Yong Yoong Fa
Chief Operating Officer,
PB Securities Sdn. Bhd.

**Mr. Edmond Cheah
Swee Leng**
Chief Executive Officer,
Kuala Lumpur Mutual Fund Berhad

The aggressive advertising and promotion campaign by JCG Finance resulted in the successful growth of its gross loans and advances by 11.3% or HKD326.0 million (RM158.8 million). Although the sentiment in the taxi industry improved, taxi trading activities remained subdued. During the year 2000, the Winton Group's gross loans and advances contracted by 22.0% or HKD343.2 million (RM167.2 million). This decline was the result of bad debts written off of HKD91.0 million (RM44.3 million) coupled with scheduled repayments and early settlement of taxi financing loans.

As at 31 December 2000, the shareholders' funds of the JCG Group strengthened by HKD233.3 million (RM113.7 million) or 8.7% to HKD2,902.3 million (RM1,414.0 million) resulting from the strong earnings for the year 2000.

During the year, the JCG Group's return on equity improved to 19.1% from 16.3% in 1999; whilst return on assets improved to 9.7% from 8.0% in 1999.

PB SECURITIES SDN. BHD.

The benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) started off year 2000 on a strong note and recorded a 31-month high of 1,013 points in February 2000, with strong volume and buying activities in the local bourse. Following other regional and overseas markets, the local market was also engulfed by the global euphoria over 'new economy' and dot.com stocks. However, the market's rise was short-lived as the meltdown in technology stocks that had risen to unprecedented prices took its toll. Arising from external uncertainties as well as local concerns, the KLSE trading volume thinned out and market capitalisation fell as investors stayed sidelined and foreigners

readjusted their investment portfolios. The KLCI closed year 2000 at 679 points, a decline of 133 points or 16% compared to 812 points at the end of 1999. The KLSE turnover for 2000 was RM244.0 billion as compared to RM197.8 billion in previous year.

For the stockbroking industry, the year 2000 was characterised by dramatic changes amidst a falling market. After weathering the economic crisis of 1997, stockbroking companies now have to face the bigger challenge of industry consolidation and liberalisation. The brokerage commission rates were reduced from the ceiling of 1% to 0.75% with effect 1 September 2000 and will be fully liberalised by July 2001. The settlement period of T+5 was also reduced, in line with international standards, to T+3. In the consolidation exercise of stockbroking companies, a new category of 'universal brokers' was created. The income of stockbroking companies and remisiers were adversely affected by the reduction in brokerage rates. This was further aggravated by thin volume and weak share prices.

For the year 2000, amidst tough business conditions and reduced brokerage commission rates, PB Securities Sdn. Bhd. (PB Securities) recorded a pre-tax profit of RM10.1 million compared to RM22.4 million in 1999. The decline in profit was due to provisions made, as a result of the decline in the share prices at the end of 2000.

The shareholders' funds of PB Securities increased to RM267.0 million from RM53.8 million at the end of 1999 mainly due to the increase in paid-up capital which was increased from RM147.0 million to RM350.0 million.

In view of the keen competition and challenges ahead, PB Securities shall remain focused on improving market share, enhancing risk and operational controls, continuously explore ways (including internet applications) to improve efficiency, productivity and effectiveness, and remain committed to provide better services to its clients.

KUALA LUMPUR MUTUAL FUND BERHAD

Kuala Lumpur Mutual Fund Berhad (KL MUTUAL) continued on its strong sales performance streak of 1999 to close the year 2000 with another record gross sales performance of RM1.83 billion in total sales. This amount represented an increase of 53% over the gross sales achieved for 1999. Sales from all market segments showed all round improvement. Cash sales from individual investors, which formed the largest market segment for KL MUTUAL, registered an increase of 94% over that of the previous year. The EPF segment similarly made substantial gains alongside that of sales from the corporate segment, which made further headway gains by registering a one and a half fold increase (147%) in sales over that of 1999.

In line with the strong sales performance, the total approved size of funds under KL MUTUAL increased by 64% from 7.15 billion units in 1999, to 11.7 billion units in year 2000. During the year, KL MUTUAL secured the approval for an additional 4.25 billion units for 6 of its existing unit trust funds from the Securities Commission via the increase of their approved funds sizes. This period also witnessed the successful launch of a new fund, the Kuala Lumpur SmallCap Fund at an approved fund size of 300 million units, which were fully sold-out within 3 days.

