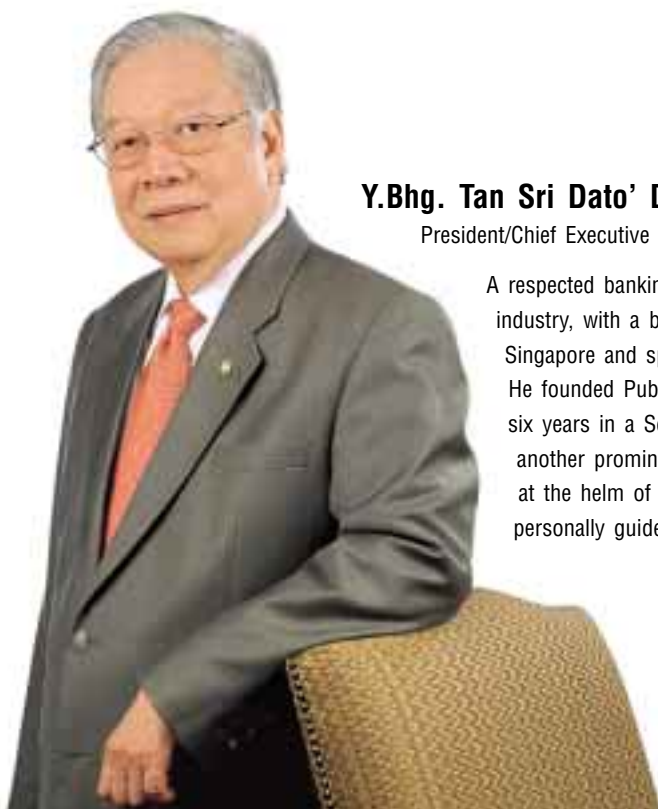


Top Management and Heads of Division



Y.Bhg. Tan Sri Dato' Dr. Teh Hong Piow

President/Chief Executive Officer

A respected banking entrepreneur in the financial industry, with a banking career which began in Singapore and spanned more than 50 years. He founded Public Bank in 1966 after spending six years in a Senior Management position in another prominent local bank. Tan Sri Teh has sat at the helm of Public Bank since its inception and personally guided its growth till today.

Y.Bhg. Datuk Tay Ah Lek

Executive Director

Holder of Masters in Business Administration degree. A veteran in the financial industry for the past 41 years. Joined the Public Bank Group in 1966 and held several portfolios over the years including the Executive Vice President position in Public Finance and Public Bank. Was appointed Executive Director of Public Bank in 1997. Sits on the Board of Directors of several companies in the Public Bank Group.



Y.Bhg. Dato' Lee Kong Lam

Executive Director

An accountant by profession. Dato' Lee was with Bank Negara Malaysia for 28 years and retired in August 1996 as the Head of Bank Negara Malaysia's Examination Department. He joined Public Bank as General Manager in November 1996 and was subsequently appointed Senior General Manager and then Executive Vice President. He was appointed Executive Director in 2001.

Strategic



Mr. Chang Kat Kiam

Senior General Manager,
Retail Banking Division

Holder of Masters in Business Administration degree. Has been with Public Bank since 1975. Experienced in all aspects of banking having managed branches and banking business portfolios in Head Office. Mr. Chang has been a Manager since 1986 and was appointed Head of Retail Banking in 1995.



Mr. Leong Kwok Nyem

Senior General Manager,
Treasury & Corporate Operations

An accountant by profession. Mr. Leong was attached to the accounting and auditing industry for eight years before joining the Public Bank Group in 1988. Attached initially to the Finance Division in Head Office, he was transferred to head JCG Finance in HK in 1990. He returned to Head Office in 1994 and has been Head of Treasury since then.



Ms. Jenny Cheng Siew Nghoh

General Manager,
Human Resource Division

Holder of Bachelor of Economics (Public Administration) degree. A HR Practitioner with more than 25 years of experience in the banking industry. She has been with Public Bank since 1976 and was appointed Head of HR Division in 1991. She is in charge of all HR matters pertaining to the Bank.



Mr. Lai Kim Leong

General Manager,
Overseas Operations

Holder of Bachelor of Economics and Masters of Business Management degree. Has been with the Public Bank Group since 1972. He was based in Hong Kong initially for 11 years overseeing the Bank's business operations. He returned to Head Office in 1996 as Head of the Bank's Overseas Operations.



Ms. Patricia Teoh Kim Seing

Senior General Manager,
Corporate Services

Holder of Bachelor of Arts (Economics) degree. Joined the Bank in 1970 as a Personnel Assistant and promoted to several positions over the years. Appointed Senior General Manager in 1985. Currently, she oversees the Human Resource Division and Legal Division of the Bank.



En. Ismail bin Ibrahim

General Manager,
Credit Control & Islamic Banking

En. Ismail holds a Diploma in Business Studies and has been working in the banking industry since 1973. For the last 29 years, he has gained wide banking experience having served in a few financial institutions. Joined Public Bank in 1992 as Director of Credit Operations. He is now the General Manager overseeing the Credit Administration & Supervision and Islamic Banking operations of the Bank.



Mr. Soong Hoe Seng

Group Chief Internal Auditor,
Internal Audit Division

An accountant by profession. He has a total of 27 years of audit experience. He was attached to an audit firm prior to joining Public Bank in 1991 as Head of Internal Audit Division.



think tank

Top Management and Heads of Division



En. A. Razak bin Md. Dali
General Manager,
Public Affairs Division

Holder of Bachelor of Mass Communications & Masters of Science (Corporate Communications) degree. He has a total of 25 years of service with the Bank, having served as a Branch Manager prior to his present appointment. He has been heading the Public Affairs Division since 1994 and is responsible for the Bank's Corporate Communications, Advertising and Sports matters.

Ms. Chia Lee Kee
Director, Secretariat Division

Holder of ICOSA degree. Has been with Public Bank since 1978. Had 12 years of experience in banking operations until she was transferred to present Division in 1990. Ms. Chia has been a Manager since 1991 and was appointed Director of Secretariat Division in 1997.



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

Holder of Bachelor of Arts (Economics) degree. Ms. Chong has been with the card industry for 11 years before joining Public Bank in 1991 as Manager, PBCS. She was promoted to Director in 1996 and appointed the Head of Division in 2000.

En. Nasaruddin bin Arshad
Group Economist,
Economics Division

Holder of Masters in Agriculture Economics degree. En. Nasaruddin was in the academic field for 17 years. The last position he held was as the Dean of School of Economics & Public Administration, UUM. He was with the Malaysia Institute of Economic Research for two years before joining the Public Bank Group in 1995. He has been the Director of Economics Division since 1995 and subsequently appointed Group Economist in 1999.



Mr. Sam Chak Ming
Director,
Banking Operations Division

Holder of AIB and DIMP. Has been with the banking/finance industry for the last 34 years. Experienced in all aspects of banking operations. Has been with the Bank since 1975. Mr. Sam was appointed Director of Branch Administration Division in 1995 and the current position in 1998.



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

Holder of Bachelor of Arts (Economics) degree. Has been with Public Bank since 1982. Specialises in corporate banking and marketing for many years. Ms. Chan has been a Manager since 1991 and was appointed Head of Corporate Banking and Trade Finance Division in 1995.

Mr. Eddie Chan Kok Kwai

Director,
Credit Administration and
Supervision Division

Holder of Bachelor of Economics degree, FSD & AIBM. Joined Public Bank in 1982 and has been heading the Credit Administration and Supervision Division since 1992. Directly supervises the recovery of NPL and credit control functions of the Bank. He was promoted as Director, CASD in 1996.

**Ms. Satwant Kaur**

Director, Legal Division

Holder of Bachelor of Law and Fellow Member of IBBM. She was a practising lawyer for several years before joining Public Bank as Manager in 1984. She was appointed the Director of Legal Division in 1996. The Division provides legal services to the Bank and subsidiary companies.

**Mr. Tan Teck Kong**

Director,
Information Technology Division

An IT Specialist with a Bachelor of Science/Mathematics degree. Mr. Tan has been attached to the IT Division for 20 years. He joined Public Bank in 1983 as a Trainee Computer Programmer. Experienced in all aspects within the IT sector in Public Bank. Mr. Tan was appointed Director in 2000 to head the IT Division.

En. Nizam bin Hj Zainal Abidin

Deputy Director,
Security Division

En. Nizam was attached to the Royal Malaysia Police for 13 years. He joined Public Bank in 1993 as Head of Security Division. Initially he held the position of Manager and was appointed Deputy Director in 2001.

**Mr. Goh Ah Bah**

Director, Property Division

Holder of Masters in Business Administration degree. Joined Public Bank as credit officer in 1974. He was appointed Director of Corporate Secretariat in 1985 and transferred to head the Property Division in 1990. He is now in charge of all property matters and purchasing function of the Bank.

**Mr. Wong Jee Seng**

Director,
Finance & Risk Management

An accountant by profession. He joined Public Bank in 1993 as a Manager in Finance Division. He was subsequently promoted as Senior Manager in 1997. Transferred to Treasury Division in 1998. Promoted as Director of Risk Management Division in 2000. He is now the Director overseeing the Finance Division and Risk Management Division.

**En. Mohd Najeeb bin Abdullah**

Deputy Director,
Islamic Banking Division

Holder of Masters in Business Administration degree. En. Najeeb was attached to a local bank for 10 years before joining Public Bank in 1983 as a Branch Manager. He was transferred to Head Office in 1995 as Senior Manager and is now the head of the Islamic Banking Division of the Bank.





EVEN WHEN YOU ACHIEVE FINANCIAL FREEDOM, YOU'LL STILL NEED WINGS TO SOAR



You have made it. There is security in your life. You belong and want to continue to rank in the top echelons. Your drive and ambition is what got you to the top in the first place. You deserve respect and recognition. Especially at Public Bank, where we're "Doing It Right For You". Our PB PREMIUM CLUB rewards your status. Our Red Carpet Banking offers priority banking services in a comfortable and elegant ambience, where you'll be served by our personal bankers with total confidentiality. Our ears are always open. We've been listening and caring since 1966.

WE LISTEN. WE CARE.



PUBLIC BANK

(6463-H)

Excellence Is Our Commitment



Audit Committee

Members

Chairman

1. **Y.Bhg. Tan Sri Dato' Thong Yaw Hong**
Chairman/Independent Non-Executive Director

Member

2. **Y.Bhg. Dato' Yeoh Chin Kee**
Member/Independent Non-Executive Director
3. **Y.A.M. Tengku Abdul Rahman Ibni Sultan
Haji Ahmad Shah Al-Mustain Billah**
Member/Independent Non-Executive Director

4. **Tuan Haji Abdul Aziz bin Omar**
Member/Independent Non-Executive Director

5. **Y.Bhg. Dato' Dr. Haji Mohamed
Ishak bin Hj. Mohd Ariff**
Member/Independent Non-Executive Director

6. **Mr. Lee Chin Guan**
Member/Independent Non-Executive Director

Secretary

7. **Mr. Soong Hoe Seng**
Group Chief Internal Auditor

Audit Committee Report

1. MEMBERSHIP AND ATTENDANCE

The Audit Committee (Committee) comprises the following members and details of attendance of each member at Committee meetings held during the year are as follows:

Composition of Committee	Number of Committee Meetings Held	Number of Committee Meetings Attended
Y.Bhg. Tan Sri Dato' Thong Yaw Hong <i>Chairman/Independent Non-Executive Director</i>	15	15
Y.Bhg. Dato' Yeoh Chin Kee <i>Member/Independent Non-Executive Director</i>	15	15
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah <i>Member/Independent Non-Executive Director</i>	15	14
Tuan Haji Abdul Aziz bin Omar <i>Member/Independent Non-Executive Director</i>	15	14
Y.Bhg. Dato' Dr. Haji Mohamed Ishak bin Hj Mohd Ariff <i>Member/Independent Non-Executive Director (Appointed on 28 November 2001)</i>	1*	1
Mr. Lee Chin Guan <i>Member/Independent Non-Executive Director (Appointed on 28 November 2001)</i>	1*	1

* Indicates the number of meetings held after the Director was appointed to the Committee.

