

Statement of Responsibility by Directors

STATEMENT OF RESPONSIBILITY BY DIRECTORS in respect of the preparation of the annual audited financial statements

The Directors are responsible for ensuring that the annual audited financial statements of the Group and the Bank are drawn up in accordance with the requirements of the applicable approved accounting standards in Malaysia, the provisions of the Companies Act, 1965 and Bank Negara Malaysia's Guidelines and the Listing Requirements of Malaysia Securities Exchange Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and the Bank are prepared with reasonable accuracy from the accounting records of the Group and the Bank so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2003, and of the results of their operations and cash flows for the year ended on that date.

In preparing the annual audited financial statements, the Directors have:

- a. applied the appropriate and relevant accounting policies on a consistent basis;
- b. made judgments and estimates that are reasonable and prudent; and
- c. prepared the annual audited financial statements on a going concern basis.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Group and the Bank to prevent and detect fraud and other irregularities.

DIRECTORS' REPORT

for the year ended 31 December 2003

The Directors have pleasure in presenting to the members their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in all aspects of banking business which include Islamic banking and the provision of related financial services.

The principal activities of the subsidiary and associated companies are as disclosed in Notes 11 and 12 to the financial statements respectively.

There were no significant changes to these principal activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Profit before tax expense and zakat	1,455,076	1,409,202
Tax expense and zakat	(367,390)	(359,211)
Profit after tax expense and zakat	1,087,686	1,049,991
Minority interests	(84,548)	—
Net profit for the year	1,003,138	1,049,991

DIVIDENDS

Since the end of the previous financial year, the Bank paid a final dividend of 18.0%, less 28% tax, amounting to RM299.987 million on 7 May 2003.

The Directors recommend the payment of a final dividend of 22.0%, less 28% tax, amounting to RM503.0 million (7.9 sen net per share) in respect of the current financial year, based on the issued and paid-up capital as at 31 December 2003 of 6,351,015,955 ordinary shares of RM0.50 each, excluding treasury shares held by the Bank.

ISSUE OF SHARES

During the financial year, the issued and paid-up share capital of Public Bank Berhad ("PBB") was increased from 4,629,054,106 ordinary shares of RM0.50 each in the Bank ("PBB Shares") to 6,413,199,455 PBB Shares by the issuance of:

- (i) 120,288,981 PBB Shares pursuant to the exercise of options granted under the Public Bank Berhad Employees' Share Option Scheme at the following option prices:

Number of PBB Shares issued:	Option price per share:
1,266,873	RM0.82
300,630	RM1.02
30,928,450	RM1.70
87,711,528	RM1.78
81,500	RM2.22

- (ii) 405,197,847 PBB Shares at an issue price of RM2.31 per PBB Share in exchange for 135,065,949 ordinary shares of RM1.00 each in Public Finance Berhad ("PFB"), on the basis of three (3) new ordinary shares of RM0.50 each in PBB to be listed and quoted as "Local" on the Main Board of Malaysia Securities Exchange Berhad for every one existing PFB share held by the shareholders of PFB, other than PBB; and

- (iii) 1,258,658,521 PBB Shares pursuant to the completion of a bonus issue, as disclosed in Note 48(a) to the financial statements, by way of capitalisation of RM629,329,261 from the Share Premium Account.

All the new ordinary shares that were issued, rank pari passu in all respects with the existing ordinary shares of PBB.

SHARE BUY-BACK

On 18 April 2003, the shareholders of Public Bank Berhad ("PBB") renewed their approval for PBB to buy-back its own shares. During the year, PBB bought back 62,183,500 PBB Shares on the open market at an average purchase price of RM2.73 per share. The total consideration paid for the share buy-back of PBB Shares by the Bank, including transaction costs was RM169,960,479 and was financed by internally generated funds. The PBB Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. None of the treasury shares held were resold or cancelled during the financial year.

