

Board Executive Committee

**1. Y.Bhg. Tan Sri Dato' Sri
Dr. Teh Hong Piow**
Chairman

A respected banking entrepreneur in the financial services industry, with a banking career which began in Singapore and spanned more than 51 years. He founded Public Bank in 1965 after spending 6 years in a senior management position in another prominent local bank. Tan Sri Teh has been at the helm of Public Bank since its inception and personally guided its growth up till today.

2. Y.Bhg. Datuk Tay Ah Lek
Managing Director

Holder of Masters in Business Administration degree. A veteran in the financial services industry for the past 42 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 and Managing Director in 2002. Sits on the Board of Directors of several companies in the Public Bank Group.

3. Y.Bhg. Dato' Lee Kong Lam
Executive Director

An accountant by profession. Dato' Lee was attached to Bank Negara Malaysia for 28 years and retired as Head of the Examination Department. He joined Public Bank as General Manager in 1996 and was subsequently appointed Senior General Manager and Executive Vice President. He was appointed Executive Director in 2001. Is also a member of the Board of Directors of several subsidiary companies in the Public Bank Group.



Heads of Division

1. Mr. Chang Kat Kiam

Senior General Manager, Retail Banking

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.



2. 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 8 years before joining the Public Bank Group in 1988. Attached initially to the Finance Division in Head Office, he was transferred to JCG Finance in Hong Kong SAR in 1990. He returned to Head Office in 1994 and has been Head of Treasury since then.



3. Ms. Jenny Cheng Siew Ngoh

General Manager, Human Resource Division

Holder of Bachelor of Economics (Public Administration) degree. A HR Practitioner with more than 26 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.



4. 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 30 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.



5. Mr. Lai Kim Leong

General Manager, Overseas Operations

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



Heads of Division



6. Mr. Soong Hoe Seng

Group Chief Internal Auditor, Internal Audit Division

An accountant by profession. He has a total of 28 years of audit experience. He was attached to an audit firm prior to joining Public Bank in 1991 as Head of Internal Audit Division.



7. En. A. Razak bin Md. Dali

General Manager, Public Affairs Division

Holder of Bachelor of Mass Communication & Masters of Science (Corporate Communication) degrees. He has a total of 26 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 PR, corporate communication, advertising and sports matters.



8. Mr. Wong Jee Seng

General Manager, 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 General Manager overseeing Finance Division and Risk Management Division.

9. Ms. Chia Lee Kee

Director, Secretariat Division

Holder of ICSA degree and is a Fellow of The Malaysian Association of The Institute of Chartered Secretaries and Administrators. Has been with Public Bank since 1978. Had 12 years of experience in banking operations until she was transferred to Secretariat Division in 1990. Ms Chia has been a Manager since 1991 and was appointed Director of Secretariat Division in 1997.



10. Ms. Chong You Lin

Director, PB Card Services & Support

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



11. 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 Malaysian Institute of Economic Research for 2 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.



12. Mr. Sam Chak Ming

Director, Banking Operations Division

Holder of AIB and DIMP. Has been with the banking and finance industry for the last 35 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 to his current position in 1998.



13. En. Sulaiman bin Abd Manap

Director, Credit Operations Division

Holder of Masters in Business Administration degree. Has been with Public Bank since 1981. Experienced in all aspects of banking having managed branches and banking business portfolios in Head Office. En. Sulaiman was appointed Senior Manager of Retail Credit in 1995 and he is now the Director overseeing Credit Operations Division.



14. Ms. Chan Chew Fung

Director, Corporate Banking & 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 & Trade Finance Division in 1995.



15. Mr. Eddie Chan Kok Kwai

Director, Credit Administration & Supervision Division

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



Heads of Division

16. Mr. Goh Ah Bah

Director, Property Division

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



17. Ms. Satwant Kaur d/o Gurbachan Singh

Director, Legal Division

Holder of Bachelor of Law & Fellow Member of IBBM. She was a practicing 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 its subsidiary companies.



18. Mr. Tan Teck Kong

Director, Information Technology Division

An IT specialist with a Bachelor of Science/Mathematics degree. Mr. Tan has been attached to 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 of the Bank.



19. En. Mohd Najeed bin Abdullah

Director, Islamic Banking Division

Holder of Masters in Business Administration degree. En. Najeed 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.



20. 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.

Chairman's Review

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Overall Business Environment

2002 saw a heightened awareness of the challenges and opportunities of continuous liberalisation of the Malaysian banking and financing industry. The increased capacity of the ten domestic banking groups in terms of larger branch networks, stronger capital base and improved management capability, after the relatively successful completion of merger integrations in 2001, resulted in intense competition for market share in the Malaysian banking and financing industry.

Bank Negara Malaysia's liberalisation plans, as set out in the Financial Sector Masterplan, are on track. These can be seen in the steps initiated by Bank Negara Malaysia in 2002 for the merger of the finance company business with the commercial banking business of domestic banking groups to facilitate the operation of one-stop financial centres in the pursuit of improving competitiveness, efficiency and effectiveness of domestic banking groups.

Despite the intense competition among the domestic banking groups, and also from foreign controlled domestic banks, which continued to direct their resources at the retail consumer and mid-market business enterprises, the Public Bank Group has leveraged on the improvement in the Malaysian economy, which grew by 4.2% in 2002, to further expand its business. The growth in the economy was driven largely by Government fiscal stimulus packages in an environment of easy monetary conditions. This has helped to promote economic activities amongst domestic-oriented industries and a healthy level of consumption activities.

With the focus on the retail consumer and middle market commercial banking and financing markets, the Public Bank Group's performance, particularly in the area of loans growth, and its overall financial performance have benefited from the expansion in the Malaysian economy and the strategies and direction of Government and private sector development efforts.

A portrait of an elderly man with grey hair and glasses, wearing a dark blue suit and an orange patterned tie. He is sitting on a light-colored sofa and smiling slightly. The background is a blurred indoor setting with warm lighting.

PUBLIC BANK AN EXCELLENT RECORD OF GROWTH

Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow

CHAIRMAN'S REVIEW

Overview



“ The Public Bank Group's gross loans grew by 21% or RM6.8 billion to RM39.0 billion as at 31 December 2002, with a significant proportion of new financing channelled to small- and medium-size enterprises (SMEs). In 2002, the Group approved a total of RM6.2 billion in new loans to domestic SMEs. This amount was higher than the RM4.6 billion of new loans approved for domestic SMEs in 2001.

”

Analysis of Group Financial Performance

PROFITABILITY

The Public Bank Group achieved strong operating revenue of RM4,046 million and another record profit before taxation of RM1,281 million for 2002. The improved performance was the result of stronger contribution from the Group's domestic operations. Profit before taxation of the Malaysian operations of the Group grew by RM148 million or 15% to RM1,135 million. The Group's overall performance was however moderated by lower contribution from its overseas operations, principally in Hong Kong SAR, due to the weak economy and adverse operating conditions in Hong Kong SAR which led to higher allowances for bad debts. At the profit after tax and minority interests level, the Public Bank Group posted an increase in net earnings of 10% to RM770 million and a higher earnings per share of 16.7 sen. This was a commendable performance given the challenging and competitive environment in 2002.

Group Profit Before Taxation		
	2002 RM Million	2001 RM Million
Retail Operations	1,083	1,017
Corporate Lending	129	86
Treasury & Capital Market Operations	132	241
Investment Banking	13	9
Share Broking & Fund Management	54	46
Others	11	9
	1,422	1,408
Unallocated expenses and amortisation of goodwill	(141)	(157)
Profit before taxation	1,281	1,251

The Public Bank Group has five core areas of business – Retail Operations, Corporate Lending, Treasury and Capital Market Operations, Investment Banking and Share Broking and Fund Management.

Retail operations: Retail operations, the most significant area of business, involve the provision of a broad range of financial services to individuals and small- and medium-size enterprises (SMEs) primarily through the Public Bank Group's domestic branch network of 384 branches, the JCG Group's network of 41 branches in Hong Kong SAR and the Group's electronic and Internet delivery channels. Retail operations continued to be the mainstay of the Group, accounting for 73% of the Group's operating revenue and 76% of Group segment results. The Group's domestic retail operations registered a strong growth in pre-tax profit to RM937 million, representing a growth of 25%, as a result of the strong expansion in domestic retail lending by 31%. The higher income from volume growth helped to offset the adverse impact arising from the reduction in the average yield of loans due to severe price competition in the banking and financing industry throughout 2002. The lower lending yields were also partly offset by lower cost of funds due to the more favourable funding mix arising from the significant increase in lower-cost current accounts and savings accounts.

The Public Bank Group's overseas retail operations recorded a 45% decline in profit before tax to RM146 million, mainly attributed to the increase in charges for bad debts by RM81 million as a result of the weak economy and high levels of personal bankruptcies in Hong Kong SAR. This trimmed the Group's pre-tax profit growth from retail operations to 6.5% for 2002.

Corporate lending: Corporate lending is geared towards the provision of short- and medium-term financing to large corporate customers. Profit before tax for this business segment rose by 50% in 2002 to RM129 million, benefiting from recoveries as a result of the improved domestic economy. The completion of several debt restructuring schemes under the purview of the Corporate Debt Restructuring Committee during 2002 also contributed to the improved pre-tax performance for the corporate lending business. The Group's corporate loans portfolio declined by



CHAIRMAN'S REVIEW

Overview

16% as a result of the completion of the restructuring schemes of a few corporate loans resulting in the conversion of these corporate loans to capital market instruments. The effects of the on-going process of loan disintermediation by the capital market also saw a growing preference by large corporates to access the private debt securities market as an alternative source of funding.

Treasury and capital market operations: Profit before taxation from treasury and capital market operations fell by 45% to RM132 million in 2002. This was due to lower gains from the disposal of investment and dealing securities of RM55 million in 2002 compared to RM114 million in the preceding year. In 2002, interest rates were generally more stable than in 2001, which saw a downward movement and a flattening of the long term yield curve which provided the opportunity to realise gains from the portfolio of investment securities in 2001, which had been built up from the reallocation of the Public Bank Group's treasury assets from interbank lending. The Group's average holdings of money market instruments and private debt securities in 2002 were also lower due to redemption of higher yielding long term securities as well as the maturity of investment securities. As a result, net interest income for this business segment declined in 2002 compared to the previous year. Partly offsetting this decline was the Group's improved profit from foreign exchange transactions which grew by 33% to RM53 million, driven by higher volumes of foreign exchange related products to the Group's retail and mid-market commercial customers in 2002.

Treasury and Capital Market Operations		
	2002 RM Million	2001 RM Million
Gains from sale of investment securities	49	106
Gains from sale of dealing securities	6	8
Foreign exchange profit	53	40
	108	154

Investment banking: Operating revenue from investment banking increased by RM24 million or 78% to RM55 million, while pre-tax profit increased 44% to RM13 million in 2002 on the back of higher corporate advisory fees. The Public Bank Group's investment banking performance benefited from the growing demand for capital funds and corporate restructuring activities of listed "PN4" companies to meet the deadlines for regularising their financial positions.

Share broking and fund management: Despite the generally weak stock market in 2002 and further liberalisation of brokerage commission rates, the Public Bank Group's subsidiaries involved in stock broking and fund management operations turned in better performances in 2002. Public Mutual recorded a 15% rise in pre-tax profit to RM44 million on the back of increased sales of trust units and an increase in management fees as the net asset value of unit trusts funds under management grew by 16% to RM5.8 billion at the end of 2002. PB Securities achieved a strong 65% increase in profit before taxation to RM12 million as a result of higher trading volumes by tapping into the Group's large customer base and its extensive branch network.