2. COMPOSITION AND TERMS OF REFERENCE

2.1 Members

The Committee shall be appointed by the Board of Directors and shall consist of not less than three members, all of whom shall be non-executive directors. The majority of the Committee members shall be independent directors. At least one Committee member must be a member of the Malaysia Institute of Accountants (MIA) or meets the qualification and experience requirements for admission to MIA as a Chartered Accountant.

A quorum shall consists of two members and shall comprise of independent directors.

2.2 Chairman

The Chairman of the Committee shall be approved by the Board of Directors and shall be an independent non-executive director.

2.3 Secretary

The Secretary of the Committee shall be the Head of Internal Audit Division.

2.4 Meetings

Meetings shall be held not less than four times a year.

2.5 Authority

The Committee shall have the authority to request any information relevant to its activities from any employee of the Bank or the Group and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised to take such independent professional advice as it considers necessary.

2.6 Responsibilities

- a. To review and evaluate financial and accounting policies and adequacy of controls instituted.
- b. To ensure the adequacy of the scope, functions and resources of Internal Audit Division and that it has the necessary authority to carry out its work.
- c. To review with the external auditors, the scope of their audits and their reports.
- d. To make recommendations to the Board of Directors on the appointment of external auditors and their remuneration.
- e. To receive and review audit reports and deal with material observations regarding the Bank's management, records, accounting policies and controls.
- f. To consider adequacy of Management's actions taken on audit findings.
- g. To review the quarterly and annual financial statements of the Bank and Group for recommendation to the Board of Directors for approval.
- h. To review any related transactions that may arise within the Bank and Group.
- i. To consider and examine such other matters as the Committee considers appropriate.

3. SUMMARY OF ACTIVITIES

The main activities carried out by the Committee during the year were as follow:

3.1 Financial Results

- a. Reviewed the quarterly and half yearly unaudited financial results of the Bank and Group before recommending them for Board's approval.
- b. Reviewed the annual reports and the audit financial statements of the Bank and Group with the external auditors and the Director of Finance Division prior to their approval by the Board. The review was to ensure that these statements were drawn up in accordance with the provisions of the Companies Act 1965, BNM guidelines and the applicable approved accounting standards.

3.2 Internal Audit

- a. Reviewed the internal audit plan, programmes and resources requirements for the year and assessed the performance of Internal Audit Division.
- b. Reviewed the internal audit reports, which highlighted the audit issues, recommendations and management

responses. Where necessary, the Committee has directed actions to be taken by management to rectify and improve the system of internal controls and procedures.

- c. Monitored the implementation programme of the audit recommendations in order to obtain assurances that all key risks and control concerns have been fully addressed.
- d. Reviewed Internal Audit Division's methodology in assessing and rating risks of the auditable areas and ensured that audit emphasis was given on high and critical risk areas.

3.3 External Audit

- a. Reviewed the external auditors' scope of work and audit plan for the year. Prior to the audit, the Committee met with the external auditors where they presented their audit strategy and plan.
- b. Reviewed with the external auditors the results of the annual audit, the audit report and the management letter, including management's response.
- c. Evaluated the performance of external auditors and made recommendations to the Board on their appointment.
- d. Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in response of the issues raised.

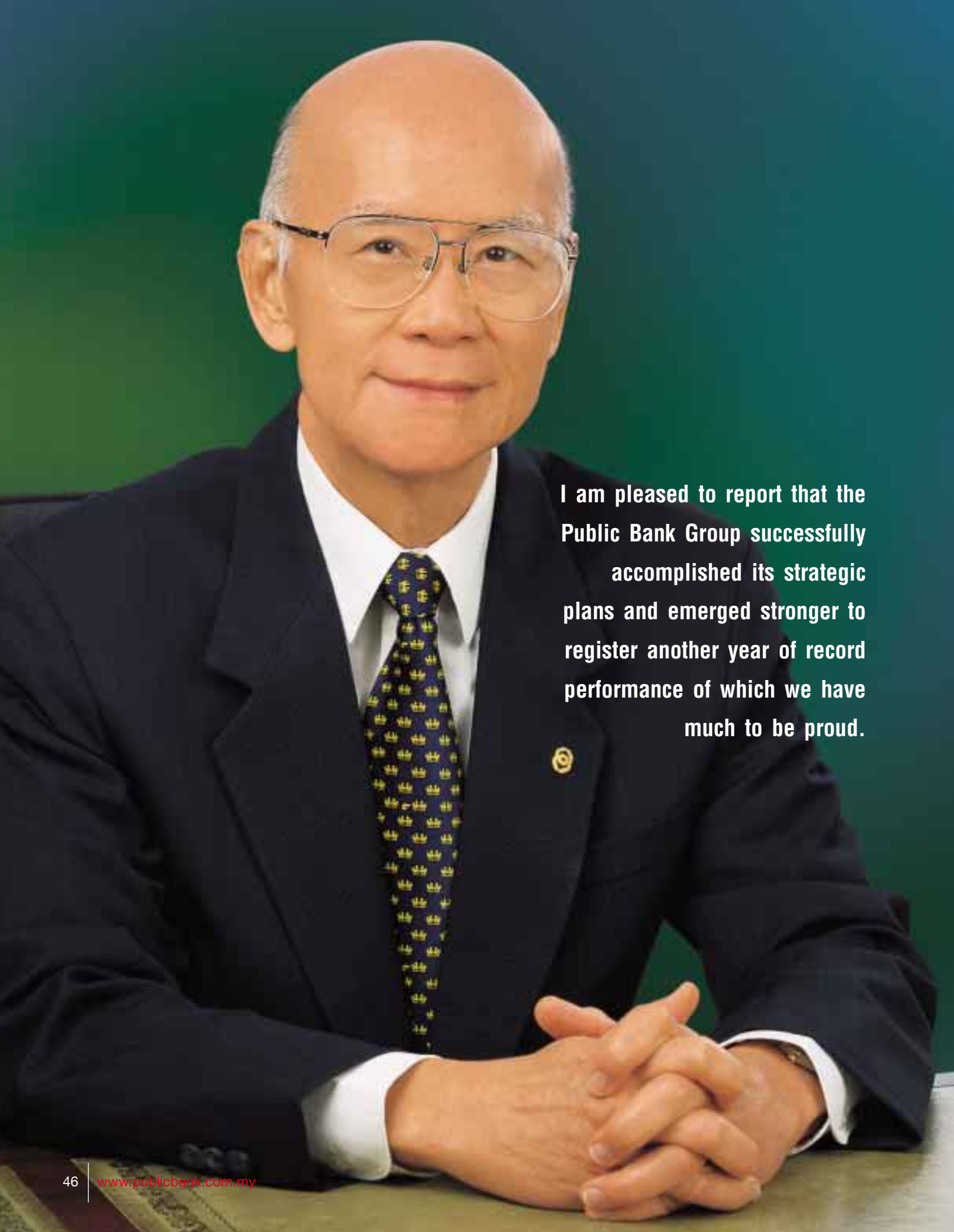
3.4 Related Party Transactions

Reviewed the related party transactions entered into by the Bank and Group.

4. Internal Audit Function

The Bank has an established Internal Audit Division which assists the Committee in the discharge of its duties and responsibilities. Its role is to undertake independent regular and systematic reviews of the systems of internal controls so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively.

The internal audits cover the review of adequacy risk management, operational controls, compliance with established procedures, guidelines and statutory requirements, quality of assets, management efficiency and level of customer services, amongst others. In addition, the Division also audits the various computer application systems and network of the Group. A risk based approach is adopted for all the audits. These audits ensure that the instituted controls are appropriate, effectively applied and achieve acceptable risk exposures consistent with the Bank's risk management policy.



I am pleased to report that the Public Bank Group successfully accomplished its strategic plans and emerged stronger to register another year of record performance of which we have much to be proud.

Chairman's statement

Tan Sri Dato' Thong Yaw Hong
Chairman

The year 2001 had been **very challenging but successful** for the Public Bank Group despite the economic slowdown and **global uncertainties** as well as the impact of the September 11 tragedy in the US.

The Malaysian economy avoided a contraction by **registering 0.4% growth in 2001**, in spite of the **adverse external conditions**. The effectiveness of the expansionary fiscal and monetary policies implemented by the Malaysian Government and Bank Negara Malaysia was evidenced by **increased domestic activity and sustained private consumption**.

The Group's overseas operations, principally in Hong Kong SAR, faced **challenges arising** from the weak **economy** and **property prices** and **intensified competition** in a shrinking lending market. The weak economy and changes in the Hong Kong SAR's bankruptcy laws led to higher provisions in Hong Kong.

As part of the domestic banking **consolidation exercise**, Public Bank **completed its acquisition** of the former Hock Hua Bank on 31 March 2001.

To Shareholders

Financial Performance

I am pleased to report that the Public Bank Group successfully accomplished its strategic plans and emerged stronger to register another year of record performance of which we have much to be proud.

The operating revenue increased by 10% to RM3.79 billion and the Group registered a profit before tax of RM1.27 billion backed by strong loan growth.

Public Bank and Public Finance achieved loans growth of 10% and 22% respectively in 2001. In line with the strategic focus of the Public Bank Group on the retail consumer and middle market commercial customers, the Group's lending for the purchase of residential properties grew by 12% whilst lending directed to consumption credit, general commerce and purchase of transport vehicles expanded by between 9% and 11%. These growth rates do not include the increase in the loan portfolio arising from the acquisition of the former Hock Hua Bank. As a result of the increased lending activity, the Group's loan to deposit ratio increased to 77%.

The Public Bank Group's pre-tax return on average equity was 23.7% backed by a 2.6% pre-tax return on average assets employed. Earnings per share remained strong at 20.3 sen on the enlarged share base.

The acquisition of the former Hock Hua Bank by the issue of Public Bank shares and the retention of earnings boosted the Public Bank Group's shareholders' funds to RM6.29 billion with the issued and paid-up capital increasing to RM1.83 billion. The core capital ratio and risk-weighted capital ratio of the Group further strengthened to 22.1% and 23.8% respectively. Given these strong ratios, the Group is well positioned to capitalise on the business opportunities that will arise as growth in the domestic economy accelerates in 2002.

In addition, the proposed 1 for 4 bonus issue, which has been approved by the Securities Commission, is to further reward shareholders for their continued trust and support, while conserving capital strength.

Shareholders of Public Bank have also enjoyed an increase in the value of their shareholdings over the year. The market price of Public Bank (Local) shares and Public Bank (Foreign) shares closed at RM2.50 and RM2.67 respectively for the year 2001. Adjusted for the bonus issue in 2001, the comparable closing prices at the end of 2000 would be RM2.26 and RM2.28 respectively, giving an appreciation of 11% and 17% respectively, compared to an increase of 2.5% in the KLSE Composite Index for the same period.

Acquisition and Integration of the Former Hock Hua Bank

In 2001, the domestic banking industry completed its consolidation exercise, which started in 2000, resulting in the creation of 10 strong domestic banking groups. The 10 core domestic banking groups have generally completed the integration process successfully.

Shareholders' Value

In responding to shareholders' expectations to share in the success of the Public Bank Group, the Board of Directors is pleased to recommend a first and final dividend of 18% for the year ended 31 December 2001, which comprises a tax exempt dividend of 9% and a non-tax exempt dividend of 9% less tax. This represents a net dividend payment ratio of 69% and the net dividend payable of 7.74 sen per RM0.50 share also represents the highest ever dividend payment to the Bank's shareholders.

Public Bank's acquisition of the former Hock Hua Bank and the merger of their commercial banking businesses were completed on 31 March 2001 without any business disruption or inconvenience to both Public Bank and the former Hock Hua Bank's customers.