PUBLIC BANK BERHAD GROUP EMPLOYEES' SHARE OPTION SCHEME

Details of the Public Bank Berhad Group Employee Share Option Scheme ("PBB ESOS") are as disclosed in Note 21(b) to the financial statements. The expiry date of the PBB ESOS is on 25 February 2005.

PUBLIC BANK BERHAD GROUP EMPLOYEES' SHARE OPTION SCHEME (continued)

In respect of the offer of PBB ESOS on 16 June 2003 and 22 December 2003, the Bank has been granted an exemption by the Companies Commission of Malaysia from having to disclose the names of option holders who have been granted options in aggregate of less than 500,000 options. The names of option holders and the number of options granted which in aggregate are 500,000 options and above are set out below:

Name of Option Holders	Number of PBB Share Options			
	Granted on 16 June 2003	# Adjustment	Granted on 22 December 2003	Total
Chang Kat Kiam	400,000	100,000	350,000	850,000
Leong Kwok Nyem	400,000	100,000	350,000	850,000
Wong Jee Seng	400,000	100,000	350,000	850,000
Soong Hoe Seng	300,000	75,000	300,000	675,000
Jenny Cheng Siew Ngoh	300,000	75,000	300,000	675,000
Chia Lee Kee	300,000	75,000	300,000	675,000

Arising from the Public Bank Berhad ("PBB") bonus issue on 16 July 2003 on the basis of one (1) PBB option for every four (4) PBB options held.

Other than as disclosed, no other options were granted to any person to take up unissued shares of the Bank during the year.

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than those disclosed in the financial statements.

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the income statements and balance sheets of the Group and the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate allowance had been made for bad and doubtful debts and financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts and financing, or the amount of the allowance for doubtful debts and financing in the financial statements of the Group and the Bank, inadequate to any substantial extent.

CURRENT ASSETS

Before the income statements and balance sheets of the Group and the Bank were made out, the Directors took reasonable steps to ensure that current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and the Bank have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets and liabilities in the financial statements of the Group and the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group or the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Group or the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

No contingent or other liability of the Group and the Bank has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or the Bank to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and the Bank, which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and the Bank for the current financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE YEAR

- (a) On 13 June 2003, Public Bank Berhad (“PBB”) completed the privatisation of Public Finance Berhad (“PFB”) by way of a scheme of arrangement under Section 176 of the Companies Act, 1965 between PFB and its shareholders, other than PBB, with the following:
- (i) PBB acquired all the remaining ordinary shares of RM1.00 each in PFB not already owned by PBB by the issuance of 405,197,847 new ordinary shares of RM0.50 each in PBB to be listed and quoted as “Local” on the Main Board of Malaysia Securities Exchange Berhad, (“PBB Local Shares”) in exchange for 135,065,949 PFB shares, on the basis of three (3) new PBB Local Shares for every one (1) existing PFB Share held by the shareholders of PFB, other than PBB (“Share Exchange”); and
 - (ii) the payment of a special gross interim dividend of 138.9% less tax of 28% prior to the completion of the Share Exchange (“PFB Special Dividend”) amounting to RM1.00 per PFB Share.

The Share Exchange and PFB Special Dividend are collectively referred to as the PFB Privatisation.

The bonus issue by PBB of 1,258,658,521 new PBB Shares which was credited as fully paid-up on the basis of one (1) new PBB Share for every four (4) existing PBB Shares held, conditional upon and after the completion of the PFB Privatisation, was completed on 16 July 2003.

- (b) On 31 March 2003, HHB Holdings Berhad (“HHB”), a wholly-owned subsidiary of Public Bank Berhad (“PBB”) which is listed on the Main Board of Malaysia Securities Exchange Berhad (“MSEB”) had announced that MSEB had granted an extension of time of six months from 28 February 2003 to 27 August 2003 for HHB to make the Requisite Announcement pursuant to the requirements of Practice Note 10/2001 (on “Level of operations”) and Paragraph 8.15 (on “Compliance with shareholding spread requirement”) of the Listing Requirements of MSEB to warrant continued listing and trading of HHB Shares on the Main Board of MSEB (“Requisite Announcement”).