LENDING

Growth rates of Loans, Advances and Financing					
	Public Bank Group				Industry
	Outstanding (Gross)		Growth rate		
	2002 RM Million	2001 RM Million	2002 %	2001 %	2002 %
Group	39,031	32,226	21	9	4
Public Bank	23,344	20,448	14	7	4
Public Finance	13,445	9,415	43	22	8
JCG Finance	1,530	1,598	-4	2	na

The Public Bank Group's gross loans grew by 21% or RM6.8 billion to RM39.0 billion as at 31 December 2002, with a significant proportion of new financing channelled to small- and medium-size enterprises (SMEs). In 2002, the Group approved a total of RM6.2 billion in new loans to domestic SMEs. This amount was higher than the RM4.6 billion of new loans approved for domestic SMEs in 2001.

The 21% increase in loans in 2002 surpassed the 9% loans growth rate achieved by the Public Bank Group in 2001, and was well above the 4% increase recorded by the banking system for 2002. Public Bank, the commercial bank, doubled its loans growth to 14% from 7% in 2001 while Public Finance registered a very strong 43% increase in financing compared to 22% in the preceding year. In addition to SMEs, the Group's lending activities were also directed at retail consumers primarily for the financing of motor vehicles and residential mortgages. Loans to these two sectors grew by 66% and 24% respectively since the end of 2001. Credit card advances also grew by 16% during 2002.

ASSET QUALITY

Group Asset Quality			
	2002		
	Group	Public Bank	Public Finance
Non-Performing Loans (NPL) (RM Million)	1,662	988	453
Net NPL Ratio	2.4%	2.4%	2.0%
Net NPL Ratio – Industry	7.5%	6.9%	7.6%

The Public Bank Group's non-performing loans fell by RM452 million during 2002. Besides regularisation of accounts, the decrease was also due to the completion of debt restructuring schemes of a few corporates which saw the declassification of these non-performing loan accounts. The Group's net non-performing loans ratio of 2.4% at the end of 2002 was an improvement from the ratio of 3.8% at the end of 2001, and was also considerably lower than the banking system average of 7.5% at the end of 2002. At the commercial bank level, Public Bank's net non-performing loans ratio improved to 2.4% from the 4.2% recorded at the end of 2001. This compares favourably with the commercial banking industry's net non-performing loans ratio of 6.9% in December 2002. Allowances for coverage of the Group's and Public Bank's non-performing loans, taking into account the value of collateral for these loans, were 135% and 133% respectively.

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FUNDING

Group Customer Deposits					
	Outstanding		Growth Rate		Mix
	2002 RM Million	2001 RM Million	2002 %	2002 %	2001 %
Demand deposits	6,342	4,688	35	13	12
Savings deposits	8,112	6,621	23	17	17
Fixed deposits	32,047	27,668	16	67	69
Negotiable instrument of deposits	1,188	460	158	2	1
Others	297	345	-14	1	1
	47,986	39,782	21	100	100

The Public Bank Group's main source of funds continued to be customer deposits, of which 67% was from individual depositors as at the end of 2002. Other sources of funds included shareholders' funds and borrowings from the interbank market. The Group's customer deposits increased significantly by 21% in 2002 compared to a 4% increase in 2001, and the growth rate also exceeded the banking system's deposits growth of 5% for 2002. The Group's overall funding structure continued to improve with a further shift in deposit-mix towards lower-cost current accounts and savings accounts. The Group's current account balances grew by 35% during 2002 whilst savings deposits expanded by 23%, higher than the growth of fixed deposits of 16%.

CAPITAL

Capital				
	Group	Public Bank	Public Finance	Commercial Banking Industry
Core capital ratio	20%	16%	13%	11%
Risk-weighted capital ratio	21%	16%	14%	13%

Capital strength is one of the most common measure of the financial position of a financial institution. The capital strength of the Public Bank Group remained one of the strongest in the Malaysian banking system at the end of 2002. The Group shareholders' funds increased from RM6.27 billion at the end of 2001 to RM6.83 billion at the end of 2002, which continues to be the second highest amongst banking groups in Malaysia. The risk-weighted capital ratio of Public Bank stood at 16%, which is significantly higher than the minimum requirement of 8% and above the commercial banking industry's average of 13%. The Group's capital position was further enhanced by the strong capital of the major subsidiaries of Public Bank, resulting in the Group having a core capital ratio of 20% and a risk-weighted capital ratio of 21%. With its strong capital position, the Group is well positioned to further expand its lending activities.



CHAIRMAN'S REVIEW

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Review of Major Subsidiaries' Financial Performance



PUBLIC FINANCE BERHAD

	2002 RM Million	2001 RM Million
Income Statement		
Net interest income	568.3	536.3
Islamic banking income	146.1	86.2
Non-interest income	28.1	52.3
Overhead expenses	742.5 (280.6)	674.8 (224.1)
Operating profit	461.9	450.7
Allowance for losses on loans, advances and financing	(60.8)	(72.4)
Profit before taxation	401.1	378.3
Key Balance Sheet Items		
Total assets	16,386	12,906
Loans, advances and financing	13,040	8,987
Deposits from customers	12,354	9,215
Shareholders' funds	1,656	1,393

Net interest income: The higher net interest income was primarily due to higher business volume from vehicle hire purchase financing.

Islamic banking income: The strong growth was the result of higher net income earned from the strong growth in Islamic vehicle hire purchase financing which grew by 136% during the year.

Non-interest income: The decline was due to lower trading activities in money market instruments and private debt securities.

Overhead expenses: In tandem with the higher business volume, overhead expenses had also increased due primarily to higher personnel cost, increased commissions paid to dealers and higher computer charges.

Allowance for losses on loans, advances and financing: The continued focus on stringent credit management has ensured the maintenance of asset quality. Net specific allowance charge for the year declined by RM48.1 million and bad debts recovered increased by RM4.3 million. This was offset by the increase in general allowance charge of RM40.8 million due to the strong loans growth. The net non-performing loan ratio improved to 2.0% from 2.8% a year ago and is well below the finance companies industry ratio of 7.6% as at the end of 2002.

Total assets: The growth in total assets was mainly from the expansion in gross loans of 43% which was mainly from vehicle hire purchase financing. This increase was offset by the reduction in 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 BERHAD

	2002 RM Million	2001 RM Million
Income Statement		
Net interest income	11.8	10.1
Non-interest income	7.8	3.6
Overhead expenses	19.6 (6.7)	13.7 (4.4)
Operating profit	12.9	9.3
Allowance for losses on loans, advances and financing	—	—
Profit before taxation	12.9	9.3
Key Balance Sheet Items		
Total assets	1,232	1,876
Loans, advances and financing	137	135
Deposits from customers	134	116
Shareholders' funds	136	123

Net interest income: The increase in net interest income came from the higher average volume of interbank lending and a larger portfolio of investment securities. This was offset by the decline in net interest spread on interbank lending and in the average yield on investment securities whilst the loan portfolio remained stable.

Non-interest income: The increase in non-interest income was primarily from higher corporate advisory fees and underwriting commissions earned from the increased number of mandates in corporate advisory services and underwriting activities.

Overhead expenses: In tandem with the higher level of activities during the year, the staff force was increased resulting in an increase in personnel costs.

Total assets: The decline in total assets was primarily due to the reduction in interbank placements with financial institutions.



CHAIRMAN'S REVIEW

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JCG HOLDINGS GROUP

	2002 HKD Million	2001 HKD Million
Income Statement		
Net interest income	771.2	839.1
Non-interest income	168.0	199.8
Overhead expenses	939.2 (200.2)	1,038.9 (213.5)
Operating profit	739.0	825.4
Allowances for losses on loans, advances and financing	(477.2)	(312.8)
Share of results of associates	3.6	(5.9)
Profit before taxation	265.4	506.7
Key Balance Sheet Items		
Total assets	5,352	4,815
Loans, advances and financing	3,135	3,342
Deposits from customers	1,774	1,034
Shareholders' funds	3,277	3,266

Net interest income: The decline in net interest income was due to the reduction in gross loans and advances. The higher levels of personal bankruptcies in Hong Kong SAR has resulted in the JCG Group taking a more cautious approach in extending personal financing.

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

Overhead expenses: The reduction was due to the provision for other debtors of HKD15 million in the previous financial year. The cost to operating income ratio of the JCG Holdings Group remained low at 21%.

Allowance for losses on loans, advances and financing: The increase in allowance for losses on loans, advances and financing was due to higher levels of defaults by personal financing customers affected by the high level of unemployment and adverse economic conditions in Hong Kong SAR.

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

PUBLIC MUTUAL BERHAD (formerly Kuala Lumpur Mutual Fund Berhad)

	2002 RM Million	2001 RM Million
Income Statement		
Revenue	128.7	107.7
Other operating income	5.6	4.9
Overhead expenses	134.3 (90.4)	112.6 (74.3)
Profit before taxation	43.9	38.3
Key Balance Sheet Items		
Total assets	240	205
Shareholders' funds	159	129
Net asset value of unit trust funds under management	5,804	5,009

Revenue: The higher revenue was contributed by increased sales of trust units and the growth in management fees as the net asset value of the unit trust funds under management had increased further during the year.

Overhead expenses: In line with the higher sales of trust units, sales commission paid to agents have increased.

PB SECURITIES SDN. BHD.

	2002 RM Million	2001 RM Million
Income Statement		
Revenue	16.7	8.6
Other operating income	15.3	14.5
Overhead expenses	32.0 (19.6)	23.1 (15.9)
Operating profit	12.4	7.2
Net recovery	—	0.3
Profit before taxation	12.4	7.5
Key Balance Sheet Items		
Total assets	365	381
Shareholders' funds	287	275

Revenue: The increase in revenue was contributed by the higher trading activities on the Kuala Lumpur Stock Exchange in 2002 compared to 2001 coupled with the higher trading volumes secured through the Public Bank Group's PB ShareLink

services which provide convenient access for customers to share trading facilities at branches of Public Bank.

Other income: The marginal growth in other income came from higher interest income derived from placements with financial institutions.

Overhead expenses: Operating overheads increased in line with higher business volume.



CHAIRMAN'S REVIEW

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Ratings

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

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

In May 2002, Rating Agency Malaysia Berhad (RAM) upgraded Public Bank's long term rating from AA1 to AAA and reaffirmed its short term rating of P1. The AAA rating is the highest rating given by RAM, and has been accorded to only two domestic-controlled financial institutions and one foreign-controlled domestic bank.

In its rating rationale in upgrading Public Bank to AAA, RAM had cited Public Bank's superior asset quality, sturdy capitalisation, excellent funding and liquidity position as well as consistent and strong profitability as key determinants of the rating upgrade. RAM further noted Public Bank's resilience and consistently superior fundamentals in the past years, even through the economic crises in 1997/98 and the economic slowdown in 2001. RAM viewed favourably Public Bank's proactive measures to continuously grow its business, efficiently manage its risks and returns, and maintaining high customer service standards. RAM also acknowledged Public Bank's prudent management philosophy and laudable corporate governance.

The AAA rating has served to enhance the standing of Public Bank in the eyes of the public as well as the Public Bank Group's existing and prospective customers. The confidence in Public Bank as a custodian of public funds has risen further as reflected by the significant increase in the Public Bank Group's market share of customer deposits during 2002. The AAA rating has also enhanced Public Bank's capacity to provide credit enhancement services in the private debt securities market by allowing issuers of private debt securities guaranteed by Public Bank to tap lower cost funds.

Public Finance's long term rating by RAM and Malaysian Rating Corporation (MARC) remain unchanged at AA1 and AA- respectively. The rating of AA- is the highest given to financial institutions rated by MARC.

Moody's Investors Service upgraded its long term deposit rating for Public Bank from Baa3 to Baa1 and reaffirmed its bank financial strength rating of C-. Public Bank's short term deposit rating was also upgraded from Prime-3 to Prime-2 by Moody's Investors Service. Standard & Poors' public information rating of Public Bank remained at BBBpi.

ratings

SHAPING OUR FUTURE, COMPETING TO WIN

Our determination to foster a forward-looking, value-generating business culture

Review of Group Operations

In 2002, the Public Bank Group had to meet the challenges of an intensely competitive domestic banking and financing market in which greater competition for business came not only from strengthened domestic banking groups but also renewed drives by a number of foreign-controlled domestic banks, particularly for the retail consumer and middle market commercial lending businesses. At the same time, the Group's main overseas operations in Hong Kong SAR had to overcome very weak economic conditions and high unemployment in the marketplace.