Of the 49 former Hock Hua Bank branches, 42 were retained by Public Bank. The strategy adopted by Public Bank was to implement its existing Information and Communication Technology (ICT) systems in its entirety in the former Hock Hua Bank branches. With early

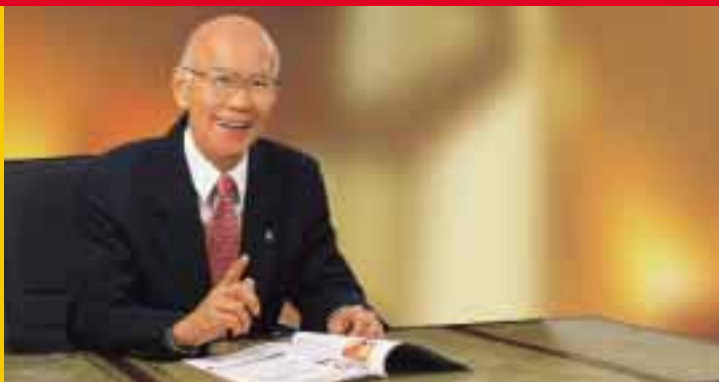
preparation and training of the staff of the former Hock Hua Bank well before the date of the legal merger, the ICT systems of Public Bank were immediately available on the first day of business operations of the enlarged entity on 1 April 2001. The former Hock Hua Bank branches were seamlessly converted into Public Bank branches now totalling 382 branches on an integrated and enlarged basis. The Group also benefits from the synergy of the enlarged network of Public Bank and Public Finance branches which are electronically linked by a common group-wide ICT system.

To complement the Public Bank Group's financial services, Public Bank acquired a loss making merchant bank (the former Sime Merchant Bank) in October 2000, as part of the banking sector consolidation process. Operating under our brand name and new management structure, Public Merchant Bank returned to profitability in 2001, its first year of operations as part of the Public Bank Group.

Strategic Business Direction

The Public Bank Group continued to build on its strengths of an outstanding financial position with stellar profit record, prudent management practices and strong market image to provide a wide spectrum of value added products and services at competitive prices to retail consumer and middle market commercial customers.

In the lending activities of the Public Bank Group, the focus continues to be on consumer banking and small and medium-size enterprises (SMEs). Residential mortgages continues to be a key business in support of the Government's drive to increase home ownership. In line with



“ In line with the strategic focus on the SME market, 45% of Public Bank's retail loans approved for business enterprises in 2001 went to the SMEs, the key players in the Government's fiscal pump priming of the domestic economy. ”

the strategic focus on the SME market, 45% of Public Bank's retail loans approved for business enterprises in 2001 went to the SMEs, the key players in the Government's fiscal pump priming of the domestic economy.

Given its wide branch network with the geographical spread to reach a wider customer base, the Group is able to serve customers under “Interserve Banking” at any of its branches, thus providing greater convenience to both Public Bank and Public Finance customers to perform their banking and financing transactions any where in the country.

The Group advanced beyond brick and mortar capabilities with the launch of PBeBank.com, the Public Bank Group's Internet banking delivery channel, which is an additional

convenience and alternative service delivery channel besides PB Telebanking. It also extends the Group's market reach to broaden its customer base. Through increasing use of such services, the customers and the Group will both benefit from reduction in transaction costs.

In anticipation of continued narrowing of interest margins in the intensely competitive lending market, the Public Bank Group has also focused its funding strategies to further mobilise lower cost retail deposits. In 2001, total customer deposits grew by 4% supported by a 6% growth in the current account deposits and 18% growth in savings deposits whilst fixed deposits grew by 1%.

The Islamic banking business helped to broaden the Group's income base through a wide range of deposits and financing products. These include Islamic deposits such as Al-Mudharabah General Investment deposits and Al-Wadiah savings deposits and financing products such as Al-Bai Bithaman Ajil (ABBA) financing for purchase of residential properties and Al-Ijarah Thamma Al-Bai (AITAB) financing for vehicle financing. In 2001, Islamic banking income chalked up an impressive 162% improvement to RM133 million whilst profit before zakat for the Islamic business of the Group increased by 161% to RM97 million.

Expansion of the Group's non-interest income base continues with proactive fund management, share broking and share financing activities. Share Investment Centres have been set up in selected Public Bank branches to provide specialised share investment financing for customers to tie up with the Group's share broking subsidiary. In fund management, Kuala Lumpur Mutual Fund continued to be a market leader in size and in the Employee Provident Fund's unit trust investment scheme, whilst it continues to introduce more new unit trust funds.

In achieving its loans growth, the Public Bank Group continued to maintain the prudence that has been its hallmark. The lending business was guided by the Group's balanced risk profile approach. The Group's low net non-performing loan (NPL) ratio of 3.8% was significantly below the banking industry's net NPL ratio of 8.1%, reflecting also the Group's strength in credit risk management.

To Customers

The Public Bank Group's pursuit of customer service delivery excellence and to surpass customers' expectations of service quality in order to retain existing customers and attract new ones, entail significant investment in human resources and infrastructure.

The on-going Customer Care Campaign was launched in mid 1999 to create a high level of awareness for service quality among staff and customers. The first phase of the Campaign entailed enlisting the customers to evaluate the standard of counter service responses to customers. In the second phase of the Campaign, customers were encouraged to forward suggestions for service improvement and provide feedback on their satisfaction level with Public Bank's products and services and quality of customer service.

To further improve customer service at the counter, a Standard Waiting Time (SWT) to service customers, based on the time from their arrival at the branch to being served at the counter was set. A total operations concept was also implemented to convert the front-line operations into a uni-teller system. In the third phase of the Campaign, Customer Service Focus Groups were formed in all branches to respond speedily to customers' needs. The electronic Queue Management System was installed at all branches to monitor compliance of the SWT. The end result of these initiatives was the setting of a challenging SWT for counter service of 2 minutes.

In ensuring the Group's service standards are consistently met throughout the entire branch network, Public Bank sought the internationally recognised ISO 9001:2000 certification for its Quality Service Management System. In October 2001, Public Bank attained the status of being the first bank in Malaysia to achieve ISO 9001:2000 certification for the "Provision of Customer Service at the Front Office" throughout its entire network of 213 branches. This placed Public Bank's customer service standards at par with recognised international standards.

To Staff

The success of the Public Bank Group is achieved by the solid contribution of a pool of committed, knowledgeable and dedicated staff who continuously strive to be the best.

In sustaining this invaluable asset, significant level of resources are allocated to equip staff with skills and knowledge to support the Public Bank Group's long term growth. The purpose built IT and Training Centre in Bangi, part of Malaysia's Multimedia Super Corridor, provides state of the art facilities for staff training. In 2001, the amount of staff training expenditure increased by 26% to RM9 million for Public Bank and by 20% to RM4 million for Public Finance.

As a further reflection of the importance placed on skills and experience of people, all ex-Hock Hua Bank's staff were offered employment by Public Bank during the merger. In addition, extensive training was provided to the ex-Hock Hua Bank's staff well before the

legal merger date both to ensure a successful integration process and to enhance the skills of the ex- Hock Hua Bank's staff to deliver the performance expected of all Public Bank Group staff. The induction of the ex-Hock Hua Bank staff to the core beliefs and values of the Group during the transition period enhanced the assimilation process. A clear demonstration of the success of integrating and assimilating the staff of the ex-Hock Hua Bank into the Group is the achievement of the ISO 9001:2000 certification by the 42 former Hock Hua Bank branches as part of the bank-wide certification process.

The Public Bank Group continues to provide a secure and conducive working environment for staff to excel and grow within the Group. This is reflected by its performance-based remuneration system and a policy of according priority to outperforming staff to fill vacancies in higher positions rather than merely through external appointment. The high percentage of the current senior management staff who are appointed from within bears testimony to this policy, with 83% and 88% for Public Bank and Public Finance respectively.

To The Community

Public Bank's Corporate Philosophy is the conscience sustaining of the Group's mindfulness for the need of the shareholders, customers, staff, and the community at large. Striving for excellence to achieve effectiveness, efficiency, productivity, and sustainable growth has yielded a remarkable profit track record for the Group. This in turn has enabled the Group to continue playing an active role as a socially responsible corporate citizen in a caring society besides being a good contributor as a tax payer.

In 2001, financial contribution and support for initiatives and efforts aimed at promoting education, academic excellence, environmental conservation, enhancing environmental beauty welfare of the needy and less fortunate were made by the Group. In this respect, the social and charitable contributions of Public Bank and Public Finance totalled approximately RM5.5 million.

Outlook and Prospects for 2002

The prospect for the Malaysian economy for 2002 has improved on the back of the recovery in the global economy, in particular the US economy. The world economy is expected to grow by 2.6% in 2002 with subdued inflation. Sentiment indicators in the US and Europe have shown marked improvement. In the Asian region particularly in Korea, Taiwan, Hong Kong SAR, Thailand and Singapore, there also have been growing signs of stability coupled with improved outlook and sentiment.

Being a trading nation, Malaysia will benefit from the global recovery arising from stronger domestic and external demands. The cumulative positive effects of the expansionary fiscal and easy monetary policies by the Malaysian Government and Bank Negara Malaysia is expected to sustain domestic economic activities. Recent developments in major economic indicators provide early signs that the economy will accelerate and achieve stronger growth in the second half of 2002. Based on these factors, Malaysia's GDP is projected to grow by at least 3.5% in 2002 supported by stronger growth in private consumption, a modest recovery in private investment, sustained public sector expenditure and a modest growth in exports.

The positive economic environment will have a favourable impact on the banking sector in terms of loan growth and improved asset quality. The financial services industry is anticipated to show better earnings and profitability.

The Financial Sector Masterplan (FSMP) launched by Bank Negara Malaysia in March 2001 highlighted the need for financial institutions to further strengthen their capability and capacity to face keener competition under a more liberal banking environment. The objectives of the FSMP are to develop a more resilient, competitive and dynamic financial system with best practices that support and contribute positively to the growth of the economy throughout the economic cycle, and has a core of strong and forward looking domestic financial institutions that are more technologically driven and ready to face the challenges of liberalisation and globalisation. The key challenges to be addressed by domestic financial institutions encompass the need to be efficient and effective to be competitive with the best international players. In order to compete in a liberalised and globalised environment there is a need to leverage on information and communication technology and significant investment in human resources equipped with the requisite skills and knowledge.

To face the challenges ahead, the Public Bank Group will continue to take measures to enhance its capability and capacity by maintaining a strong capital base and management capability. The Group will also maintain prudent management by preserving its good credit culture guided by a balanced risk-return profile and the practice of good corporate governance in order to continue the delivery of earnings outperformance.

Awards and Recognition

The strong financial performance, practice of good corporate governance of the Public Bank Group and its focus on quality customer service have been recognised by various awards conferred on Public Bank.

Public Bank is honoured and privileged to have been awarded the prestigious Kuala Lumpur Stock Exchange Corporate Excellence Awards, for the second consecutive year, for 2001.

The winner of the KLSE Corporate Excellence Awards is selected after a stringent adjudication process based on various criteria covering areas on corporate governance and corporate disclosures. Specific factors include the existence of a clear corporate vision and corporate objectives. There should be strategies in place and the existence of medium and long-term actions plan to achieve the corporate vision.

Other factors include an exemplary standard of self regulation, such as the existence of an effective and independent Audit Committee. The Board of Directors should comprise an effective combination of executive directors with intimate knowledge of the business and independent non-executive directors of high calibre and credibility with the necessary skills and experience to make independent

judgment on issues affecting the company. The company must have clear and effective control procedures to ensure management's integrity through compliance with applicable laws and regulations. There should also be a rating done on the company on a voluntary basis by a credit rating agency.

In addition, factors relating to corporate disclosure such as reports on the overall corporate governance framework of the company and the extent of compliance with best practices in corporate governance are stringently assessed.

The KLSE Corporate Excellence Awards recognise Public Bank's exemplary corporate conduct among all the KLSE public listed companies, its high standards of corporate governance and transparency and proactive investor relations activities, exemplary levels of compliance with KLSE's listing requirements, accounting standards, laws and regulations and achieving standards of corporate conduct in line with international best practices.

As a further step in the pursuit of excellence, particularly in the areas of strategic management of the Group and corporate governance, Public Bank has further strengthened its Board of Directors by the appointment of three additional directors with diversified background and experience to the Board. Presently, the Board of Directors consists of three executive directors and six independent non-executive directors, all of whom have excellent discipline and share a tradition of best practices and good corporate governance.

Public Bank also received various awards as a recognition of the financial strength and the strong positioning of the Group's business, products and services in the domestic market. Some of these awards include:

- The Asiamoney's Strongest Bank in Malaysia and Fourth Strongest Bank in Asia Awards.
- Best Domestic Commercial Bank in Malaysia by FinanceAsia.
- Bank of the Year 2001 for Malaysia by The Banker.
- 2001 Best Retail Bank for Malaysia by The Asian Banker.