Reflecting the brisk sales trend, the total units in circulation of the funds under the management of KL MUTUAL surged strongly from 4.9 billion units at end of 1999, to 7.0 billion units in year 2000, an increase of 43%. The total net asset value (NAV) of funds, too, increased 8% from RM3.8 billion as at end of 1999 to RM4.1 billion at the close of 2000. The more subdued increase in total NAV of funds can be attributed to the weaker KLSE performances experienced in the latter half of year 2000. The highest total NAV of funds reached during the year was RM4.7 billion attained on 21 February 2000. KL MUTUAL continued to maintain its major market share of private unit trust NAV throughout the period.

As a result of its strong sales and growing NAV under management, KL MUTUAL recorded significant improvements in key areas of its operations. Its operating revenue rose 40% from RM94.6 million in 1999, to RM132.8 million in year 2000, while the profit before tax of RM45.4 million represents an 8% improvement over that reported in 1999. In tandem, shareholders' funds rose 44% from RM71.8 million in 1999, to RM103.6 million in 2000 to facilitate further business growth of KL MUTUAL.

Although the economic outlook for 2001 may not be as robust in view of impending slowdown in the U.S. and global economies, the estimated 2001 GDP growth for Malaysia of between 5% and 7% is still commendable. Notwithstanding this, the private unit trust industry will continue to benefit from the local low interest rate environment which is likely to prevail following the reduction in the U.S. interest rate cycle. KL MUTUAL will continue to implement measures to further expand on its existing and new markets and, barring any adverse performance of the KLSE, our financial results for 2001 will be satisfactory.

review of
Subsidiaries' operations

Public Bank's 2001 Business Plan acknowledges that effective human resource management and development is one of the critical bulwarks to overcome the challenges and realise the opportunities of the post-merger scenario. A motivated and competent workforce will facilitate cohesive organisational integration and the subsequent business expansion drive in an increasingly competitive levelled playing field.

The Bank's human resource strategy for 2001 will therefore revolve around two broad approaches:

- successfully integrate the enlarged pool of human resources to achieve an effective merged entity.
- enhance the employee skill base to propel the merged bank to premier anchor institution status.

INTEGRATING THE ENLARGED POOL OF HUMAN RESOURCES

In keeping with its development-oriented tradition, the Bank has invested heavily in continuous systems and work processes training for staff of its merger partners, commencing training activities almost a year ahead of the merger. A hand-picked team of experienced Public Bank operations staff will also be stationed at the branches of our merger partners during the transition period to pave the way for a smooth integration of systems and a unified service delivery upon the merger.

Human Resource Development



The Bank's ultimate objective is to harness the skill base of the merged entity so that wider market reach and increased market share translates into a higher level of sustainable business growth in the shortest time possible.

Assimilation and development plans towards this end have been put in place:

- induction into the core beliefs and values of the organisation.
- imparting and adopting organisational best practices in the area of credit risk management, service delivery and human resource policies.
- matching the competencies of staff of merger partners with organisational needs and providing re-skilling programmes, where necessary.
- aligning the staff set-up of the enlarged branch network so that the organisation utilises its human resources at an optimum level.

ENHANCING THE EMPLOYEE SKILL BASE TO MAKE THE MERGED BANK A PREMIER ANCHOR INSTITUTION

The post-merger environment, particularly with the impending liberalisation of the financial services sector, is expected to fuel the expectations of the banking public and engender keener competition among institutions. The Bank believes that the only way to overcome these challenges is to promote productivity by constantly upgrading its skill base, through the following initiatives:

- developing a strong sales and marketing team to spearhead the organisation-wide initiative to inculcate a vibrant sales culture.



Ms. Jenny Cheng Siew Ngoh

General Manager,
Human Resource Division

- increase the professionalism of the Bank's credit personnel by enabling them to fulfill industry certification standards.
- provision of coaching and maintenance programmes to ensure strict compliance of service delivery standards of the Bank, as attested by ISO 9001 certification for the Bank's front-line customer services.
- develop the skills range of back-up personnel for contingent deployment to prevent disruption to achieving the Bank's business goals and service standards.

The Bank will increase the utilisation of e-learning tools such as intranet, multimedia and structured computer-based training as such delivery channels have proven to be cost-effective and easily accessible to all levels of staff. Continued employment of such user-friendly training intervention at the work-site will gradually create a culture in which technology-enabled learning is accepted as the norm rather than novelty.

The human resource development initiatives in 2001 will lay an important foundation for Public Bank's growth potential in the new banking environment.

Y.Bhg. Tan Sri Dato' Dr. Teh Hong Piow at one of the branch managers' seminars.

Mr. Ng Kwang Liang receiving the Staff Incentive Scheme award for Taman Sentosa branch.

The Senior Management staff sharing the moment of glory as our football team won the Governor's Cup.

The branch managers meetings and seminars with the Senior Management staff are held regularly at the Head Office.