In the face of these challenges, the Public Bank Group continued to focus on its core businesses in serving the retail consumer and middle market commercial customers, relying on its tried and tested strategies of sound lending and prudent credit culture, effective management of funding, improvement in customer service quality and an active promotion of fee-income generating activities.



CHAIRMAN'S REVIEW

Business Operations Review

Retail Banking and Financing Operations

CONSUMER CREDIT

Residential Property Financing

Lending to the residential property sector remained one of the core financing activities of the Public Bank Group. In 2002, the domestic operations of the Group disbursed a total of RM3.9 billion of residential mortgage loans. This represented 13% of the total residential mortgage loans disbursed by the banking system. The residential property financing portfolio of the Group stood at RM8.1 billion as at end-2002, an increase of RM1.5 billion or 23% compared to RM6.6 billion a year ago and outperforming the banking system's growth in residential property financing of 18%.

The commendable performance of the Public Bank Group's residential property financing business was primarily due to the Group's flagship residential mortgage loan packages, the 5 HOME Plan and Mortgage Refinancing (MORE) Plan, launched in 1998 and which had been continuously updated to remain competitive. The 5 HOME Plan and MORE Plan offer a choice of five residential property financing solutions under each Plan to accommodate the specific needs of each individual customer. In 2002, the 5 HOME Plan and MORE Plan offered one of the lowest housing loan interest rates in the market at only 2.15% per annum for the first year with a high margin of advance of up to 100% and a maximum loan repayment tenure of up to 60 years of age. Besides the competitive interest rates and fast processing time, the residential property financing packages also come with pre-approved credit card and complimentary BonusLink reward points.

Through the years, the Public Bank Group had developed a close working relationship with many established housing developers which enable the Group to capitalise on the market opportunities in the residential property financing business with the Group's active participation as the end-financier of many housing schemes. Currently, there are over 1,500 approved developers on the Group's directory of developers for end-financing schemes.



Apart from the close tie-ups with established housing developers, the Public Bank Group participates in various housing roadshows and exhibitions and organises other promotional activities to further increase the Public Bank Group's market share of residential property financing. Experienced Sales and Marketing Officers (SMOs) from branches and Regional Offices participate in these events. These SMOs identify the specific financing needs of the customers and present the various financing solutions offered by the Group to the customers with the objective of assisting the customers in making sound and viable financing decisions.

In a continuous effort to support the Government's and Bank Negara Malaysia's initiatives to assist low income earners to own their homes, the Public Bank Group had committed to provide financing for more than 19,660 units of residential properties costing RM100,000 and below and disbursed a total of RM841 million of residential mortgage loans in 2002 for such properties. This exceeded Bank Negara Malaysia's priority sector target by 100% and was achieved with the Group's flexible residential mortgage loan packages and competitive rates.

Under the Public Bank Group's business rationalisation activities in the impending privatisation of Public Finance, the 5 HOME Plan and MORE Plan have also been marketed by 168 branches of Public Finance offering the same attractive terms which are based on Public Bank's base lending rate to the Group's large retail customer base. This had further accelerated the growth in the Group's residential property financing business.



“ The successful implementation of Public Finance’s marketing strategies as well as the concerted efforts undertaken by Public Finance to expand its tie-ups with motor vehicle dealers had contributed to the strong growth in the vehicle hire purchase financing portfolio of the Public Bank Group which expanded by 66%. ”

The Public Bank Group will continue to review and enhance the Group’s property financing loan package features in its quest to meet the changing demands of customers and to make available a wide array of flexible and attractive financing solutions to the Group’s residential property financing customers.

Hire Purchase Financing

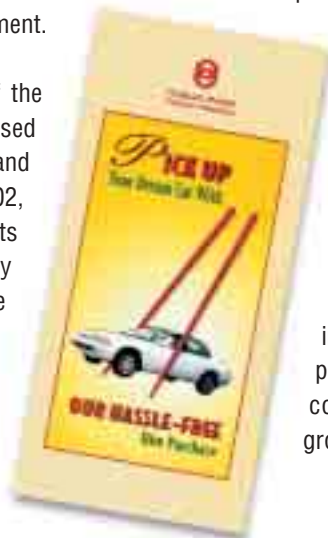
Based on a report from the Malaysian Automotive Association, the industry sales of new motor vehicles in Malaysia rose by 9.7% from 396,381 units in 2001 to 434,954 units in 2002, which surpassed the previous record sales of new motor vehicles of 404,837 units in 1997. The buoyant sales of new motor vehicles was largely driven by the introduction of new car models with attractive financing packages offered by competing motor vehicle distributors as well as the current low interest rate environment.

The hire purchase financing business of the Public Bank Group in Malaysia is focused primarily on private passenger vehicles and is carried out by Public Finance. In 2002, Public Finance had further intensified its marketing and promotion strategies by securing more tie-ups with motor vehicle dealers. As a result, the number of motor vehicle dealers of Public Finance grew by over 1,100 to stand at over 3,800 by the end of 2002. Public

Finance have established good business relationships with motor vehicle dealers, especially Proton Edar, Edaran Otomobil Malaysia and Perodua dealers which are the national cars distributors. The national cars, Proton and Perodua, commanded a 76% share of the total industry sales of new motor vehicles. Reflecting the successful tie-ups with the national cars dealers and dealers for other popular non-national cars, 83% of the total vehicle hire purchase financing granted by Public Finance during 2002 was for the financing of new motor vehicles as compared to 75% in 2001.

In addition, taking advantage of the Public Bank Group’s existing InterServe Banking services, the branches of the Group have taken more proactive measures to cross-sell vehicle hire purchase financing products in view of the impending privatisation of Public Finance and the subsequent merger of the finance company business of Public Finance with the commercial banking business of Public Bank.

The stiff competition amongst domestic banking groups for the vehicle hire purchase financing business and the low rate financing packages offered by the motor vehicle distributors had resulted in continued downward pressure on vehicle hire purchase financing interest rates. The effect of lower yields on vehicle hire purchase financing is partly mitigated by expectations of continued strong new car sales and the consequent growth in vehicle hire purchase financing volumes.



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The successful implementation of Public Finance's marketing strategies as well as the concerted efforts undertaken by Public Finance to expand its tie-ups with motor vehicle dealers had contributed to the strong growth in the vehicle hire purchase financing portfolio of the Public Bank Group which expanded by 66%. Public Finance disbursed a total of RM6.2 billion towards financing the purchase of transport vehicles, accounting for 22% of the total disbursement in the banking system for the purchase of transport vehicles.

Besides the 168 branches of Public Finance, all the 216 domestic branches of Public Bank are also actively pursuing the vehicles hire purchase financing business, particularly by leveraging on the large retail consumer and middle market commercial customer base of the Public Bank Group.

The Malaysian Automotive Association has projected total industry car sales to increase by 3.5% to 450,000 units in 2003. In anticipation of the higher car sales and continued low interest rate environment, the Public Bank Group, through Public Finance continues to see opportunities in vehicle hire purchase financing, notwithstanding the expectation of more intense competition as well as narrowing interest margins of vehicles hire purchase financing in 2003.

Share Financing

In order to enhance the competitiveness of the Public Bank Group's share margin financing facility, PB ShareLink, various initiatives, such as the giving of immediate value to local cheques deposited for the purchase of shares or for covering margins and reduction in processing fees were implemented in 2002. These initiatives have generated positive results with the Group registering a creditable growth in business volume and an expansion of its share margin financing portfolio which translated into a significant increase of more than 100% in the contribution of the share margin financing business to the Group's share brokerage income compared to 2001.

In 2002, the Public Bank Group expanded its share trading and share margin financing services to an additional 18 branches, bringing the total number of branches offering such service to 23. The trading of shares by customers at these 23 branches are electronically routed to PB Securities for execution on the Kuala Lumpur Stock Exchange. To enable more customers to have more convenient access to the Group's highly competitive PB ShareLink services, Public Bank plans to extend the share trading and share margin financing service to another 8 branches by the first quarter of 2003.

To further enhance the Public Bank Group's share trading service delivery channel, the Group's planned Internet share trading service is currently at its final phase of implementation. This service which rides on the Group's Internet banking platform will enable the Group's customers to conduct their share trading activities from the convenience and comfort of their home or office. This will also help to expand the Group's share margin financing business.

Given the highly competitive nature of the share margin financing business, the Public Bank Group is continuously reviewing and enhancing the features of PB ShareLink to meet the customers' increasingly sophisticated share trading and share financing needs. Continuous efforts are also made to further improve the time taken for approval of applications for share margin financing facilities with the introduction of the Electronic Loans Delivery System.



Credit Cards

2002 saw the Public Bank Group reaching its 10th year in the credit card business.

At the end of 2002, there were 19 issuers of Visa and MasterCard credit cards, beside issuers of American Express and Diners charge cards in the domestic credit card market. Issuers include domestic banking groups, foreign-controlled domestic banks and card issuing companies such as MBF Cards. In the highly competitive credit card market, marketing campaigns combining attractive credit card features such as fee waivers, free bonus credits and free insurance together with innovative free gift packages are fairly standard. The Public Bank Group remained competitive in the credit card business with a number of such programmes spread throughout the year.



In 2002, the Public Bank Group capitalised on the world's greatest sporting event, the World Cup which was held for the first time in Asia by being amongst the first to issue a limited edition '2002 FIFA World Cup' MasterCard credit card, and rewarding loyal cardmembers with an exclusive special edition '2002 FIFA World Cup' Souvenir Merchandise Pack.

A highly successful "10th Anniversary Celebrations" contest, which offered a grand prize of a Fiat Coupe Turbo Sports Car worth over RM150,000 was ran. For a specific period during the year, new and existing cardmembers were extended complimentary ASTRO Digital Multimedia Systems as part of the Public Bank Group's credit cardholders' benefits.

Credit card customer acquisition through Staff-Get-Members campaigns was carried out throughout the year with incentive rewards to staff totalling RM0.93 million in 2002.

These marketing and promotional activities resulted in credit card in issue registering a commendable 23% growth whilst credit card sales grew by 41% in 2002. The credit card acquiring business also recorded a 55% growth in 2002.

Reflecting the Public Bank Group's overall prudent credit culture and strong asset quality levels, credit card delinquency rates and non-performing credit card receivables were controlled and managed at an average rate of 7.2% and 2.8% respectively for 2002. These rates were well below the credit card industry's average of 13.5% and 4.6% respectively.

In December 2002, the Public Bank Group became the first banking group in South East Asia to activate its credit card terminals based on MasterCard's Europay MasterCard Visa (EMV) standards. EMV is a set of global specifications for cards, terminals and applications jointly developed by Europay International S.A., MasterCard International Incorporated and Visa International Service Association, to facilitate global smartcard transactions for debit and credit cards. This initiative by Public Bank is in line with the Government's vision for the migration to the smartcard in Malaysia and is well ahead of the credit card industry's timeline for this technological advancement. It was a major step forward by the Group in its commitment to excellence in striving for greater convenience, customisation and security for both its cardmembers and merchant partners. This process completes the EMV loop of credit card issuing and acquiring activities, leading to the ultimate goal of full EMV migration.



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SME LENDING

Financing of domestic small- and medium-size enterprises (SMEs) is another core lending activity of the Public Bank Group. Over the years, the Group had invested substantial amount of resources to develop a large base of retail customers, including SMEs, and in building strong business relationships with them. In 2002, the Public Bank Group approved a total of RM6.2 billion in new loans to the SMEs. The loans were channeled to finance the business activities of SMEs involved in a broad spectrum of economic sectors such as manufacturing, construction, wholesale and retail trade, general commerce, transport and business services.