Acknowledgement

On behalf of the Board of Directors, I wish to express our deepest appreciation to the management and staff of the Public Bank Group for their contribution, untiring commitment and dedication and loyalty.

I also wish to express our sincere appreciation to our customers and shareholders for their continued support.

The Board and management also wish to thank Bank Negara Malaysia and other relevant regulatory authorities for their guidance and advice.

TAN SRI DATO' THONG YAW HONG

Chairman



YOUR CHILDREN DESERVE A STRONG FOUNDATION TO BUILD THEIR TOMORROWS



What are his dreams? Who will he be when he grows up? These are questions every parent will ask of themselves. There are no definite answers. But there are ways to ensure that you have the financial capacity to help realise their dreams. At Public Bank, we're "Doing It Right For You". Talk to us today. We have an extensive range of savings and loan products, and unit trust funds to assist your financial future. Call us today. We've been listening and caring since 1966.

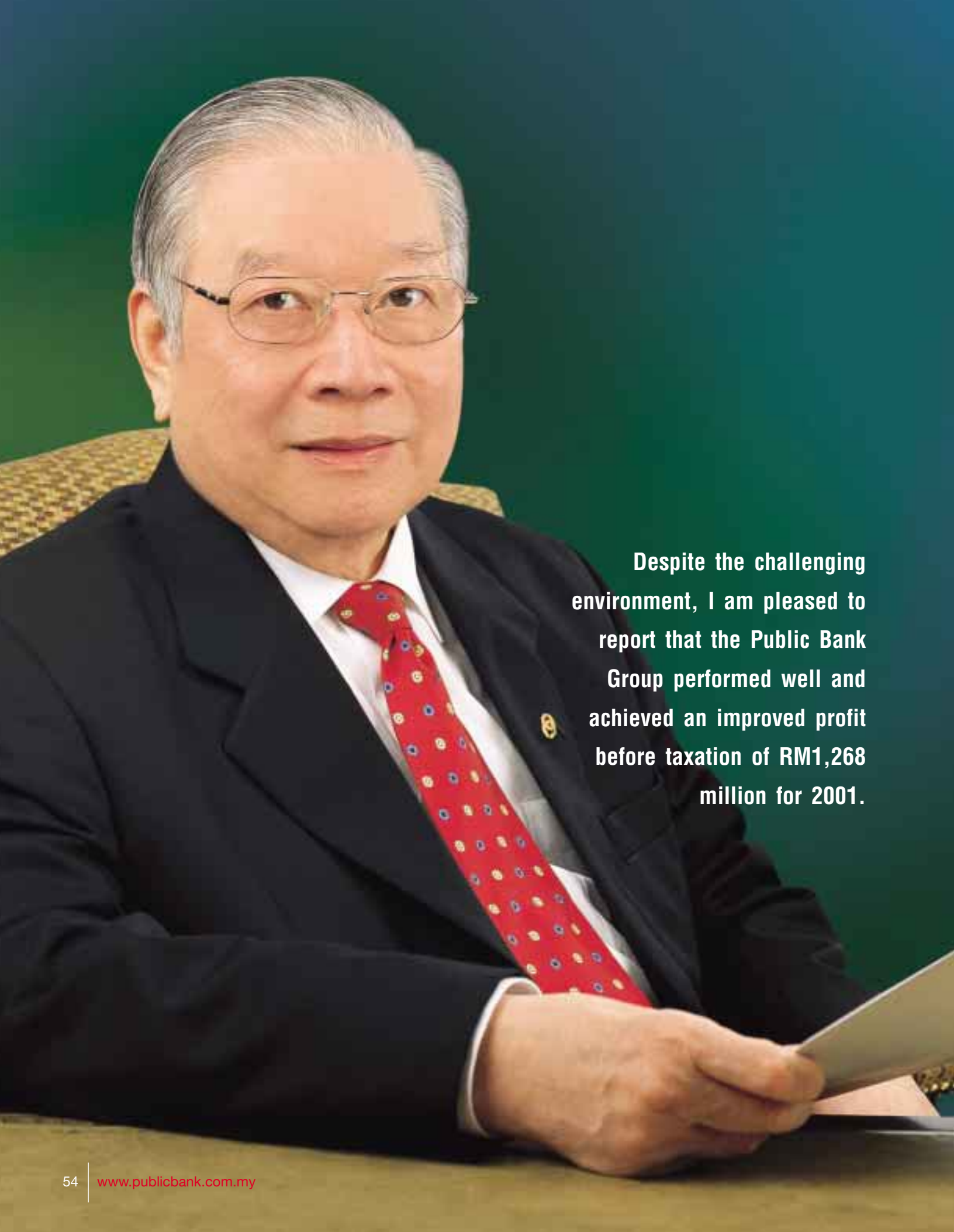
WE LISTEN. WE CARE.



PUBLIC BANK

(6463-H)

Excellence Is Our Commitment



Despite the challenging environment, I am pleased to report that the Public Bank Group performed well and achieved an improved profit before taxation of RM1,268 million for 2001.

OVERALL BUSINESS ENVIRONMENT 56

ANALYSIS OF GROUP FINANCIAL PERFORMANCE 56

■ Profitability	57
■ Lending	57
■ Treasury	58
■ Capital Management	58
■ Funding	59
■ Asset Quality	59
■ Review of Major Subsidiaries' Financial Performance	60
• Public Finance	61
• Public Merchant Bank	61
• JCG Holdings Group	62
• Kuala Lumpur Mutual Fund	62
• PB Securities	63



President's review of the year 2001

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

RATINGS 63

REVIEW OF GROUP OPERATIONS 64

■ Retail Banking and Financing Operations	64
• Consumer Credit	64
- Residential Property Financing	64
- Hire Purchase Financing	64
- Share Financing	65
- Credit Cards	66
• SME Lending	66
• Customer Deposits	67
• Cash Management Services	68
• ATMs	69

■ Customer Service	69
■ Information and Communications Technology	72
■ E-Banking	74
■ Capital Markets Operations	76
• Treasury	76
• Corporate Banking	77
• Investment Banking	78
• Fund Management	78
• Share Broking	79
■ Islamic Banking	80
■ International Operations	80

Overall **BUSINESS** Environment

The Malaysian banking system remained resilient with the average risk-weighted capital of the banking system **remaining above 12%** and the increase in the levels of non-performing loans was contained within manageable levels. Recent measures to accelerate corporate restructuring have **improved the balance sheets** of the corporate sector. By the end of 2001, all domestic banking institutions had completed their business integration exercises following the consolidation of **domestic financial institutions into 10 banking groups**. The merged domestic banking groups are now **better capitalised** and prepared for **future challenges** in an environment of rapid globalisation, liberalisation and technological advancement.



“The merged domestic banking groups are now better capitalised and prepared for future challenges in an environment of rapid globalisation, liberalisation and technological advancement.”

ANALYSIS of Group **FINANCIAL** Performance

In year 2001, the Public Bank Group continued to operate in a challenging environment as a result of a slowing economy, increasing competition from stronger merged domestic banks and a more liberal banking environment for foreign controlled domestic banks.

Group Profit Before Taxation

	2001 RM million	2000 RM million
Banking	578	558
Financing	630	597
Share broking & fund management	46	56
Others	14	49
	1,268	1,260

Profitability

Despite the challenging environment, I am pleased to report that the Public Bank Group performed well and achieved an improved profit before taxation of RM1,268 million for 2001. The commercial bank and all the major operating subsidiaries of the Group were profitable in 2001. The Group's operating revenue rose by 10% to RM3,794 million on the back of strong loan growth. Margins were maintained as a result of an increasing loan to deposit ratio and a proactive funding strategy focused on lower cost current and savings accounts, which offset a decline in lending spreads.

Banking: The banking segment comprising primarily of Public Bank, the commercial bank, performed within expectations despite the higher loan loss provisions which reflected the increase in the level of non-performing loans, in line with the rise in the banking system's level of non-performing loans. Excluding dividends received from subsidiary companies, non-interest income of Public Bank grew by 58% or RM94 million as a result of higher capital gains from the disposal of investment securities and higher fee income. Public Merchant Bank registered a net profit before taxation of RM9 million, a significant turnaround from a pre tax loss of RM18.6 million for the 18 months financial period ended 31 December 2000.

Financing: The impressive results from the financing segment was contributed primarily by Public Finance with profit before taxation of RM378 million as a result of its strong loans growth of 22% and its Islamic banking business which recorded a 180% growth in income to RM86 million, coupled with the reduction in loan loss provision. JCG Group's taxi financing activities achieved commendable results with the increase in profitability by RM35 million to RM39 million. This came from stable taxi licence prices and reduction in financing cost. This improved results were offset by the lower profitability achieved by JCG Finance due to higher provision for loan loss amidst rising personal bankruptcies in Hong Kong.

Share broking and fund management: The lower profit before taxation of PB Securities of RM7.5 million was the result of the decline in trading volumes and the reduction in brokerage commission rates since 1 September 2000. KL Mutual achieved pre-tax profits of RM38 million as compared to RM45 million a year ago. The lower profit was due to the lower sales of trust units which was offset by an increase in management fees as net asset value of unit trusts under management expanded by 22% to RM5.0 billion at the end of 2001.



At the profit after tax level, the Public Bank Group posted a 2% increase in earnings to RM937 million from RM919 million. The lower earnings per share of 20.3 sen was the result of the 426.3 million shares of Public Bank issued for the acquisition of the former Hock Hua Bank.

Lending

The Public Bank Group had undertaken a strategic shift in the allocation of assets from low yielding interbank assets to higher yielding loan assets, particularly retail consumer and commercial lending in order to improve the overall yield of the Group's assets.

This strategic shift in asset allocation has resulted in domestic loan growth of Public Bank and Public Finance exceeding 10% and 22% respectively. This growth outperformed the growth in the banking system of 4%. Domestic lending activities continued to be focused on the retail commercial sector with loans to small and medium-size enterprises accounting for approximately 45% of the total new retail loans approved by Public Bank during the year. With the strong growth in the Group's lending activities, the loan to deposit ratio of the Group increased from 72% at the end of 2000 to 77% at the end of 2001.

President's REVIEW

Treasury

Another core area of the banking activities which also recorded strong growth was the Public Bank Group's Treasury activities which contributed to the 17% growth in non-interest income. Income from the Group's Treasury operations increased by RM68 million or 79% to RM154 million. The exceptional performance was achieved through the reallocation of assets that are traditionally invested in the short-term interbank money market into capital market assets which was supported by the current low interest rate environment. This has resulted in a gradual expansion of the Group's portfolio of investment securities.

Treasury

	2001 RM million	2000 RM million
Gains from sale of investment securities	106	54
Gains from sale of dealing securities	8	-
Foreign exchange profit	40	32
	154	86

Capital Management

The financial position of the Public Bank Group, as measured by its capital strength, continued to be one of the strongest in the industry at the end of 2001. Group shareholders' funds increased by RM1,872 million to RM6,289 million while Group risk-weighted capital ratio and core capital ratio stood at 24% and 22% respectively at end of 2001. This is significantly higher than the average risk-weighted capital ratio of the banking system of 13%.

Capital Adequacy Ratios

	Group	Public Bank	Public Finance	Banking System
Core capital ratio	22%	17%	15%	11%
Risk-weighted capital ratio	24%	17%	17%	13%



Funding

As in the past, the Public Bank Group's main source of funds is retail customer deposits. Other sources of funds include shareholders' funds and borrowings from the interbank market. The Group meets its foreign currency requirements principally from borrowings. Excluding the deposits vested over from the former Hock Hua Bank, the Group's customer deposits expanded by 4% with the overall funding structure of the Group improving with the shift in deposit-mix towards lower cost demand and savings deposits which grew by 6% and 18% respectively.

Source of Funding

	2001 RM billion	2000 RM billion
Shareholders' funds	6.3	4.4
Customer deposits	39.8	33.9
Interbank liabilities	2.4	3.0
Other borrowings and other liabilities	3.4	2.7
	51.9	44.0

Customers Deposits Mix

	2001 RM billion	2000 RM billion
Demand deposits	4.7	3.8
Savings deposits	6.6	5.0
Fixed deposits	27.7	24.1
Negotiable instrument of deposits	0.5	0.6
Others	0.3	0.4
	39.8	33.9

Asset Quality

The Public Bank Group recorded an increase in the amount of non-performing loans of RM696 million. This increase was partly contributed by the non-performing loans of RM389 million vested over from the former Hock Hua Bank following the merger. The increase in non-performing loans was also due to the classification of several large corporate loans due to the expiry of the deferment of classification of borrowers undergoing debt restructuring under the guidance of the Corporate Debt Restructuring Committee. The net non-performing loan ratios of the Group and Public Bank at the end of 2001, which stood at 3.8% and 4.2% respectively, were still considerably lower than the banking system's ratio and the commercial banking industry's ratio of 8.1% and 7.4%, respectively. The Group and Public Bank's ratio of loan loss reserves to non-performing loans were a prudent 72% and 60% respectively. Together with the collateral value, the loan loss cover for non-performing loans for the Group and Public Bank increased to 119% and 120% respectively.

2001

	Group	Public Bank	Public Finance
NPL RM million	2,113	1,321	541
Net NPL Ratio	3.8%	4.2%	2.8%
Net NPL – Industry Ratio	8.1%	7.4%	8.4%



REVIEW OF MAJOR Subsidiaries' FINANCIAL PERFORMANCE



“The continued focus on stringent credit management has helped maintain asset quality resulting in a decline in net specific provision by RM27.5 million and higher bad debts recovered of RM10.4 million.”

- PUBLIC FINANCE



Public Finance

	2001	2000
	RM Million	RM Million
Income Statement		
Net interest income	536.3	555.6
Islamic banking income	86.2	30.8
Non-interest income	52.3	36.8
	674.8	623.2
Overhead expenses	(224.1)	(201.4)
Operating profit	450.7	421.8
Loan loss provision	(72.4)	(90.0)
Profit before taxation	378.3	331.8
Key Balance Sheet items		
Total assets	12,906	12,772
Loans, advances and financing	8,987	7,275
Deposits from customers	9,215	8,855
Shareholders' funds	1,393	1,136

Net interest income: The marginally lower net interest income was primarily due to the lower interest income from interbank placements and investment securities which was offset by the higher financing income, contributed by the effective switching of lower yielding investment securities to loan assets.

Islamic banking income: The impressive results was contributed by higher net income earned from the strong growth in Islamic hire purchase financing and higher gains from disposal of Islamic investment securities.

Non-interest income: The growth in non-interest income of 42% or RM16 million was due primarily to the higher gains on disposal of dealing and investment securities.

Overhead expenses: In tandem with the higher business volume, overhead expenses has also increased contributed primarily by higher personnel cost and increased establishment expenses.

Loan loss provision: The continued focus on stringent credit management has helped maintain asset quality resulting in a decline in net specific provision by RM27.5 million and higher bad debts recovered of RM10.4 million. This was offset by the increase in general provisions of RM20.3 million.

Total assets: The growth in total assets was mainly due to a growth in loans of 22% primarily from hire purchase financing which was offset by a decline in interbank lending and investment securities.

Deposits from customers: Deposits from customers continued to grow at a steady pace to support the strong loans growth of Public Finance.

PUBLIC Merchant Bank

	12 months ended 31.12.2001	18 months ended 31.12.2000
	RM Million	RM Million
Income Statement		
Net interest income	10.1	16.5
Non-interest income	3.6	19.5
	13.7	36.0
Overhead expenses	(4.4)	(9.1)
Operating profit	9.3	26.9
Loan loss provision	—	(45.5)
Profit/(Loss) before taxation	9.3	(18.6)
Key Balance Sheet items		
Total assets	1,876	449
Loans, advances and financing	135	159
Deposits from customers	116	—
Shareholders' funds	123	114

The Public Bank Group completed its acquisition of Public Merchant Bank on 25 October 2000. Prior to the date of completion, all the non-performing loans of Public Merchant Bank were disposed of to Danaharta Managers Sdn Bhd. On completion of the acquisition, Public Merchant Bank started afresh as the investment banking arm of the Public Bank Group.

Net interest income: Interest income comprised interest income from interbank placements, loan assets and money market instruments. During the year, Public Merchant Bank had reallocated its assets that were traditionally invested in the short-term interbank money market into capital market assets and derived RM5 million interest income.

Non-interest income: A large proportion of Public Merchant Bank's non-interest income came from corporate advisory fees.

JCG HOLDINGS GROUP

	2001 HKD Million	2000 HKD Million
Income Statement		
Net interest income	839.1	778.5
Non-interest income	199.8	216.0
	1,038.9	994.5
Overhead expenses	(213.5)	(234.1)
	825.4	760.4
Operating profit	(312.8)	(226.3)
Loan loss provision	(5.9)	(2.6)
Share of results of associates		
Profit before taxation	506.7	531.5
Key Balance Sheet items		
Total assets	4,815	5,052
Loans, advances and financing	3,342	3,773
Deposits from customers	1,034	1,319
Shareholders' funds	3,266	3,072

Net interest income: The increase in net interest income was due to the significantly lower interest expense arising from a sharp drop in interest rates in Hong Kong leading to a decline in the cost of bank borrowings and lower interest paid on customer deposits. There was also a reduction in bank borrowings of the JCG Holdings Group.

Non-interest income: The decline was because of the lower net profit from taxi trading and lower loan processing and related fees from lower refinancing of consumer loans.

Overhead expenses: The decline was primarily contributed by the reduction in the amortisation and write off of commission expenses following the lower number of taxi financing loans booked coupled with lower staff related expenses.

Loan loss provision: Rising personal bankruptcies in Hong Kong had resulted in the increase in loan loss provision for the personal loans portfolio of JCG Finance. This was offset by lower loan loss provision due to the lower rate of defaults in the taxi financing business.

Loans and advances: The decline in loans and advances of JCG Holdings Group was mainly contributed by the higher level of early settlement of taxi financing loans coupled with the lower growth in personal loans.

KUALA LUMPUR Mutual Fund

	2001 RM Million	2000 RM Million
Income Statement		
Revenue	107.7	132.8
Other operating income	4.9	3.9
	112.6	136.7
Overhead expenses	(74.3)	(91.2)
	38.3	45.5
Profit before taxation		
Key Balance Sheet items		
Total assets	205	173
Shareholders' funds	129	102
Net asset value of unit trust funds under management	5,009	4,109

Revenue: The lower revenue was a result of the decline in sales volume of trust units arising from the weak share prices and low trading volumes on the Kuala Lumpur Stock Exchange. This was offset by the growth in management fees arising from the increase in the net asset value of unit trust funds under management.

Overhead expenses: The lower overhead expenses were due to lower sales commission paid to agents arising from the lower sale of trust units.

PB SECURITIES

	2001 RM Million	2000 RM Million
Income Statement		
Revenue	8.6	29.6
Other income	14.5	7.3
	23.1	36.9
Overhead expenses	(15.9)	(15.3)
Operating profit	7.2	21.6
Net recovery/(loan loss provision)	0.3	(10.0)
Financing cost	—	(1.5)
Profit before taxation	7.5	10.1
Key Balance Sheet items		
Total assets	381	310
Shareholders' funds	275	267

Revenue: The lower trading volumes and weak share prices on the Kuala Lumpur Stock Exchange and lower brokerage rates arising from the liberalisation of commission rates since 1 September 2000 contributed to the decline in brokerage income.

Other income: Other income rose by RM7.2 million arising from higher interest income derived from placements with financial institutions.

Loan loss provision: No further loan loss provision was required during the year as the shortfall in the value of the collateral held have been fully provided for in the previous years.



“In 2001, Rating Agency Malaysia Berhad reaffirmed Public Bank's AA1 rating, and for the first time, accorded Public Finance a long term rating of AA1.”

RATINGS

RAM	Long Term	Short Term
Public Bank	AA1	P1
Public Finance	AA1	P1

MARC	Long Term	Short Term
Public Finance	AA-	MARC-1

In 2001, Rating Agency Malaysia Berhad (RAM) reaffirmed Public Bank's AA1 rating, and for the first time, accorded Public Finance a long term rating of AA1. This is the highest rating given by RAM to only three domestic controlled financial institutions, two of which are key members of the Public Bank Group. Malaysian Rating Corporation Berhad (MARC) reaffirmed Public Finance's long term rating of AA- in 2001. This rating is the highest given to financial institutions rated by MARC.

Standard & Poors reaffirmed its public information rating of BBBpi for Public Bank while Moody's Investors Service also reaffirmed its long term deposit ratings of Baa3 and its bank financial strength rating of C- for Public Bank in 2001. On 4 April 2002, Moody's Investors Service revised the rating outlook for Public Bank's long term deposit rating from stable to positive.

Review OF GROUP OPERATIONS



“The merger of the banking businesses of the former Hock Hua Bank and Public Bank has paved the way for the Public Bank Group to enhance its presence in East Malaysia.”

During 2001, the Public Bank Group continued with its **strategy of focusing** its resources on the expansion of its retail consumer and middle market commercial customers, particularly the small and medium-size enterprises sectors. The **merger of the banking businesses** of Public Bank and the former Hock Hua Bank has paved the way for the Group to **enhance its presence in East Malaysia**.

RETAIL Banking and FINANCING Operations

Consumer Credit

Residential Property Financing

To continue growing the Public Bank Group's consumer banking business, much emphasis has been placed on residential property financing activities, a pillar of the Group's consumer banking business. The Group expanded several of its product offerings, such as the **5 HOME Plan** and the **Mortgage Refinancing (MORE) Plan** with the goal of making it easy for customers to own homes. The Group's 5 Home Plan offer a choice of five housing loan financing solutions to suit the specific requirements of the customers. The choices for loan repayment can be Equal Monthly Instalments or Graduated Monthly Instalments. The Group's MORE Plan provide customer with additional cash resources and assist customers to save through flexibility in repayment terms and reduced interest cost. Apart from competitive terms, including

interest rates, and flexibility in facility mix, customers are able to enjoy the added features which comes in the form of pre-approved credit cards and complimentary BonusLink reward points. In addition to offering competitive products, the Group also strives to improve on its credit assessment processes and fast loan approval turnaround time in order to meet increasingly demanding customers' expectations.

The Public Bank Group continues to fully support Bank Negara Malaysia's and the government's initiatives to help low income earners to own homes. Special loan packages with margins of up to 110% are offered for the financing of low cost housing projects. During the year, the Group disbursed a total of RM997 million of financing for low cost houses. Both Public Bank and Public Finance exceeded Bank Negara Malaysia's targets in commitments for financing of properties costing less than RM100,000.



Hire Purchase Financing

The up-trend in the sale of passenger vehicles in recent years has created an attractive business opportunity for the Public Bank Group's hire purchase financing activities carried out by Public Finance. This, together with the proactive marketing strategies and competitive financing packages put in place by Public Finance has resulted in the commendable expansion of the Group's hire purchase financing activities. The hire purchase financing loan portfolio of Public Finance expanded by RM780 million or 21% in 2001. Out of RM3,672 million of hire purchase financing approved in 2001, RM992 million was contributed by Public Finance's Islamic hire purchase financing product, Al-Ijarah Thamma Al-Bai (AITAB). During the year, Public Finance secured more tie-ups with motor vehicles dealers which further enhances Public Finance's presence at the marketplace. Apart from offering a range of hire purchase products with high margin of financing, flexible tenure of financing, competitive rates and fast approval, the hire purchase product offered also comes with the added benefit of free life insurance coverage under the **HP Life Scheme**. The HP Life Scheme serves to ensure customer's outstanding hire purchase facility is taken care of in the event of death or total permanent disablement.

Share Financing

The Public Bank Group further enhanced its share margin financing facilities, **PB ShareLink**, through the introduction of the cash and collateralised trading features. These features were incorporated to provide customers with more flexibility to trade in shares using the Group's share financing facilities. Collateralised trading also provides customer with higher trading multiples based on the value of the

collateral pledged. Another added feature was the electronic routing of all share trading via the Group's wholly-owned subsidiary, PB Securities. Apart from providing convenience in performing share transactions, the interest rates offered for PB ShareLink facilities are highly competitive. These initiatives have generated results with the creditable growth in the Group's brokerage income and share margin financing portfolio.