A dedicated SME Development Unit was established by Public Bank in 2002 to specifically address the needs and interests of the SMEs in order to serve their business requirements more effectively. The activities undertaken by the SME Development Unit include:-

- market research on the needs of the SMEs
- development of various lending product packages to meet the specific requirements of the SMEs
- building and enhancing closer cooperation, collaboration and business relationships with the SMEs
- business development activities and joint promotions with relevant trade organisations and Government agencies such as the SMI Association of Malaysia, the Federation of Malaysian Manufacturers, the Small and Medium Industries Development Corporation and the Credit Guarantee Corporation
- providing advisory services relating to the availability and usage of banking facilities and services to SMEs



- other ancillary services such as training in trade financing, business referrals and linkages and provision of information by way of bulletins and reviews on economic and business issues

Public Bank's flagship loan product packages for the SMEs, the SWIFT ("Shophouse, Warehouse, Industrial Factory and Trade financing") Plan and SMILAX (Small, Medium Industries – Loan Assistance for eXpansion) Plan, continued to perform well with total new loans approved under the SWIFT Plan and SMILAX Plan amounting to RM3.2 billion in 2002. Both the loan product packages have been enhanced regularly with better pricing and benefits to meet the increasingly demanding needs of the SME market.

Besides the SWIFT Plan and SMILAX Plan, the Public Bank Group has been actively promoting Bank Negara Malaysia's loan schemes such as the Fund for Small and Medium Industries 2, the New Principal Guarantee Scheme, the Small Entrepreneur Guarantee Scheme, the Flexi Guarantee Scheme, the New Entrepreneur Fund 2, the Rehabilitation Fund for Small and Medium Industries, and the Entrepreneur Rehabilitation and Development Fund. These loan schemes provide SMEs with easy access to loan facilities at low interest rates to expand their capacity as well as for additional working capital or business restructuring purposes.

In tandem with the Public Bank Group's healthy loans growth, the Group's trade finance business has also recorded a significant growth of 30% compared to 2001. The trade financing activities was mainly directed at the SMEs although the Group continued to support the short term trade financing



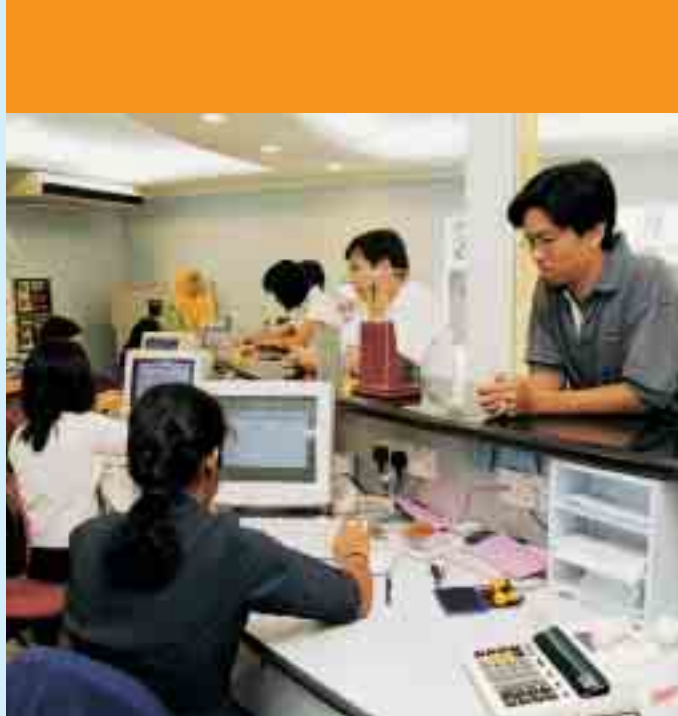
needs of large corporates and multi-nationals. In ensuring the needs of the customers are met, the Group's trade finance related products and delivery channels are constantly enhanced. One of the major enhancements to the Group's trade finance delivery capabilities is the centralisation of the processing of the Group's trade finance transactions. The centralisation of the processing of trade finance transactions will improve the overall turnaround time. This development is expected to come on-stream by the end of 2003. The Group's trade finance related products and services will continue to form part of the wide range of services to the SMEs.

The Public Bank Group will continue to leverage on its core capabilities and extensive branch network to service the SMEs' business needs and enhance the business relationships between the Public Bank Group and the SME community.

CUSTOMER DEPOSITS

In the low and stable interest rate environment that prevailed in 2002, there was little scope for banking groups to compete for deposits and attract customers by interest rate differentiation. However, the need to further mobilise lower-cost retail deposits in the form of current accounts and savings accounts remained relevant. The focus of the Public Bank Group on continuous improvement in customer service excellence has had the desired results as evident by an increased customer retention pattern and strong growth of 35% and 23% in current accounts and savings accounts respectively in 2002. This growth is far above the growth in the domestic banking system of 9% and 7% respectively. This growth in lower-cost current accounts and savings accounts had the effect of reducing the overall funding cost of the Group.

To complement customer service excellence, other initiatives undertaken by the Public Bank Group in 2002 in its deposit-taking activities included the offer of a free ASTRO Digital Multimedia System to every Public Bank Group customer who held either a savings account or a current account with the Group subject to meeting certain minimum conditions.



The continuation of the Staff Incentive Scheme (SIS) initiative undertaken by the Public Bank Group, which is a scheme to reward marketing efforts of all staff of the Group, has helped the growth of customer deposits. The SIS for 2002 ran from 1 January 2002 to 31 December 2002 as the Group's continuing effort to cultivate a strong and effective sales and marketing-oriented staff force as well as to boost the overall Group's business volumes. At the end of 2002, the SIS campaign managed to increase the total number of savings accounts and current accounts by close to 290,000 accounts amounting to RM530 million and the issue of more than 78,000 debit and credit cards. Cash awards for top performers under the SIS for 2002 amounted to a total of RM0.77 million.



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To offer savers and depositors more options to invest their surplus funds, two new unit trust funds which are only available at Public Bank Group branches, the PB Growth Fund (PBGF) and the PB Fixed Income Fund (PBFi) were launched in October 2002. Both the PBGF and the PBFi compliment the existing PB Balanced Fund (PBBF), offering a comprehensive investment solution to customers for asset and risk diversification. Similar to the PBBF, the 2 new funds are also managed by Public Mutual Berhad which is a member of the Public Bank Group. Since their launch in October 2002, the PBGF and PBFi managed to capture total gross sales exceeding RM50 million up to 31 December 2002.

CASH MANAGEMENT SERVICES

The Public Bank Group's increasingly prominent position as an efficient intermediary between consumers and business enterprises continues to attract various business organisations to the Group's wide range of cost-effective Cash Management Services. The range of the Group's Cash Management Services include the collection of bills and other receivables from consumers on behalf of large corporations such as utilities, the undertaking of electronic credit payments for SMEs and large businesses, bulk cheque issuance facilities, the collection of income tax of businesses and their employees' schedular tax deductions on behalf of the Inland Revenue Board and the payment of EPF contributions by employers to the Employees Provident Fund.

The full range of the Public Bank Group's delivery channels is accessible to such Cash Management Services customers. The delivery channels include the 384 domestic branches of the Group, its network of 339 ATMs, its PB Telebanking Services, the PB eBank.com platform as well as credit card based solutions such as the Visa Purchasing Card services. The channels available to Cash Management Services customers are only limited by their needs and their specific technological capabilities to use the service.

Consumers benefit from the Public Bank Group's Cash Management Services by being able to access a large network of branches and ATMs or a convenient electronic channel to settle an increasing number of regular periodic payments for utilities and other services. The utilisation of the Group's extensive branch network and electronic payment channels by business enterprises using the Group's Cash Management Services has enabled such business enterprises to reduce their operating costs and achieve a higher level of accuracy and efficiency in dealing with their receivables and payables. This benefit arises by being able to leverage on the Public Bank Group's extensive reach throughout the country without these business enterprises having to duplicate such infrastructure. The business enterprises using



the Group's Cash Management Services also benefit from improvement in security due to the elimination of cash handling by these business enterprises and easier reconciliation of accounts and other record keeping activities with the detailed reports provided by the Group to these payee corporations as part of the service.

The confidence that business enterprises in general and payee corporations in particular have in the cost-effectiveness and benefits of the Public Bank Group's Cash Management Services can be seen from the increasing list of customers both from the public and private sectors, such as the Lembaga Hasil Dalam Negeri, Kumpulan Wang Simpanan Pekerja, Tenaga Nasional Berhad, Telekom Malaysia Berhad, Astro, Maxis, Celcom and Genting Highlands Resort that have signed on for the Group's Cash Management Services.

The Public Bank Group's first Internet Cash Management Services was launched in September 2002 in collaboration with the Employees Provident Fund (EPF), whereby all corporate customers of PBeBank.com can submit their organisation's EPF contribution details electronically and execute online real time contribution payments to the EPF. A similar service for the submission of employees' schedular tax deductions to the Inland Revenue Board by business enterprises who are customers of PBeBank.com is scheduled to be launched by the second quarter of 2003.

In 2002, the total income derived from the Group's Cash Management Services grew by 27% mainly from fees, commissions and interest free current account deposit balances. The Group will continue to be innovative to meet the new cash management needs in the marketplace and to seek out value for both the business enterprises and their customers.

In addition to the direct benefits of deriving revenue from the Public Bank Group's Cash Management Services, the flow of potential customers into the Group's delivery channels generated by cash management activities provides the Group with the opportunity to tap into a pool of new customers for the many other banking products and services of the Public Bank Group.



ATMs

In 2002, the Public Bank Group enhanced, upgraded or replaced all the 339 ATMs of the Group to meet smartcard standards to accept chip-based cards. This upgrade of the Group's ATM network is in preparation for the total migration of all magnetic stripe-based ATM cards to the newly launched chip-based Bankcard. In addition, the upgraded and enhanced ATMs are also able to accept the 'smart' national identity card, MyKad for ATM functions.

With the issue of the Bankcard to replace the traditional ATM cards, all Public Bank Group customers will now be able to enjoy significantly higher levels of security, made possible through smartcard technology.

Apart from the traditional ATM functionalities, the Bankcard will also function as a stored value card under the MEPs Cash electronic purse application which is available on the Bankcard. This will enhance the Public Bank Group customers' ability to effect payments for goods and services in a cashless society.

The Bankcard also has the functionalities for customers to effect point-of-sales payments where the Bankcard functions as a debit card. This will enable the Public Bank Group customers to make payments at a variety of merchant outlets directly through debiting of their accounts linked to the Bankcard.



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“ The Public Bank Group’s benchmark of a maximum standard waiting time (SWT) of 2 minutes has been consistently achieved by more than 80% of branches. This is a commendable performance considering that Public Bank and Public Finance served over 2.2 million customers at the banking counters of the Group’s branches each month during 2002. ”

Customer Service

In 2002, the Public Bank Group continued to promote high standards of customer service delivery at Head Office and branches throughout the country. These efforts at continuous improvement of customer service, which were supported by significant investments in manpower resources, training, technological hardware upgrades and incentives to the staff of the Group, are shaped by Public Bank’s corporate culture of excellence, which is epitomised by Public Bank’s motto of “Excellence is our Commitment”.

One of the starting points in caring for customers is when a customer steps into the banking hall of a Public Bank branch. Over 90% of Public Bank’s branches are staffed with Customer Service Representatives (CSRs) stationed in the banking hall who are available to handle non-transactional inquiries, assist customers with more complicated transactions and in the opening of accounts for new customers. In addition to increasing the number of CSRs deployed nationwide, further investments have been made to improve support to the CSRs with computer upgrades and system enhancements. Substantial investments have also been made to train the CSRs to ensure that they possess the necessary skills to serve customers in an efficient and professional manner. At the banking hall, special care counters for senior citizens, expectant mothers and disabled customers continued to be available to give priority to the special needs of this group of customers.