President's REVIEW

Credit Cards

The credit and debit card business delivered impressive performance with the number of new cards issued exceeding 80,000 in 2001 which was double that of the previous year. This strong growth rate amidst intense competition from other card issuers was the result of multiple promotional programmes and aggressive marketing strategies instituted throughout the year. The Group's debit card, PR Advantage VISA Electron Card grew by an encouraging 27%. In August 2001, Public Bank launched its MasterCard credit card in addition to the existing Public Finance MasterCard to complement the Group's existing portfolio of credit cards. Although the Group received a large number of credit card applications, the card approval rate for the year was maintained at approximately 42%. This reflects the Group's policy to ensure that its asset quality is not compromised in its pursuit to grow its credit card base through a consistently stringent approval process. As at end of 2001, the credit card portfolio's gross non-performing loans ratio of 3% is lower than the credit card industry gross non-performing loans ratio of 4%. The Group remain focused on retaining its existing cardholders whilst growing its credit card numbers and has allocated over RM3 million to card members under the Group's Cash MegaBonus benefit scheme where customers will be given cash rewards for usage of their credit cards.



SME Lending

In line with the strategic business direction of the Public Bank Group, lending to small and medium-size enterprises (SMEs) accounted for the majority of the Group's lending activities with business enterprises. The Group approved a total of RM1.66 billion in new loans to SMEs in 2001. The Group was successful in targeting this market segment due to the Group's extensive branch network and competitive range of products for the SME market. Most of these new loans were channeled through the Group's two specially tailored product packages for SMEs – the **SWIFT Plan** and the **SMILAX Plan** – and Bank Negara Malaysia's loan schemes.

The SWIFT (“**S**hophouse, **W**arehouse, **I**ndustrial **F**actory and **T**rade financing”) Plan and SMILAX (“**S**mall, **M**edium **I**ndustries - **L**oan **A**ssistance for **eX**pansion”) Plan are loan packages designed to assist SMEs to own their own business premises by providing financing for the purchase of factories, shophouses and industrial land as well as the construction of factories, at very competitive interest rates. In addition, these product packages also offer working capital lines such as overdrafts, trade bills and equipment financing facilities. Total loans approved in 2001 under the SWIFT Plan amounted to RM1.30 billion while the SMILAX Plan, which was launched in April 2001, generated RM300 million worth of new loan business in 2001. These loan product packages are continuously reviewed and enhanced in response to the changing needs of the SME market and the new product offerings of our competitors.



Bank Negara Malaysia has seven loan schemes for small and medium-size enterprises which are promoted and disbursed through financial institutions - (i) the Fund for Small & Medium Industries 2 (FSMI2), (ii) the New Principal Guarantee Scheme (NPGS), (iii) the Rehabilitation Fund for Small & Medium Industries (RFSMI), (iv) the Small Entrepreneur Guarantee Scheme (SEGS), (v) the Entrepreneur Rehabilitation & Development Fund (ERDF), (vi) New Entrepreneur Fund 2 (NEF2) and (vii) the Flexi Guarantee Scheme (FGS). Both Public Bank and Public Finance have exceeded all the targets set by Bank Negara Malaysia in respect of such loan schemes.

Trade finance activities saw healthy expansion in 2001. The merger between Public Bank and the former Hock Hua Bank further widened the scope of the Group's trade finance business, particularly in Sarawak. Even though most of the new credits came from SMEs, the level of trade finance business with larger corporations and multinationals remained significant. Besides financing, Public Bank also provided training to assist customers to manage their trade finance requirements more efficiently. Public Bank is also developing centralised trade finance processing centres, which will operate as hubs to process trade finance transactions and PBeBank.com services for trade finance activities will be launched to enhance delivery capabilities.



Customer Deposits

In an environment of low interest rates, the Public Bank Group recognises the importance of the efficient mobilisation of retail deposits in order to reduce the Group's funding cost. During the year, various initiatives were put in place to attract customers to save with the Group. Most of the range of deposit products offered has special added features ranging from free life and total disability insurance coverage to the provision of complimentary products and BonusLink reward points.

The Public Bank Group's existing product, its **ACE Account**, which combines the best features of a savings and current account continues to draw customers. From the successful tie-ups with large corporations, such as TM Touch and Celcom, free handphones were also given to new ACE Account customers. All the Group's concerted efforts in attracting lower cost deposits yielded commendable results with the Group achieving a significant organic growth of 18% and 6% respectively in its savings and current account deposits. This growth is higher than the domestic banking system growth in savings and demand deposits of 8% and 3% respectively. With the inclusion of the deposit base from the merger of the banking business of the former Hock Hua Bank, the market share in demand and savings deposit of Public Bank rose to 9% and 14% from 7% and 11% respectively from a year ago. Despite the shift in funds from traditional bank deposit to other forms of investments such as investments in unit trust funds, the Group's fixed deposits continued to achieve an organic growth of 1%. This again outperformed the industry which recorded a decline of 3%.

President's REVIEW

Cash Management Services

Public Bank Group's role as an efficient intermediary between consumers and business enterprises is exemplified by its Cash Management Services. The range of Cash Management Services encompass the collection of bills and other receivables from consumers on behalf of large corporations such as utility companies, the undertaking of electronic credit payments for SMEs and large corporations with widely distributed operations such as agency networks, as well as the undertaking of bulk cheque issuance for SMEs and large corporations that issue a high volume of cheques to their dealers and suppliers.

Public Bank Group's range of Cash Management Services provides an efficient delivery channel for its customers. The Group's extensive branch network, which is well distributed throughout Malaysia, provides the reach that such customers do not have or may not wish to set up. The Group's powerful information and communication technology systems, which can handle high transaction volumes at fast processing speeds, provides an option to customers not to invest in such ICT infrastructure and instead source such capabilities from the Group. Besides over-the-counter transactions at Public Bank and Public Finance branches, Cash Management Services can be accessed by the public through electronic channels such as PB Telebanking and PBeBank.com as well as card based channels such as payments of bills through ATMs and the VISA Purchasing Card services for business enterprises.

The corporations which use the Public Bank Group's Cash Management Services benefit in many ways. These include the reduction of operational costs for manpower and processes associated with in-house collection and payment of suppliers, higher efficiency and accuracy in the processing of data as the process is automated right from the initiation of the transaction at a Public Bank Group branch or electronic channel, better security due to minimal cash handling and easier reconciliation of accounts as detailed reports are provided by the Group to the corporations on a daily or regular basis. Some major corporations that have recognised the value and benefits of the Group's Cash Management Services are Tenaga Nasional Berhad,

Telekom Malaysia Berhad, Maxis Mobile Berhad, Celcom (Malaysia) Sdn Bhd, EXXON Mobil, Measat Broadcast Network System Sdn Bhd (ASTRO), Kumpulan Wang Simpanan Pekerja, Bank Simpanan Nasional and Lembaga Hasil Dalam Negeri. Similarly, medium-size enterprises with the need for efficient nation-wide business transaction settlement flows such as insurance and direct sales companies are increasingly turning to the Group's Cash Management Services. These include American International Assurance Co Ltd (AIA), Great Eastern Life Assurance Berhad and Amway (Malaysia) Sdn Bhd.



Income from Cash Management Services grew by 132% for the Public Bank Group in 2001 mainly from fees, commissions and interest free current account deposit balances. The Cash Management Services are available to the general public who are customers of the payee corporations but not necessarily customers of the Group.

This flow of potential customers provide the Group with the opportunity to make them customers of the Group. The close association developed with the business enterprises which use the Group's Cash Management Services also provide the Group with new leads to extend other banking services and products to them and their business associates.

ATMs

The Public Bank Group's network of ATMs grew to 331 from 282 arising from the merger of the banking business with the former Hock Hua Bank. Recognising the importance of ATMs as an effective means of providing customer convenience, the Group's existing PR ATM Card was further enhanced with the **Debit e-Pos** functions. Debit e-Pos is a smart alternative to cash which allows the holder of PR ATM Card to transact at over 7,000 retail outlets. Through the convenience of a simple swipe of the PR ATM Card and the input of a PIN, the amount charged will be deducted from designated deposits account online.



“The various programmes and activities under the Public Bank Group's customer service enhancement initiatives are supported by significant investments in manpower resources, training, technological hardware upgrades and incentives, and serve as the building blocks to entrench within the Public Bank Group a culture of continuous improvement in customer service quality.”

Customer SERVICE

Since 1999, the Public Bank Group has embarked on a long term structured initiative to enhance customer service delivery. The Group's nation-wide Customer Care Campaign, with the main theme of “Doing It Right For You” is now in its fourth year. Launched on 18 September 2001, Phase 4 of the Customer Care Campaign is designed to reinforce the positive cumulative impact of the service quality improvements achieved in previous phases of the Campaign with the tagline “First in Quality Service”. The various programmes and activities under the Group's customer service enhancement initiatives are supported by significant investments in manpower resources, training, technological hardware upgrades and incentives, and serve as the building blocks to entrench within the Group a culture of continuous improvement in customer service quality.



President's REVIEW

A formalised infrastructure is necessary to objectively measure the actual service delivered against the pre-determined service benchmarks that have been set. In this respect, the Quality Service Management System has been put in place to ensure that service quality standards are consistently met by all branches throughout the country. As part of the Group's efforts to attain international best practices in banking and finance, Public Bank sought and obtained the ISO 9001:2000 Certification for "Provision of Customer Service at the Front Office" for all its 213 branches in October 2001. The certification also earned Public Bank a place in the Malaysian Book of Records as the first to achieve bank-wide ISO 9001:2000 certification in the country.

As part of the Public Bank Group's Quality Service Management System, quantitative service standards are set. One of the key service standards involve customer waiting time for counter services. The maximum customer waiting time for counter services was previously set at a maximum of 3 minutes in 2000. This was improved to 2 minutes in September 2001 when the majority of branches were able to consistently meet the 3-minute standard. Currently, a majority of branches achieve the 2-minute waiting time standard for at least 80% of the customers served at the Group's branch counters. This is a commendable performance considering that Public Bank and Public Finance serves



over two million customers at the banking counters of the Group's branches each month. Another quantitative service standard is a 1-minute processing time for basic branch counter transactions. The Group's goal is for all branches to achieve 100% compliance with the 2-minute waiting time standard and the standard counter transaction processing time of 1-minute.

Special service counters are set up and proactively managed to facilitate the achievement of the waiting time standards. These include special counters for express cheque deposit, bill payment customers, the elderly and expectant mothers and mobile counters. These are provided based on the profile of the customers. This is a cost efficient way of responding to the needs of the customers of the branch, and to minimise their waiting time.

The Public Bank Group's service delivery efforts go beyond the bank counter. At most of the Group's branches, customer service representatives stationed in the branch banking hall are available to handle non-transactional enquiries, assist customers with more complicated transactions and the opening of accounts for new customers.



Public Bank extends consumer care campaign

THE Public Bank Group yesterday launched the fourth phase of its ongoing "Customer Care Campaign" with the motto "First to Quality Service".

Public Bank group president, Tan Sri Dr. Teh Hong Poh, said the campaign was an extension of his commitment to provide quality service for his customers and that it had helped the group to improve its service.

As of July 2001, 80 per cent of the 381 branch network of Public Bank and Public Finance had consistently met the standard waiting time of three minutes, he said.

"These results are testimony that there is a keen sense of commitment towards maintaining service excellence while maintaining staff productivity," he said during the launch of the campaign in Kuala Lumpur yesterday.

The bank had introduced its first phase of the campaign in June 1996 with emphasis on customer and employee satisfaction.

He said Public Bank will strive to improve service standards by reducing waiting time in transactions.

— Bernama

QUALITY SERVICE ... Teh giving the thumbs-up during the campaign launch yesterday



The Public Bank Group also gives customers an active voice in evaluating and improving our service quality by providing customers with a simplified card for customers to indicate their satisfaction level with the service provided, based on a set of 5 service criteria. More than a million evaluation cards have been received from customers to-date and 97% of respondents rate positively the compliance with the pre-determined service quality criteria. A total of 94% of customers who completed the evaluation cards have confirmed the achievement of our standard counter transaction processing time of 1 minute.

Over RM1 million was paid and a further RM1 million has been allocated as part of an incentive package to reward the staff of top branches of Public Bank and Public Finance which met the preset qualifying criteria for high achievement of service standards in 2000 and 2001. Besides the "Branch of the Month" awards for service delivery excellence and other annual subsidiary awards for all qualifying branches, four branches each from Public Bank and Public Finance were awarded cash prizes ranging from RM10,000 to RM25,000 for their top performance in customer service excellence amongst their peer group of branches. The rewards package has been successful in promoting consistent excellent service delivery levels at branches throughout the country in addition to inculcating a strong team spirit amongst the staff.

The Customer Service Focus Group at every branch play a significant role in monitoring customer service levels at their respective branches and responding speedily to customer feed-back and needs. They also provide feed-back to the cross-functional Customer Service Working Group in Head Office. The Customer Service Working Group continuously seeks new service improvement initiatives. One such improvement which will be initiated in 2002 is to seek ISO certification for the provision of customer service in loan delivery for Public Bank whilst Public Finance plans to seek ISO certification for the provision of hire purchase direct facility in the area of loan processing and disbursement. These initiatives will further enhance the Public Bank Group's quality service delivery to its customers.



Information and Communications Technology



“Throughout 2001, the Public Bank Group maintained 100% computer systems availability which translated into uninterrupted service to our customers at the front-line as well as a high level of operational efficiency in the back office.

IN line with our commitment to service excellence, Public Bank Group's Information and Communications Technology (ICT) efforts are focused on the use of technology to deliver enhanced banking products and services to its customers. This included augmenting the present high performance ICT infrastructure with best-of-breed processors, higher capacity switches and faster network connections to serve an expanding customer base, a wider branch network and expanding electronic delivery channels. The bandwidth in the Group's fault tolerant Frame Relay backbone network which comprises a mixture of terrestrial fibre optics and microwave links were increased two-fold to keep up with demand. Data centres and network operations centres around the country were also upgraded to support Internet applications such as firewalls, intrusion detection systems, virus scanners and coupled with bandwidth managers that continually monitor security and bandwidth utilisation throughout the network. To keep the various systems running efficiently, enhancements to operating systems software were carried out to equip the main processors with powerful host-based monitoring facilities to monitor systems performance and allow potential problems to be proactively investigated and for corrective actions to be taken in a timely manner. In addition, a system recovery facility allows the production databases to be remotely mirrored in real-time at the disaster recovery site. Should it be necessary to resume operation at the disaster recovery site, the back-up systems can be invoked with minimal disruption to on-line services. As a result, the Group is positioned to continue to re-engineer its business processes and develop effective customer service delivery strategies to serve its customers better.

A major ICT undertaking in 2001 was the integration of the banking businesses of Public Bank and the former Hock Hua Bank on 31 March 2001. Forty two former Hock Hua Bank branches were converted into Public Bank branches, operating with full Public Bank services and products on the first day of the merged Bank's operations. The accounts and records of customers of the former Hock Hua Bank were also converted without any inconvenience to them. The strategy to replace the systems of the former Hock Hua Bank with the existing ICT system of Public Bank in its entirety was made possible by the capability and capacity of Public Bank's ICT systems. The preparatory work included enlarging Public Bank's data communications infrastructure in East Malaysia and re-tuning its total communications network so that the total merged network could achieve the Group's existing high levels of availability even with the overnight increase in customer base by over 20%.

Throughout 2001, the Public Bank Group maintained 100% computer systems availability which translated into uninterrupted service to our customers at the front-line as well as a high level of operational efficiency in the back office. The system availability of our ATMs recorded a similar high level of 99.9%, among the highest in the industry. The Group's ICT systems were able to support increased service standards, in particular the achievement of our waiting time standard of 2-minutes and processing time standard of 1-minute in our front-line operations.

The Public Bank Group's domestic banking and financing operations operate on a common ICT platform. This has enabled the Group to offer **InterServe Banking**, a service that allows Public Bank and Public Finance customers the convenience to carry out their banking and financing transactions at any of the 382 branches of Public Bank and Public Finance nation-wide. The wider choice available to customers in terms of where to access their banking and financing service has met with great success, as can be seen from the high, and increasing, level of InterServe Banking transactions recorded each year since its inception. The total number of InterServe Banking transactions performed in 2001 stood at 3 million, an increase of 64% over the previous year. With the single group-wide computer platform, the Group has a complete view of the customer. This is crucial to the understanding of the Group's customers' profile to help the Group to package the right products and services to meet customers' needs and in the development of the Group's Customer Relationship Management activities.

The expansion of our Cash Management Services, amongst which allows customers to make payments for a wide range of domestic bills across the Public Bank Group's branch counters, was facilitated by the Group's integrated ICT infrastructure. There is potential to generate higher revenues from this service at no extra investment cost. The Group's ICT capabilities supported the introduction of new delivery channels in 2001 which included the Group's internet banking service PBeBank.com, an interbank debit electronic point-of-sale facility, or e-pos, and the introduction of the smart card.



President's REVIEW

The Public Bank Group is ready to implement smart card technology for ATMs which replaces the magnetic stripe technology currently employed with a card incorporating a micro chip. This initiative supports both the Payment Multi-Purpose Card (PMPC) and the Government Multi-Purpose Card (GMPC) which are integral parts of one of the Multimedia Super Corridor flagship projects. In 2002, all Public Bank Group's ATMs will be converted to, or replaced by, ATMs on smart card standards. In all these initiatives, the Public Bank Group continues to place emphasis on robust security control to protect customer confidentiality and the integrity of transactions.

As Customer Relationship Management becomes increasingly essential as a means to seek new opportunities to improve profitability and gain cost advantage over competitors, another area of focus for 2002 will be to develop techniques through the use of Customer Relationship Management analytics to predict customer needs and behaviour. In addition to this, the Public Bank Group is expanding the infrastructure for various financial applications to deliver additional product offerings and to improve the service level further. This includes the application of imaging technologies to the Trade Finance System to enhance the suite of products for trade finance. An enhanced Loans Origination System is being deployed that will significantly improve loan turnaround time. Work is also underway to improve the existing Treasury systems to achieve straight-through-processing to enhance operational efficiency.

PBeBank.com e-Banking

The Public Bank Group's vision of channel convergence and banking solutions anywhere, anytime took a further step forward during the year with **PBeBank.com**. This new delivery channel marks the Group's entry into business-to-consumer e-commerce. PBeBank.com provide customers with the ease, convenience and speed of conducting banking and financing transactions using the Internet. PBeBank.com is the first fully integrated group based delivery channel that permits access to both Public Bank and Public Finance databases, facilitated by a group-wide ICT infrastructure.

Using an Internet-enable computer, a comprehensive array of e-banking solutions can be accessed online from anywhere around the globe. The development of PBeBank.com provides the Group with the capability to market its range of products and services as well as to fulfill the financial needs of customers in the knowledge-economy.

The collection services provided by PBeBank.com complements the Public Bank Group's Cash Management Services currently provided over the counter. With PBeBank.com, payment can be performed through the Internet. From the tie-ups with major telecommunication companies, customers are now able to reload handphone prepaid card online not only from the 331 available ATMs but also via PBeBank.com.



transaction previously performed over the counter.



The Public Bank Group is in the process of implementing five new Interactive Voice Response Systems for its ***PB Telebanking*** service in five more states, namely Perak, Pulau Pinang, Melaka, Sabah and Sarawak. This will provide greater mobility in accessing our wide range of telebanking services and encourage higher usage of PB Telebanking, which would lead to an overall improvement in branch work flow and processes and ultimately improve cost efficiency.

The Public Bank Group will continue to deliver e-solutions for its retail customers who are web-enabling their businesses and to use web technology to enhance customer interaction and service.

Annual Report 2001 75



“With the Malaysian capital market assuming an increasingly important role in the financial services sector, the Public Bank Group has put in place the infrastructure to enhance synergistic benefits among the Public Bank Group’s service providers in the capital market.”

CAPITAL MARKETS Operations

The Public Bank Group’s capital market activities are primarily focused on the mobilisation of the excess funds from the Group’s deposit taking activities. Through its corporate banking activities and Public Merchant Bank, the Group serves the funding requirements of its large and medium-sized customers and meet their needs for financial advisory solutions. With the Malaysian capital market assuming an increasingly important role in the financial services sector, the Group has put in place the infrastructure to enhance synergistic benefits among the Group’s service providers in the capital market.

Treasury

Public Bank Group’s Treasury activities are primarily focused on two main areas. The first is the management of the Group’s short-term liquidity and wholesale funding requirements and the generation of trading income. The second is to meet the treasury related services requirements of the Group’s customers in areas such as foreign exchange, investment in bonds and other capital market instruments and customers’ hedging of their market risks.

In the current environment of low interest rates and easy liquidity conditions in the domestic economy, the Public Bank Group continued with its policy to allocate a portion of the assets which are traditionally invested in the short-term interbank money market to the capital market, resulting in a gradual growth of the Group's portfolio of investment securities. As at 31 December 2001, the Group's holdings of money market instruments and private debt securities amounted to RM5,654 million, an increase of RM212 million from a year ago. Profits realised from the sale of investment and dealing securities in 2001 was RM114 million compared to RM54 million in 2000.

In line with the Public Bank Group's low appetite for market risk, the reallocation of the Group's treasury assets was skewed towards the shorter-end of the yield curve to ensure that the associated market risks of the portfolio fell within the Group's risk tolerance limits. As at 31 December 2001, the Group's portfolio of investment securities included RM3,451 million of liquefiable money market instruments, 96% of which mature within three years. Furthermore, RM567 million of the total of RM1,712 million invested in private debt securities were hedged through the use of interest rate swaps, thereby further reducing the level of interest rate risk of such longer dated assets.

Another core Treasury activity was the provision of foreign exchange services to the Public Bank Group's retail and corporate customers. In recent years, the Group has allocated considerable resources in building up the Group's treasury marketing functions aimed at providing the Group with a strong platform to progress in an extremely competitive banking environment. The Group's profit from foreign exchange transactions increased by 25% to RM40 million from RM32 million a year ago.

In 2001, Public Bank's participation in the domestic capital market included fulfilling its responsibilities and obligations as a Principal Dealer appointed by Bank Negara Malaysia. As a Principal Dealer, Public Bank is required to provide market liquidity for specified securities, and act as a conduit for Bank Negara Malaysia to conduct its money market operations. Public Bank has been re-appointed as a Principal Dealer by Bank Negara Malaysia.

Corporate Banking

The Public Bank Group's corporate banking activities are aligned to the Group's direction of providing full service banking to capture an increasing share of the consumer and retail market, facilitated by the existing network of 382 Public Bank and Public Finance branches.

The Group's corporate banking activities are geared to meet the increasingly diverse financing requirements of the Group's corporate customers. Such activities include providing short and long-term financing to large corporates and also to assist them with capital market fund raising activities involving commercial paper, corporate bond issues and other debt instruments.

The growing preference for private debt securities as an alternative source of funding by corporates has open new avenues for the Public Bank Group's corporate banking activities. The Group has benefited through active participation in the private debt securities market at both the primary and secondary market level. As a player in both markets, Public Bank acted in the capacity of a guarantor, underwriter and tender panel member and was also active in bidding and trading of private debt securities.

As the Public Bank Group's corporate banking activities serve the needs of its large corporate customer base, the relationship of the Public Bank Group with its large corporate customers is further enhanced with the Group's Cash Management Services offerings. Cash Management Services have brought the corporate customers' business closer to their own customers and to the consumers with the convenience of services such as collection of bills at the Group's branches. To further develop service convenience to meet customers' broader needs, cross-selling of products and services are persistently pursued. Some of the avenues where cross-selling can be accomplished are the existing services rendered by PBeBank.com and PB ShareLink and the distributions of the Group's credit cards.