Customer waiting time for counter services is a key service deliverable for which quantitative service standards are set, fine-tuned and closely monitored. The Public Bank Group’s benchmark of a maximum standard waiting time (SWT) of 2 minutes has been consistently achieved by more than 80% of branches. This is a commendable performance considering that Public Bank and Public Finance served over 2.2 million customers at the banking counters of the Group’s branches each month during 2002,

representing a 10% increase in counter transaction volume compared to 2001. Additional staff are also deployed to the banking counters during peak periods to provide consistent service delivery throughout the branch network and to meet the benchmark 2-minute SWT consistently. Another quantitative service standard is a 1-minute processing time for basic counter transactions.

The Public Bank Group had continued to pursue its objective to exceed customers expectations with every service encounter. In the fourth phase of the Group's on-going Customer Care Campaign, which spanned the last quarter of 2001 and 2002, the tagline of *"First in Quality Service"* was used to spur branches to higher standards of customer care and service

As part of Phase 4 of the Customer Care Campaign, feedback cards were handed to customers to solicit their opinions on the level of service delivery at branches. A total of 3.6 million feedback cards were received up to the end of 2002. The feedback received were carefully analysed and translated into actions for further improvement through the implementation of new ideas and suggestions.

An integrated online Complaint Management System has been implemented to track and monitor all customers' feedback, including expressions of dissatisfaction, in an efficient and effective manner. The Public Bank Group places a high level of emphasis on the feedback received to assist the Group to meet the increasingly discerning demands of customers.



with pre-set targets to be achieved. Branches were categorised into 4 groups, based on the size of the branches, to compete for various awards for service delivery excellence. The top branches in each group would be awarded cash prizes ranging from RM10,000 to RM25,000, with a total of RM0.6 million earmarked to reward the staff for their achievements in customer service delivery excellence. Management's commitment to customer service excellence is not only seen from the allocation of financial resources but also in the hands-on approach in monitoring the progress of branches in the Customer Care Campaign and the prompt actions taken when problems are encountered by branches in their endeavours to meet and surpass the service benchmarks that have been set.

One of the business process improvement initiatives undertaken by Public Bank to improve customer satisfaction was the introduction of a Combined Statement for customers in 2002. Current account customers are given the option to have a monthly statement which encompasses all their accounts (including savings accounts and fixed deposit accounts) maintained with Public Bank to enable such customers to have a convenient and comprehensive overview of their financial position with Public Bank.

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The Consumer Financing Desk located in the banking hall was also introduced during 2002 at selected branches for the convenience of customers to obtain assistance on their financing needs. The Consumer Financing Desk is designed as a one-stop centre to provide customers with all relevant information pertaining to loan products and services. The Sales & Marketing Officers manning this Desk will provide various financing options and offer customised solutions to suit the diverse needs and requirements of customers for consumer financing.

Share Investment Units have been extended to more branches in 2002 to provide convenience to customers for share trading and share margin financing services. The Share Investment Units in branches are one-stop centres for customers to perform share trading, share financing and obtain nominees services. At these Share Investment Units, customers are assured of professional handling of their share trading transactions by Public Bank's share investment executives.

Self-service cash deposit and cheque deposit machines have been placed at selected branches to facilitate deposit transactions after banking hours. More branches have been identified for future implementation of such machines in stages. The Public Bank Group's Internet Banking services have also been enhanced to meet the expectations of the Group's more technologically savvy customers.



The physical environment of the Public Bank Group's branches have also been given the appropriate attention. In 2002, a total of 85 branches in the Group underwent major renovation works or were relocated to larger premises. Such improvements are aimed at providing better ambience and greater convenience for the customers at the branches of the Group throughout the country.



Following from the successful experience in 2001 when Public Bank achieved the bank-wide ISO 9001:2000 Certification under the scope of "Provision of Customer Service at the Front Office" for all its branches, Public Bank achieved further ISO 9001:2000

Certification under the scope of "Provision Of Customer Service In Loan Delivery" for Head Office and three branches in 2002. This certification covered service delivery for all types of loans and advances including credit cards and encompassed work processes such as loan processing, approval, disbursement and security documentation. This ISO 9001:2000 Certification is in line with the Public Bank Group's objective to continue differentiating itself from other financial services providers through customer service delivery excellence. This focus on customer service delivery is also in line with Bank Negara Malaysia's intention to introduce star ratings in banking in its drive for excellence in service quality in the financial services industry. Public Bank intends to seek ISO 9001:2000 Certification under the scope of "Provision of Customer Service in Loan Delivery" for its entire branch network by the end of 2003.

大眾銀行鄭亞歷：長成幅度或不大 銀行業明年仍獲良好成長

【本報訊】大眾銀行副總裁鄭亞歷昨日表示，雖然銀行業在過去兩年經歷了嚴峻的挑戰，但預計明年仍將獲得良好的成長。他指出，銀行業在過去兩年經歷了嚴峻的挑戰，但預計明年仍將獲得良好的成長。他指出，銀行業在過去兩年經歷了嚴峻的挑戰，但預計明年仍將獲得良好的成長。



Left: long growth expect

PUBLIC BANK CATAT SEJARAH

Muncul institusi perbankan pertama terima SPPK



Public Bank enters M'sia Book of Records

MALAYSIA Book of Records has acknowledged Public Bank as the first bank to achieve bank wide certification for the MS ISO 9001:2000 in the 'provision of customer services at the front office.'

The bank said in a statement the listing, which would be included in the upcoming Malaysia Book of Records special edition next year, had added impetus to its corporate vision of achieving world-class excellence in customer service delivery.

It said that this recognition had further spurred its staff in upholding quality service standards and continuously striving to meet or even exceed customer expectations.

The bank's 213 branches nationwide have received certification for quality management of customer service delivery at its office, thus making Public Bank the



Danny Ooi (left) presenting the certificate to Datin Tay Ah Lek.

largest recipient of ISO 9001:2000

Public Bank family pledges to 'do it right' for customers



By THE STRAITS TIMES

PUBLIC Bank and Public Finance recently launched a campaign to ensure that the bank 'does it right' for its customers. The campaign, which is part of the bank's commitment to achieving world-class excellence in customer service delivery, aims to ensure that the bank's services are of the highest quality and that its staff are committed to providing excellent customer service.

The bank's commitment to achieving world-class excellence in customer service delivery is reflected in its ISO 9001:2000 certification, which is the first of its kind in the banking industry in Malaysia. The bank's commitment to achieving world-class excellence in customer service delivery is reflected in its ISO 9001:2000 certification, which is the first of its kind in the banking industry in Malaysia.

Public Bank scores a ISO first

By THE STRAITS TIMES

PUBLIC Bank has achieved the first bank in Malaysia to receive ISO 9001:2000 certification for the quality management of customer service delivery. The bank's achievement is a testament to its commitment to achieving world-class excellence in customer service delivery and its dedication to providing excellent customer service to its customers.



Sanjit Singh (left) presenting the ISO 9001:2000 certificate to Datin Tay Ah Lek.

The bank's achievement is a testament to its commitment to achieving world-class excellence in customer service delivery and its dedication to providing excellent customer service to its customers. The bank's achievement is a testament to its commitment to achieving world-class excellence in customer service delivery and its dedication to providing excellent customer service to its customers.

榮膺國際品質認證 大眾櫃台服務素質

【本報訊】大眾銀行昨日宣佈，其全國213個分行櫃台服務，已獲得國際品質認證（ISO 9001:2000）。這項認證是銀行業在馬來西亞的首次，標誌著大眾銀行在提升櫃台服務素質方面取得了重大突破。



Public Bank receiving the ISO 9001:2000 certificate.

借貸率預測適度成長 大眾有信心保佳績

【本報訊】大眾銀行昨日表示，雖然銀行業在過去兩年經歷了嚴峻的挑戰，但預計明年仍將獲得良好的成長。他指出，銀行業在過去兩年經歷了嚴峻的挑戰，但預計明年仍將獲得良好的成長。

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Public Bank receiving the ISO 9001:2000 certificate.

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Information and Communications Technology

Continuing with our commitment to service excellence, the Public Bank Group's Information and Communications Technology (ICT) activities in 2002 were consistently focused on the deployment of advance technologies to deliver enhanced banking and financing products and services to its customers. To this end, various initiatives and projects were conceived and implemented as a total solution that included branch delivery applications, network infrastructure, central mainframe environment and enterprise security management. Included in these initiatives was the progressive replacement of equipment at branches such as servers, processors, printers and scanners with more powerful, higher-end hardware and upgrading of network infrastructure with higher capacity devices and faster network connections to better serve an expanding customer base. The mission-critical IBM mainframe platform was upgraded from the S390 range to IBM's z-series which offer greater levels of computer performance and efficiency. This also included the replacement of the entire disk storage system with IBM's latest Silvertip storage technology. The overall processing capacity was increased by at least twofold. With the upgrade, the Group's ICT system has been expanded to cater for the expected growth in the business of the Group and the volume of transactions over the next few years.



In 2002, an amount of RM30 million was invested to upgrade and to further improve the ICT infrastructure of the Public Bank Group. As a result, the Group's ICT system is capable of supporting increased service standards and delivering uninterrupted services to our customers. The customary sub-second response time on the IBM mainframe computer system was maintained throughout 2002. The Group achieved 100% computer systems availability, giving 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 continued to be among the highest in the industry at 99.9%. The Group's standard waiting time of 2 minutes and standard processing time of 1 minute for basic counter transactions were consistently achieved by most branches, in part due to the Group's ICT capabilities.



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The Bankcard and MyKad applications incorporating smartcard technology are integral parts of one of the Multimedia Super Corridor flagship projects. The Bankcard is the national payment card which currently supports three functions, namely, ATM, electronic purse and e-debit (formerly known as e-pos). The Bankcard is issued by banking institutions and will replace the present magnetic stripe ATM card. MyKad is the national identity card which, among other applications, also supports the ATM and electronic purse applications.

Migration efforts to the Bankcard involves two major activities. Firstly, replacement of the magnetic stripe ATM cardholder base with Bankcards and secondly, modifying the entire population of ATMs nationwide to incorporate smartcard technology. The Public Bank Group’s Bankcard replacement program commenced in the fourth quarter of 2002 and in this relatively short period, over 50,000 Bankcards have been issued to the Group’s customer, making the Group one of the highest issuers of Bankcards in the country so far. As at December 2002, all of the Group’s ATMs have been successfully converted to, or replaced by ATMs incorporating smartcard standards. The Group’s ATMs nationwide are now capable of processing ATM transactions using the Bankcard while several ATMs are also being piloted to accept ATM transactions using MyKad. With this service, Public Bank is one of only two banks in the country currently able to offer customers a new avenue to transact over the ATMs using their

national identity card. Customers can now request for their MyKad to be incorporated with Public Bank Group’s ATM applications at selected Public Bank branches.

Other than carrying out transactions over the ATMs, both the Bankcard and MyKad can also be used to perform ‘cashless’ transactions at merchant outlets by way of the electronic purse application. In Malaysia, the national standard for the Bankcard and MyKad electronic purse is MEPS Cash. Beginning in 2002, the Public Bank Group had been proactive by replacing the magnetic stripe terminals at merchant outlets with smartcard capable terminals. Customers can now use their MEPS Cash electronic purse in their Bankcard or MyKad to perform ‘cashless’ transactions at over 2,000 of the Group’s merchant outlets throughout the country. In conjunction with this, the Group was an early implementer of the MEPS Cash top-up service at its ATMs. Customers now have the added convenience of reloading their Bankcard or MyKad MEPS Cash electronic purse using their Public Bank Group’s savings accounts or current accounts at the Group’s network of ATMs nationwide.

Smartcard technology is more secure compared to magnetic stripe cards. Since security risks and threats of breach of security are ever-present, the Public Bank Group’s security safeguards are constantly being improved upon to keep abreast with the ever-changing environment. The emphasis on robust security control remains vital. The Group has so far



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invested RM25 million to implement smartcard technology in the Group's ATM service as a means to provide better safeguards against fraud and other misuses of the ATM. It is envisaged that further sizable investments are required to maintain and keep pace with evolving security trends. In moving speedily to embrace smartcard technology for the ATM services, the Group is reaffirming its commitment to protect its customers' money and confidentiality and the integrity of transactions. Additional enterprise security control systems were installed in various locations throughout the country to further strengthen the security defense of the telecommunications network and computer systems. Such measures included putting up virtual barriers and anti-virus applications like firewalls, intrusion detection devices and virus-walls that operate in realtime mode. Vulnerability assessments and ethical hacking have also been regularly conducted so that corrective measures can be proactively instituted.

With the impending merger of the finance company business of Public Finance with the commercial banking business of Public Bank, ICT activities on planning and testing for the rationalisation of the business operations were accorded higher priority since the second half of 2002. These activities are geared towards preparing Public Bank and Public Finance to operate as a single entity with the objective of offering both commercial banking and finance company products and services at all branches of Public Bank immediately after the planned merger, without causing any disruption to the ongoing operations of the Public Bank Group. The ICT infrastructure enhancements and improvements have expanded the system capacity to cater for the expected growth in transaction volumes and to accommodate the additional transaction types and businesses to be processed after the planned merger. As at end of 2002, the Group's computer systems are ready to cope with the requirements to merge the operations of Public Bank and Public Finance. It was possible to achieve this within a short time frame and without extensive system modifications because the Group's domestic banking and financing operations have been operating on a common ICT platform since 1996.



E-Banking

In 2002, the Public Bank Group continued to expand its Internet Banking channel, PBeBank.com by offering convenient and secure banking services. Over RM220 million of transactions were conducted through PBeBank.com in 2002.

In July 2002, the Public Bank Group launched its fully interactive transactional services for business enterprises. PBeBank.com now extends online realtime inquiry services as well as transactional services to business enterprises that are

protected with a multi-level authorisation feature to cater for business enterprises to authorise each transaction. Using this feature, business enterprises need not compromise their own authorisation mandates to suit transactions done through the Group's Internet Banking channel.

In September 2002, in a joint effort with the Employees Provident Fund (EPF), the Public Bank Group began offering an online EPF contribution service to all business enterprise



customers using PBeBank.com. With this service, employers may submit their organisation's EPF contribution details electronically and execute online realtime payments of their EPF contribution. Employers benefit from this service with the convenience and speed of online submissions, which can be fully integrated with their payroll systems. For business enterprises, particularly small- and medium-size enterprises, which do not have automated payroll systems, a free desktop PC application is provided to generate the EPF contribution file in accordance with EPF's requirements for submission to the EPF. With EPF's strategy to make online contributions a primary channel over the next few years, the Group is well placed to provide this service to our customers.

Other statutory contributions such as submitting employees' schedular tax deductions payments for income tax will be made available in PBeBank.com by the second quarter of 2003. Together with payroll services which can also be processed over the Internet, PBeBank.com will therefore be able to offer a comprehensive suite of online payment services to business enterprises.

In line with the nation's direction on Information and Communications Technology, PBeBank.com is the first Internet Banking service in the country that is in full compliance with the Public Key Infrastructure (PKI) application which is to be embedded in the 'smart' national identity card, MyKad in 2003. PKI-based security represents the highest commercially available standard for online security, which utilises digital certificates and digital signatures that are legally recognised under the Digital Signatures Act. Mandatees of business enterprises can digitally authorise each transaction using their MyKad that has been PKI-enabled. Its multi-level authorisation feature provides business enterprises with both a high level of security and control over online transactions, whilst still benefiting from the convenience and ease-of-use of the Internet channel.

For consumers, PBeBank.com has been continuously enhanced throughout 2002 to provide more value-added and user-friendly functions to ensure customers enjoy a more convenient and secure banking environment. These include being able to conduct interbank funds transfers and requests for bankers' cheques and demand drafts, as well as the convenience of purchasing recharge codes online for prepaid mobile telephone services.

Efforts to improve the Internet Banking service will continue in 2003. Existing functions are being constantly reviewed and further improved upon in terms of usability. With the increase in users of PBeBank.com, emphasis will be given to ensure the performance of the Internet Banking system consistently meets customers' expectations. Other convenience-oriented features are also being developed, such as the ability to register for the PBeBank.com service through the ATM.

To ensure this channel continues to provide a trusted means to access banking services, the Public Bank Group accords a very high priority to Internet Banking security. By implementing a wide range of industry-proven measures, such as a multi-tiered security model, intrusion detection mechanisms, firewalls and up-to-date anti-virus systems, as well as 24-hour monitoring, all security threats are proactively addressed. In addition, all aspects of system security are constantly being reviewed and tested, in the light of new threats which continue to arise.

With the robust infrastructure in place, the Public Bank Group's Internet Banking system is ready to leverage on the Group's wide range of financial services by offering related online functions, such as placement of additional unit trust investments through Public Mutual. In addition, the Group is technically prepared for the upcoming initiative by Bank Negara Malaysia to implement a national interbank online payment gateway to facilitate e-commerce.

Moving forward to capitalise on the robust Internet Banking infrastructure, the Public Bank Group has plans to avail more technologically oriented delivery channels, such as Mobile Banking and Kiosk Banking, in 2003. With the growing range of delivery channels, the Group will also be embarking on integrated channel management strategies to maximise leverage in all the Group's delivery channels with the aim to further improve customer service levels and cost efficiency.



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“ Another principal Treasury activity of the Public Bank Group is the sale and distribution of foreign exchange related products to the Group's retail and corporate customers. The allocation of resources over the past few years to build up the Group's Treasury marketing functions continue to bear fruit in 2002, as foreign exchange profits increased to RM53 million in 2002 compared to RM40 million in the preceding year.

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Capital Market Operations

The capital market activities of the Public Bank Group are primarily focused on the Treasury activities of the Group, the business of Public Merchant Bank, the capital market functions of Public Bank's Corporate Banking Division, the fund management business of Public Mutual and the share broking business of PB Securities. The Malaysian capital market has been playing an increasingly important role in the financial services sector and this is expected to continue in the future. The Group's capital market strategies are focused on tapping the synergistic benefits among the Group's service providers in the capital markets and the strong retail banking and financing customer base of the Group.



TREASURY

Domestic Ringgit capital market activities and the sale and distribution of foreign exchange related products to retail and corporate customers continued to underpin the Public Bank Group's Treasury operations in 2002. It is in these two areas that the Group had in recent years allocated its main Treasury resources, and contribution to the Group's profits from these two areas during 2002 had been satisfactory.

The Public Bank Group had in 1999 initiated the process of moving away from its traditional position of being a major provider of interbank funding to other financial institutions in the domestic money market as the domestic-controlled banking institutions underwent a major consolidation process which was completed in 2001. The Group has become more prominent as an investor in debt securities in line with the increasingly important role the capital market has assumed in the domestic financial services sector. In 2002, the Group continued to invest in private debt securities as a means to enhance the yield of its Treasury assets. Despite several large-sized redemptions and maturities during the year, the Group's holding of private debt securities of RM2.18 billion constitutes approximately 46% of its portfolio of investment securities. The Group's Treasury operations in the capital market in 2002 generated gains of RM55 million from the sale of investment and dealing securities. Although this was lower than the previous year's gains of RM114 million, the results were satisfactory considering that short term interbank interest rates had remained stable throughout 2002 and there were no grounds for the long term yield curve to flatten further.



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Although the Public Bank Group aims to continue growing its portfolio of private debt securities and other long term debt securities, the Group is mindful of the inherent market risk that this strategy entails. The Group's Treasury operations continue to adhere strictly to the risk management policies and limits set, to ensure that the market risk associated with the holding of a portfolio of fixed rate securities falls within acceptable tolerance limits.

Another principal Treasury activity of the Public Bank Group is the sale and distribution of foreign exchange related products to the Group's retail and corporate customers. The allocation of resources over the past few years to build up the Group's Treasury marketing functions continues to bear fruit in 2002, as foreign exchange profits increased to RM53 million in 2002 compared to RM40 million in the preceding year. With rationalisation of the Group's Treasury resources, there is scope to allocate further resources to this area of activity.

In 2002, Public Bank was re-appointed a Principal Dealer by Bank Negara Malaysia. In this capacity, the Bank provided market liquidity for specified securities and was a conduit for Bank Negara Malaysia to conduct its money market operations. The Bank's appointment as a Principal Dealer was reaffirmed in 2003. The Treasury operations of both Public Bank and Public Finance are expected to be fully rationalised by early 2003, which will enhance the management of Treasury assets and liabilities as a group and improve utilisation of resources. This will also bring about synergistic benefits by combining Public Bank's traditional role as a provider of funding with the income flows derived from Public Finance's significant portfolio of longer term fixed rate assets.



CORPORATE LENDING

As at 31 December 2002, the Public Bank Group's corporate lending assets stood at RM3.48 billion, as compared to RM4.63 billion a year ago. The contraction in the corporate loans portfolio was primarily due to the restructuring of a number of corporate loans and the reduction in the disbursement of new corporate loans as a result of the shift of corporate customers to the capital markets. Despite the contraction of the corporate lending portfolio, the corporate lending activities chalked up a profit of RM129 million, an increase of RM43 million as compared to 2001. This was primarily due to the write-back of general allowances and net bad debts recovered.

2002 saw the successful restructuring of a number of corporate loans of the Public Bank Group under the purview of the Corporate Debt Restructuring Committee. The amount of corporate loans restructured in 2002 totalled RM311 million, with RM231 million of these corporate loans converted into marketable private debt securities. The restructuring of these non-performing corporate loans had reduced the non-performing loans ratio of the Group by 0.8% in 2002.

Despite the increasing attraction of the issuance of private debt securities as an alternative source of funding by corporate customers, the need for traditional corporate lending will not be replaced entirely by the capital market. The Public Bank Group believes that there will still be demand for traditional lending for both short term and longer term financing as well as in trade financing. The greater flexibility of bank credit facilities, quicker approval processes as compared to private debt securities issues and the ability to increase facility limits quickly are factors that will see large corporates continuing to access the banking system for credit facilities.

In 2002, the Public Bank Group's corporate lending and investment banking businesses had re-aligned their activities to meet synergistic objectives through a conscious effort undertaken during marketing visits to cross sell corporate lending and investment banking services. The shift towards private debt securities as an alternative source of funding had also presented the Group's corporate lending and investment banking businesses the opportunity to further pool their resources to move into areas which complements the debt capital market. During the year, the Group continued to participate in both the primary and secondary debt capital markets and acted in the capacity of guarantor, underwriter and tender panel member for a number of private debt securities issues.

In its corporate lending business, the Public Bank Group will continue to maintain its prudent credit culture in order to keep the traditional strong asset quality ratios of the Group intact.

INVESTMENT BANKING

The Public Bank Group's second full year of participation in the domestic investment banking business, through its wholly-owned subsidiary, Public Merchant Bank saw an improvement in pre-tax earnings from RM9.3 million in 2001 to RM12.9 million in 2002. This was fuelled by the improved Malaysian capital market environment during 2002 which gave rise to a need for more corporate advisory services as well as a growing awareness of Public Merchant Bank's capabilities in the marketplace.

Public Merchant Bank has had a successful year especially in its fee-based corporate advisory activities. The corporate finance and advisory division of Public Merchant Bank managed to secure an increased number of mandates and its fees billing had increased by more than two-fold over that recorded in 2001. To support this expanding portfolio of mandates and to gain a strategic position in the competitive domestic merchant banking industry, the corporate finance and advisory division of Public Merchant Bank expanded from a pioneering team of 10 professionals to 21 as at end of 2002. In line with Public Merchant Bank's objective to create, enhance and maximise value for its customers, Public Merchant Bank has continued to emphasise the provision of professional, value-added and quality advisory services, in line with best market practices. Towards this goal, Public Merchant Bank has been continuously developing long-term relationships with its customers.