President's REVIEW

Investment Banking

The acquisition of Public Merchant Bank by the Public Bank Group is timely with the growing mergers and acquisition activities in Malaysia as consolidation of key sectors such as financial services and telecommunications become increasingly attractive. This will translate into greater demand for corporate advisory and corporate finance services in which the Group is ready to provide. A key objective of the Group's corporate advisory services activity is enhancing client's corporate value. To realise this goal, the Group assists its clients by identifying and providing appropriate solutions, expedite the formulation of proposals and implementing such solutions as quickly as possible. The financial solutions and structures devised by the Group's corporate advisory services provider are primarily to ensure the efficient mobilisation of client's assets and improving their balance sheet.

As a wholly owned subsidiary of Public Bank, Public Merchant Bank has the opportunity to tap into the Group's large customer base especially with the growing demand for accessing the capital market as an alternative source of financing by medium-sized customers. As the larger SME customers of the Group grow and expand their businesses, Public Merchant Bank is well positioned to provide for their increasing needs for corporate advisory and potential stock market listing activities.

Fund Management

The Public Bank Group's asset management subsidiary, Kuala Lumpur Mutual Fund (KL Mutual) ended 2001 with a Net Asset Value (NAV) of over RM5.0 billion and more than 480,000 unit trust investors. KL Mutual is the largest private unit trust manager in Malaysia,

managing a total of thirteen unit trust funds spread over three categories: Equity funds, Balanced funds and Bond funds. The total approved size of the unit trust schemes of KL Mutual stood at 15.8 billion units as at 31 December 2001, an increase of 35% from the previous year.

On 20 February 2002, KL Mutual emerged as the biggest winner in the Edge-Lipper Malaysia Unit Trust Fund Awards 2001 with KL Mutual taking five out of the 22 awards that were presented. The KL Bond Fund was accorded the Best Overall Performer for the Five Year

Year	No. of funds	Net Asset Value RM billion
2001	13	5.0
2000	11	4.1
1999	10	3.8
1998	9	2.2
1997	9	1.8

Period Category and KL Smallcap Fund was accorded the Best Performing Fund in the Equity Small Companies Sector for the One Year Category.

During the year, KL Mutual continued to actively position itself in the Employees Provident Fund (EPF) Members Investment Scheme market via aggressive promotions and campaigns. As a result, the proportion of EPF Members Investment Schemes sales to gross sales for the year increased by 9% compared to the previous year. KL Mutual's overall market share of the private sector unit trust market at the end of 2001 remained strong at 30%.

In response to the increasing demand for unit trusts, KL Mutual successfully launched two new unit trusts schemes, Kuala Lumpur Islamic Bond Fund (KLISB) and the Kuala



Lumpur Equity Fund (KLEF) on 15 August 2001. The initial approved size of fund for KLISB and KLEF were 300 million units and 2 billion units respectively. KLISB targets investors who are seeking a low risk, fixed income investment with a portfolio invested in Islamic bonds and money market instruments. KLEF targets investors seeking capital growth and a high proportion of investment in equities. As at end of 2001, the NAV of the KLEF stood at RM200 million.

KL Mutual is also actively involved in educating and promoting greater awareness of the benefits of investing in unit trusts. KL Mutual continues to promote to its unitholders the need for sound financial planning through its Financial Planning Services tools such as Future Homes, Future Grads and Future Retirement. KL Mutual, with its large network of 22 branches, over 6,200 agents and 73 qualified financial planners, is well placed to provide for its customers financial planning needs.

The Public Bank Group's network of 382 branches can also be leveraged upon to increase KL Mutual's accessibility to the Group's large retail customer base as the development of the financial planning services industry progresses under the Capital Market Masterplan. The readily available **PBeBank.com** platform, together with **www.klmutual.com** will provide a key distribution channel for KL Mutual's products via the Internet. With the infrastructure and the expertise in place, KL Mutual is well positioned to further increase its market share.

Share Broking

The Kuala Lumpur Stock Exchange Composite Index (KLSE CI) remained volatile throughout the year with low trading volume and weak share prices. In the first half of 2001, the KLSE CI declined by 11% primarily influenced by the concerns over the slowdown of the global economy. The KLSE CI rebounded strongly by 17% in the second half of 2001 against the backdrop of improving prospects for the domestic economy and positive sentiment generated by the changes made to accelerate corporate debt restructuring. KLSE CI managed to end the year marginally higher at 696 points, up 2% from the 2000 closing of 679 points. The average daily volumes was 204 million units, with an average daily value of RM350 million. This was lower than the previous year's average daily volumes and values of 208 million units and RM911 million respectively. In addition to the challenging environment, the share broking industry had to contend with the issues of liberalisation of commission rates and consolidation in 2001.

Arising from the liberalisation of commission rates and in anticipation of the consolidation process which will bring about a more competitive environment, PB Securities, together with Public Bank have taken advantage of the advancement of ICT and the strength of the Internet to improve efficiency and enhance market share. In the past, retail customers of Public Bank were connected to PB Securities via a proprietary Electronic Customer Ordering System (ECOS). This mode of delivery is gradually being replaced by PB ShareLink which is a more robust and interactive delivery channel catered specifically for share trading at selected Public Bank branches. In the second half of 2002, PB ShareLink will be expanded to allow customers to perform online share trading via the internet. The Internet sharebroking delivery channel will bring the convenience of performing share transactions direct to the customers. With the network of 382 branches and the robust PB ShareLink delivery channels, PB Securities can take advantage of the readily available large customer base of the Group, which will translate into lower operating cost and larger market share.





PERBANKAN
ISLAM

Islamic BANKING



“Amidst an extremely competitive environment, the Public Bank Group managed to expand its Islamic financing and deposit taking businesses by 131% and 44% respectively.”

The Public Bank Group's Islamic banking business recorded an impressive growth in profit by 161% to RM97 million. Amidst an extremely competitive environment, the Group managed to expand its Islamic financing and deposit taking businesses by 131% and 44% respectively. This was achieved through the introduction of new products and measures to enhance the Islamic banking activities in areas that were outlined in the Financial Sector Masterplan.

Consistent with the strategy adopted by the Public Bank Group, the Islamic banking business of the Group is also focused on the retail consumer and commercial customers. The growth in the Islamic financing activities emanated primarily from Al-Ijarah Tamma Al-Bai (AITAB) financing for the purchase of transport vehicles and Al-Bai Bithaman Ajil (ABBA) financing for the purchase of residential properties. As at 31 December 2001, total Islamic banking and financing assets accounted for 6.4% of the Group's total asset, an increase from 4.4% the previous year.

The merger with the former Hock Hua Bank on 31 March 2001 paved the way for the Public Bank Group to expand its Islamic Banking activities to East Malaysia, particularly in the state of Sarawak. As part of the effort to promote Islamic banking services, Public Bank achieved full participation of all 213 of its branches in providing Islamic banking products and services.



In a move to further expand the Group's Islamic lending services, the Bai-Al-Einah (BAE) personal financing products were aggressively pursued. This move yielded favourable results with the signing up of a number of organisations for the provision of BAE personal financing to the staff of these organisations.

On 15 August 2001, the Public Bank Group's fund management arm, KL Mutual, launched its second Islamic unit trust - the Kuala Lumpur Islamic Bond Fund (KLISB) with a fund size of 300 million units to complement the Group's wide array of Islamic banking products. Together with the Kuala Lumpur Ittikal Fund, with an approved fund size of 600 million units, KL Mutual now offers a set of Islamic unit trust products to cater for the Islamic banking and financing needs of the Group's customer.

Public Bank to expand Islamic banking business

At present, Islamic Bank Malaysia's head office is in Kuala Lumpur. The bank will expand its network to other parts of the country, said a spokesman. The bank will continue to enhance the skills and competencies of its staff, he said.

At present, Islamic Bank Malaysia's head office is in Kuala Lumpur. The bank will expand its network to other parts of the country, said a spokesman. The bank will continue to enhance the skills and competencies of its staff, he said.

Public Bank perluas niaga perbankan Islam

PUHJIC Bank akan memperjuangkan pembiayaan Perubatan Islamnya selaras dengan Pelasidik Sektor Kesihatan, Bank Negara Malaysia yang dikeluarkan pada Mac 2001, katanya dalam satu kenyataan.

Bank itu akan secara konsisten memperkenankan produk derivatif yang baru serta perluasan bagi memenuhi keperluan yang baru bagi masa depannya.

Tidak akan heran apabila
tersebut melalui kaitannya in-
-kegiatan dari ke-

Isi berkata, "Ditentukan oleh ciri-ciri tarikatnya, perahibuan AHAH telah menjadi pelajaran lamar dan juga bukan lamar."

Satu lagi produk perbendaharaan di bawah konsep *Bai Al-Einah* telah diperkenalkan dalam tahun 2000, secara khusus bagi tujuan perbendaharaan perseorangan dan diberikan dengan baik oleh penguatkuasa haram dan sekutu ada.

pelanggan berupaya mengendalikannya melalui pertukaran di 381

Public Bank to add more Islamic products

PUNJIC Bank will be seeking to expand its Islamic banking business in line with Malaysia's Financial Sector Masterplan, issued in March 2001.

The bank will be introducing new innovative products and services in order to cater to the needs of the wide spectrum of its customers base, it said in a statement yesterday.

understanding of Islamic banking
 concepts and methodologies," it
 added.

At present Islamic banking deposit products include: Al-Wadiah Savings Account, Al-Wadiah Current Account and Al-Mudharabah General Investment Account.

There has been an allowed strong growth in these products, indicating increasing production.

operations, for the financial year ending December 2000.

Island bathing operations at Pott's Park commenced in 1923 and a few selected beaches.

By 1987, the scheme was extended to all branches within its network, covering both deposit and financing products.

Upon completion of the bank's merger with Citizens Bank, the

International OPERATIONS

JCG Finance has a network of 39 branches which are concentrated in the local retail marketplace. JCG Finance's business focus is on the provision of the retail consumer financial services comprising primarily of personal loan financing, deposit taking and mortgage financing with a large customer base in Hong Kong. JCG Finance has 25 years of experience in the Hong Kong consumer lending and deposit-

President's REVIEW



“Despite the challenging economic environment in the region and globally, all the international operations of the Public Bank Group remained profitable.”

factors translated into lower defaults in taxi financing loans, resulting in the reduction in the loan loss provision at Winton Holdings.

The Public Bank Group's international operations also include VID Public Bank, a joint-venture bank in Vietnam with a network of four branches, Cambodian Public Bank Ltd, a wholly-owned subsidiary and Public Bank's foreign branches in Hong Kong SAR, Sri Lanka and the People's Democratic Republic of Laos. All the Group's international banking and financing operations offer a range of banking products customised for the needs of the local marketplace. Despite the challenging economic environment in the region and globally, all the international operations of the Group remained profitable.

taking business. This, together with the large network of branches and also the knowledgeable and experienced staff managing the business has enable JCG Finance to stay ahead in the highly competitive consumer lending market in Hong Kong.

The amendments to the bankruptcy laws of Hong Kong since 1998, amongst which provides for automatic discharge of the bankrupt's debts after four years, together with the high unemployment rate, have resulted in a rising number of personal bankruptcies. JCG Finance was not spared. During the year, JCG Finance increased its loan loss provision by HKD125 million [RM61 million]. Although the increasing personal bankruptcies had reduced the pace of growth in personal financing activities with financial institutions taking a more cautious approach, the future growth potential for the business remains in place. This potential can be realised as the Hong Kong economy recovers in tandem with the global economy, and when consumers spending in Hong Kong picks up again.

Winton Holdings and its subsidiary companies are primarily engaged in the provision of financing for licensed public vehicles such as taxis and the trading of taxis and taxi licences. During the year, taxi licence prices have remained stable. The income level of taxi owners and hirers had improved arising from the higher taxi rental income, lower interest rates and lower operating cost on conversion to the use of cheaper liquefied petroleum gas. These favourable

TAN SRI DATO' DR. TEH HONG PIOW
President/Chief Executive Officer



WE'RE LISTENING TO YOU ON THE INFORMATION SUPERHIGHWAY



You wanted safe and hassle-free banking. It's now possible, virtually, on the World Wide Web. Our online banking service at www.PBeBank.com allows you to perform banking transactions, keep track of your financial position and manage your funds from the comfort of your home or office or anywhere around the world. Talk to us or click your mouse today. We've been listening and caring since 1966.

WE LISTEN. WE CARE.



PUBLIC BANK

(6463-H)

Excellence Is Our Commitment