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During the year, Public Merchant Bank had featured actively in providing corporate finance services for corporate and debt restructurings as well as mergers and acquisitions. This is in tandem with the needs of the domestic capital market, specifically in relation to the rescue of financially distressed companies listed on the Kuala Lumpur Stock Exchange (KLSE), more commonly known as Practice Note 4 (PN4) companies. Leveraging on the core competencies of its expanding professional team, Public Merchant Bank had become one of the active advisors for the corporate and debt restructurings of these PN4 companies. In addition, Public Merchant Bank had been active in advising clients in

respect of initial public offerings (IPO) on the Main and Second Board of the KLSE as well as on the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) market. Public Merchant Bank is also turning its attention to the fast growing market for the origination of corporate debt issues.

In its pursuit of corporate finance and advisory mandates, Public Merchant Bank continues to exercise a high degree of prudence in respect of the credit risks associated with such mandates, reflecting the Public Bank Group's traditional prudent appetite for credit risk and its maintenance of strong asset quality, and an unwillingness to sacrifice asset quality in pursuit of a mandate.

FUND MANAGEMENT

Notwithstanding the moderation of the pace of growth of the Malaysian unit trust industry since the financial crisis of 1997/1998, the industry had continued to maintain its upward trend in terms of the value of funds managed and in the number of unit holders. This was the result of the continuous efforts by the industry players in educating investors to create greater awareness and interest in the area of professional fund management. The low interest rate environment and the continued availability of the Employee Provident Fund Member's Investment Scheme have also played a role in the growth of the industry. The ratio of the industry's Net Asset Value (NAV) of unit trust funds under management to the market capitalisation of the KLSE increased from 10.2% as at end-2001 to 11.2% as at end-2002.

On 13 May 2002, Kuala Lumpur Mutual Fund Berhad assumed the new corporate name of Public Mutual Berhad to reflect the company's membership of the Public Bank Group.

Public Mutual ended 2002 with a 16% growth in NAV of unit trust funds under management for the year. With a total NAV of unit trust funds managed of RM5.8 billion, Public Mutual continued to be the largest private unit trust manager in Malaysia with a portfolio of fifteen unit trust funds. The total approved fund size of Public Mutual stood at 19.5 billion units as at end of 2002, an increase of 23% from the previous year. During the year, all unit trust funds managed by Public Mutual achieved positive returns with the PB Balanced Fund recording the highest total returns of 6.9%, followed by the Public Bond Fund of 6.5%.



Year	Number of Funds	Net Asset Value RM Billion
2002	15	5.8
2001	13	5.0
2000	11	4.1
1999	10	3.8
1998	9	2.2

On 20 February 2003, Public Mutual emerged as one of the winners in the Edge-Lipper Malaysia Unit Trust Fund Award 2002, taking three awards. The Public Index Fund was accorded the Best Performing Fund of the Equity Index Tracking category for the three year and five year periods and the Public Bond Fund was awarded the Best Performing Fund of the Bond General category for the five year period.

In tandem with the growth in the domestic unit trust market, Public Mutual launched two more unit trust schemes, the PB Growth Fund (PBGF) and the PB Fixed Income Fund (PBFi) in October 2002 with an initial approved fund size of 600 million units and 300 million units respectively. The PBGF targets investors seeking capital growth through investment in a diversified portfolio of growth stocks. The PBFi targets investors seeking low risk, fixed income investment with a portfolio invested in private debt securities, bonds and money market instruments. Together with the existing series of unit trust funds, Public Mutual now offers a comprehensive choice of funds to investors.

The launch of the two new funds, PBGF and PBFi, together with the existing PB Balanced Fund will allow the Public Bank Group to continue to tap into the large retail customer base of the Group to expand the Group's unit trust business. 2003 will witness further joint sale and promotion campaigns organised to take advantage of Public Bank Group's network of branches and Public Mutual's large distribution force of over 7,700 agents.

Recognising the potential for growth in the area of financial planning, Public Mutual introduced and trained over 800 agents to use the Financial Freedom Financial Planning Advisor (FP Advisor) tool during 2002. The FP Advisor is an

in-house developed financial planning software that affords Public Mutual agents the exclusive right to provide in-depth financial planning consultation and fund investment analysis instantaneously, to efficiently and effectively assist Public Mutual customers in the management of their financial planning.

With the wide spread acceptance and the use of the Internet as a mode to conclude transactions, Public Mutual embarked on the development on an Online Transaction Processing (OLTP) System which encapsulates the latest multi-tier web-enable technology. The OLTP System is expected to go on-stream in the second half of 2003. The OLTP System will also serve as a platform for future implementation of e-commerce.

SHARE BROKING

The Kuala Lumpur Stock Exchange Composite Index (KLSE CI) started the year on a strong footing and reached the year high of 817 points on 23 April 2002. However, due to several external factors including a weaker economy in the United States of America (US), corporate scandals in the US and the fear of a US war with Iraq, the KLSE CI slid to its year low of 614 points on 3 December 2002 before recovering slightly to end the year at 646 points. The KLSE turnover for 2002 was RM132 billion as compared to RM96 billion in the previous year. The total market capitalisation increased by RM17 billion from RM465 billion at the end of the previous year to RM482 billion at the end of 2002.

During the year, the stockbroking industry experienced further consolidation and liberalisation. The merger of the KLSE and the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) was completed in March 2002. The



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second phase of the reduction and liberalisation of brokerage rates was implemented in July 2002 where brokerage rates are now fully negotiable subject to a cap of 0.7% as specified by the KLSE. The year also saw the KLSE introducing more incentives and flexibilities for the universal brokers. In line with the Capital Market Masterplan, the demutualisation of KLSE is in progress and is targeted to be completed by the second half of 2003.

Amidst the demanding business environment with the further liberalisation in brokerage rates and greater competition from the expansion of the universal brokers, PB Securities recorded a pre-tax profit of RM12.4 million for 2002 compared to RM7.5 million in 2001. The improved result was due to the higher volume traded on the KLSE and increased trading activities from the Public Bank Group's share financing activities. In 2002, PB Securities continued to benefit from the Group's expanding PB ShareLink services, an interactive service delivery system specifically for share trading. As a result of the expanding PB ShareLink services, the turnover of PB Securities had increased as all trades performed by the 23 branches of the Group using PB ShareLink were channeled to PB Securities. With PB ShareLink moving into online trading via the Internet and the Group extending the PB Sharelink service to more branches, PB Securities will continue to benefit from improved Group synergies.

Increasing PB Securities market share through the large customer base of the Public Bank Group continues to be the goal of PB Securities. The Group-wide ICT infrastructure and PB ShareLink will facilitate this goal. PB Securities will continue to explore automation of processes to improve efficiency and at the same time emphasise good risk management practices and proper internal control procedures in the conduct of the Group's share broking business activities.

Company	FINANCE	High	Low	High	Low
BAYBANK 200	7.950	7.950	7.950	7.950	7.950
MSIA BLD SOCIETY	0.280	0.280	0.280	0.280	0.280
KALPAC HOLDING	0.740	0.740	0.740	0.740	0.740
WIDE BHD	0.780	0.780	0.780	0.780	0.780
MNI HOLDINGS	0.780	0.780	0.780	0.780	0.780
MS N REINSURANCE	2.040	2.040	2.040	2.040	2.040
MSIAN PLANTATION	2.310	2.310	2.310	2.310	2.310
USA HOLDINGS	0.810	0.810	0.810	0.810	0.810
PACIFIC & ORIENT	1.290	1.290	1.290	1.290	1.290
PACIFICMAY	1.420	1.420	1.420	1.420	1.420
PACIFICMAY-PRON	1.300	1.300	1.300	1.300	1.300
PAN MSIA CAPITAL	1.480	1.480	1.480	1.480	1.480
PAN MSIA CAP-FRE	0.240	0.240	0.240	0.240	0.240
PUBLIC FINANCE	7.400	7.400	7.400	7.400	7.400
PUBLIC FIN PRON	7.400	7.400	7.400	7.400	7.400
PUBLIC BANK BHD	2.210	2.210	2.210	2.210	2.210
PUBLICBANK FOREIGN	2.430	2.430	2.430	2.430	2.430
RHB CAPITAL	1.400	1.400	1.400	1.400	1.400
RAHMO HOLDING	0.880	0.880	0.880	0.880	0.880
SOUTHERN BANK	2.220	2.220	2.220	2.220	2.220
SOUTHERN SA-FRON	2.490	2.490	2.490	2.490	2.490
SURIA CAPITAL	0.470	0.470	0.470	0.470	0.470
TA INTERPRESE	0.490	0.490	0.490	0.490	0.490
SYT TAKAFUL MSIA	2.440	2.440	2.440	2.440	2.440
UTAMA BANKING	0.400	0.400	0.400	0.400	0.400

Islamic Banking

The Islamic Banking business of the Public Bank Group continued to register strong growth in 2002. The Group's Islamic Banking total assets expanded sharply from RM3.39 billion in 2001 to RM4.75 billion in 2002, an increase of RM1.36 billion or 40%. The Islamic Banking operations posted a 45% increase in profitability from RM97 million in 2001 to RM141 million in 2002. The continued expansion was supported by the various measures taken by Bank Negara Malaysia and continuous marketing efforts undertaken by the Group in introducing new Islamic Banking products.

At the end of 2002, Islamic Banking assets accounted for 8% of the Public Bank Group's total assets compared to 6% at the end of 2001 and is a reflection of the wider acceptance of Islamic financing concepts as an alternative to conventional banking. The growth in Islamic Banking assets came from Islamic financing activities, in particular from *Al-Ijarah Thamma Al-Bai* (AITAB) financing for the purchase of transport vehicles and *Al-Bai Bithaman Ajil* (ABBA) financing for the purchase of properties. Much emphasis was placed on promoting and marketing AITAB financing and ABBA financing during 2002 and this has yielded results with AITAB financing and ABBA financing recording increases of 117% and 99% respectively. The intense marketing of personal financing under the *Bai Al-Einah* (BAE) financing concept which were offered to employees of government agencies and corporations generated results with the amount under BAE financing recording an increase of 165% over the previous year. In addition, the Group's BAE Plus financing for residential mortgage customers continued to grow in 2002.

A substantial portion of funds for the Public Bank Group's Islamic Banking operations was sourced from customers deposits which accounted for 83% of total funding of the Islamic Banking book. Total Islamic Banking customers deposits of the Group grew by RM1.48 billion or 60% to reach RM3.96 billion as at end of 2002, amounting to 8% of the Group's total customers deposit base as compared to 6% in 2001. The growth in Islamic Banking customer deposits were primarily from lower-cost demand deposits which grew by RM732 million or 203%. In February 2002, Public Bank launched a new Islamic Banking deposit product for junior savers, the BESTARI Mudharabah Savings Account. This savings product has an added feature of free personal takaful insurance coverage of up to RM100,000 and unlimited number of withdrawals with no penalty.



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In order to further drive the development of Islamic banking and financing, Bank Negara Malaysia has imposed separate capital adequacy requirements for the Islamic banking and financing business of banking institutions that offer Islamic banking and financing services. Islamic banking and financing portfolios of banking institutions participating in Islamic Banking Schemes were required to be supported by the specific allocation of Islamic banking and financing capital to be maintained at a minimum core capital ratio of 4% and risk weighted capital ratio of 8% with effect from 2 January 2002. The Public Bank Group's Islamic Banking core capital ratio and risk weighted capital ratio stood at 14.8% and 16.5% respectively as at 31 December 2002. During the year, a standard framework for the computation of the rate of return for the Islamic banking and financing portfolios of financial institutions offering Islamic banking and financing services was formulated by Bank Negara Malaysia with the aim at providing a transparent marketplace for the financial institutions offering Islamic Banking Schemes in deriving the rate of return.

The inauguration of the global Islamic Financial Services Board (IFSB), with its secretariat based in Bank Negara Malaysia, in November 2002 marked another important milestone in the development of global Islamic banking and finance. The IFSB acts as a global authority for setting standards for Islamic banking and finance. An important role of the IFSB will be to ensure that Islamic banking and finance jurisdictions globally incorporates international best practices and standards for the supervision and regulation of Islamic financial transactions, and that they are not only consistent with Islamic principles, but are also based on

ISLAMIC BANKING

	Public Bank Group	
	2002 RM Million	2001 RM Million
Income Statement		
Financing income	259.2	166.0
Income attributable to depositors	(89.6)	(60.3)
	169.6	105.7
Other Islamic Banking income	39.1	27.0
	208.7	132.7
Allowance for losses on loans, advances and financing	(37.8)	(19.8)
	170.9	112.9
Overhead expenses	(30.1)	(15.7)
Profit before taxation	140.8	97.2
Key Balance Sheet Items		
Total assets	4,751	3,389
Loans, advances and financing	3,660	1,699
Deposits from customers	3,957	2,473
Islamic Banking Funds	541	236
Core capital ratio (prescribed = 4%)	14.8%	11.2%
Risk weighted capital ratio (prescribed = 8%)	16.5%	12.7%



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The inauguration of the global Islamic Financial Services Board (IFSB), with its secretariat based in Bank Negara Malaysia, in November 2002 marked another important milestone in the development of global Islamic banking and finance.

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prudential standards that are on par with those observed in conventional banking systems. The establishment of the IFSB will further pave the way for the expansion of Islamic banking and finance activities not just in the domestic market but also internationally and confirms the leading role played by Bank Negara Malaysia in the promotion of Islamic banking and finance globally.

The Public Bank Group is committed to continue to grow its Islamic Banking operations along the lines of the Financial Sector Masterplan. The Group will strive to ensure customers changing needs are met and new products developed to provide a comprehensive set of investment opportunities in Islamic banking and finance. Intensive training in collaboration with the Islamic Banking and Finance Institute Malaysia for branch managers and credit officers are on-going to equip the Group's staff with the knowledge and skills to promote and increase public awareness on the benefits of Islamic banking and finance.



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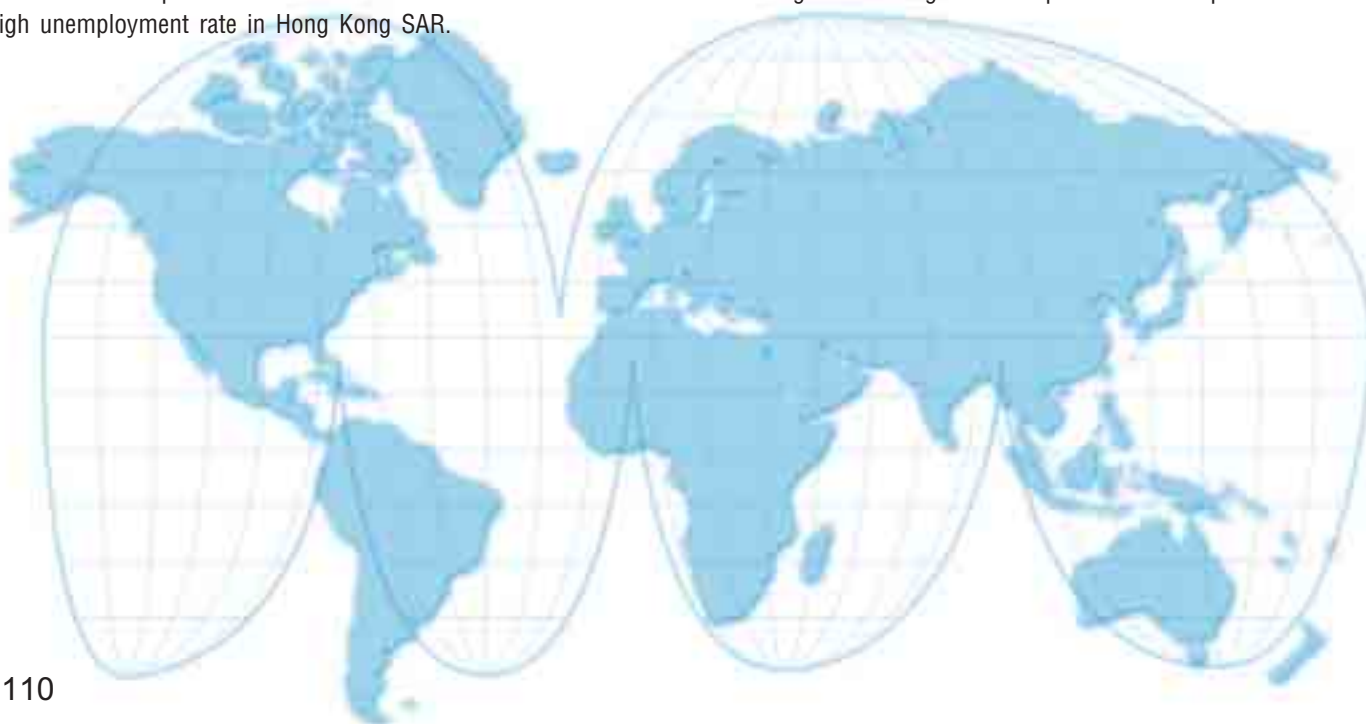
International Operations

The Public Bank Group's international operations comprise of branches in Hong Kong SAR, Sri Lanka and Laos, a wholly-owned subsidiary, Cambodian Public Bank Limited in Cambodia, the JCG Group in Hong Kong and a joint-venture bank in Vietnam, VID Public Bank which has branches in Hanoi, Ho Chi Minh City, Danang and Haiphong. International operations contributed 11% to the Public Bank Group's pre-tax profit in 2002 with the main contributions to profits coming from the Group's operations in Hong Kong SAR.

Public Bank Group's operations in Hong Kong SAR faced another difficult year in 2002 as the territory continued to face structural problems in its economy which was hit by a severe recession, continuing deflation, plunging property prices, a high unemployment rate and rising bankruptcies. The bleak economic scenario resulted in weak demand for loans and the intense competition in the banking sector led to pressure on margins.

The JCG Holdings Group's business in Hong Kong SAR revolve around its wholly-owned subsidiary, JCG Finance Company, Limited (JCG Finance) and its 71% owned subsidiary Winton Holdings (Bermuda) Limited and its subsidiaries. JCG Finance's operations include the provision of personal financing to working individuals, property mortgage loans and the taking of customer deposits through a network of 40 branches in Hong Kong SAR. The Winton Group remained focused on its core business in the provision of financing to purchasers of taxi licences and taxi trading and related businesses.

The operating environment in Hong Kong SAR is expected to remain difficult and challenging in 2003. Amidst such unfavourable conditions, the JCG Holdings Group will continue to focus on marketing and promoting its loan products, in particular its consumer loans. At the same time, the JCG Holdings Group will strengthen its credit risk management and apply more stringent assessment and prudent loan limits for its consumer loans business in the light of the high level of personal bankruptcies and high unemployment rate in Hong Kong SAR.



Winton Holdings had announced on 3 December 2002 a proposed privatisation of the company by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda. The proposed privatisation of Winton Holdings was approved by minority shareholders of Winton Holdings on 27 February 2003. Upon the proposed privatisation becoming effective, Winton Holdings will become a wholly-owned subsidiary of JCG Holdings Limited, and the listing of Winton Holdings on the Stock Exchange of Hong Kong Limited would be withdrawn.

The economic outlook in Cambodia remains positive and encouraging. The tourism industry is expected to continue to be the main contributor to the country's economy. The "open-sky" policy adopted at Siem Reap Airport near the historical site of Angkor Wat is resulting in a significant increase in tourist arrivals. To capitalise on the opportunities arising from the growing economic activities, a branch of Cambodian Public Bank Limited was opened in Siem Reap in July 2002.

In Vietnam, restrictions placed by the State Bank of Vietnam on foreign and joint-venture banks has affected VID Public Bank's scope of operations. The recent upliftment by the State Bank of Vietnam of the Vietnamese Dong base interest rate mechanism and the discretion given to credit institutions to negotiate and determine Vietnamese Dong interest rates with their borrowers has led to more intense competition between banks in Vietnam, putting pressure on VID Public Bank's earnings.

In Sri Lanka, the long drawn ethnic conflict and the political instability continued to have an adverse impact on the inflow of foreign investments into Sri Lanka. The economy continued to remain sluggish and this has had a dampening effect on the performance of Public Bank's Sri Lanka Branch.

Despite the difficult operating environment prevailing in the host countries, the Public Bank Group's international operations remained profitable.

Outlook For 2003

The Malaysian economy is expected to register real GDP growth of about 5% in 2003, surpassing the 4.2% growth rate in 2002. The expected improved performance of the Malaysian economy in 2003 is envisaged to come from further strengthening of domestic-oriented industries, particularly in the manufacturing and services sectors. The Government's accommodative monetary policy will continue to provide a conducive business environment for the private sector, and the role of small- and medium-size enterprises (SMEs) will gain more prominence in the expansion of the economy. Consumer sentiment and business confidence in Malaysia are also expected to improve under a regime of low interest rates, low inflation and low unemployment. This positive outlook is premised on the expectations of a reasonably favourable external environment and the gradual recovery in the US economy in 2003.



CHAIRMAN'S REVIEW

Business Operations Review



The world economy is expected to rebound by 2.5% in 2003 from 1.7% in 2002, led by growth in East Asia and the Pacific regions. Malaysia will continue to benefit from the increasing exports to the East Asian region, particularly China. In addition to trade in goods, Malaysia can expect to gain from trade in services, especially intra-regional tourism, education and health-related activities.

The positive economic environment will have a favourable impact on the banking sector in terms of increased financing needs for investment and capacity expansion, and improving asset quality. However, the banking sector is expected to remain challengingly competitive in 2003 with net interest margins continuing to be under pressure due to the excess liquidity in the banking system and the on-going disintermediation of bank lending by the capital market. The continuing liberalisation of the banking sector, which will benefit customers in terms of easy access, quality choices and competitive prices, will also challenge banking institutions to become more innovative in product development and marketing. Banking institutions will be compelled to increase their operational efficiency to mitigate the effects of narrower lending spreads and improve service quality to fulfill the more discerning needs of customers.

A key development under the Financial Sector Masterplan is the merging of the commercial banking and finance company businesses of banking groups into one single entity in the group. Under this arrangement, the domestic commercial banking institutions would, in addition to its commercial

banking business, be able to undertake finance company business. This would allow commercial banks to take advantage of economies of scale, eliminate duplication and strengthen their customers and earnings base. This phase of development is expected to take place in 2003 with the forthcoming amendments of the licencing requirements and laws regulating the operations of banking institutions. The Public Bank Group has already initiated the process of merger integration with detailed planning for the alignment of Public Bank and Public Finance branches and the training of staff to ensure that the merger integration will be smooth and seamless to customers of the Group. The Group's ICT systems are also well positioned for the merger integration. The merger of the finance company business of Public Finance with the commercial banking business of Public Bank will enhance the competitiveness, efficiency and effectiveness of the Group to compete in the increasingly challenging banking and financing environment, and strengthen our quest to be the preferred one stop financial services provider in Malaysia.

Going forward, the Public Bank Group will continue to focus on its core areas of operations and competencies, and improve on its efficiency. While maintaining its prudent management of assets to achieve strong asset quality and a healthy balance sheet, the Group is always mindful of discharging its social responsibility as a good corporate citizen. The Public Bank Group will continue to leverage on its strong domestic branch network to reach the retail mass market to expand its lending business, with priority being accorded to SMEs and retail consumers especially to the relatively smaller borrowers who require scalable support for their business operations.

TAN SRI DATO' SRI DR. TEH HONG PIOW
Chairman