On 21 May 2003, HHB announced that HHB had entered into a Memorandum of Understanding (“MOU”) with PBB, Rentak Baru (Sabah) Sdn Bhd (“RBSB”), Mr Lee Nyuk Heng (“LNH”) and Dr. Tan Su Haw (“TSH”) for HHB to undertake a corporate exercise which included, inter-alia, the following:

- (i) proposed repayment of capital exercise by HHB;
 - (ii) proposed acquisition of HHB from PBB by RBSB or LNH and TSH;
 - (iii) proposed acquisition of assets by HHB; and
 - (iv) proposed offer for sale of HHB Shares.
- (collectively known as the “Proposals”).

On 24 September 2003, HHB announced that the MOU had lapsed on 17 September 2003 and had not been extended.

On 6 October 2003, HHB had announced that MSEB had granted further extension of time until 31 December 2003 for HHB to make the Requisite Announcement. On 31 December 2003, HHB had announced that an application had been submitted to MSEB for extension of time for HHB to make the Requisite Announcement pursuant to paragraph 6.1(a) of Practice Note 10/2001 and on 20 January 2004, HHB had announced that MSEB had granted an extension of time of six months from 31 December 2003 to 30 June 2004 for HHB to make the Requisite Announcement.

SIGNIFICANT EVENTS DURING THE YEAR (continued)

- (c) On 28 July 2003, PBB had announced that JCG Holdings Ltd ("JCGH"), its subsidiary which is incorporated under the Companies Act 1981 of Bermuda ("Bermuda Companies Act") and listed on the Hong Kong Stock Exchange ("HKSE") would be proposing to the shareholders of JCGH, other than PBB, ("Scheme Shareholders") for the privatisation of JCGH by way of a scheme of arrangement pursuant to Section 99 of the Bermuda Companies Act ("Proposed Scheme") involving the cancellation of ordinary shares of HK\$0.10 each in JCGH held by the Scheme Shareholders ("Scheme Shares").

Under the Proposed Scheme, the Scheme Shares would be cancelled and in consideration thereof, each Scheme Shareholder would be entitled to receive HK\$4.61 in cash per Scheme Share from JCGH.

On 24 September 2003, PBB had announced that the Proposed Scheme was not approved at the meeting of the Scheme Shareholders convened at the direction of the Supreme Court of Bermuda held on 23 September 2003 and hence had lapsed. The listing of JCGH Shares on the HKSE will be maintained.

SUBSEQUENT EVENT

On 16 January 2004, PBB had announced that PBB is proposing to undertake a consolidation and division of its entire share capital into ordinary shares of par value of RM1.00 each ("Proposed Share Consolidation") from the existing ordinary shares of par value of RM0.50 each, upon implementation of which, every two (2) existing ordinary shares of RM0.50 each in PBB will be consolidated and re-issued as one (1) ordinary shares of RM1.00 each in PBB.

Conditional upon approvals being obtained from the relevant authorities and shareholders of PBB for the Proposed Share Consolidation, PBB will be proposing to amend its Memorandum and Articles of Association.

DIRECTORS

The Directors who served since the date of the last report are:

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

Y.Bhg. Tan Sri Dato' Thong Yaw Hong

Y.Bhg. Datuk Tay Ah Lek

Y.Bhg. Dato' Lee Kong Lam

Y.Bhg. Dato' Yeoh Chin Kee

Y.A.M. Tengku Abdul Rahman ibni Sultan Haji Ahmad Shah Al-Mustain Billah

Tuan Haji Abdul Aziz bin Omar

Y.Bhg. Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff

Mr Lee Chin Guan

In accordance with Article 111 of the Bank's Articles of Association, Y.Bhg. Datuk Tay Ah Lek and Y.Bhg. Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS (continued)

Y.Bhg. Tan Sri Dato' Sri Dr. Teh Hong Piow and Y.Bhg. Tan Sri Dato' Thong Yaw Hong retire pursuant to Section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and offer themselves for re-appointment in accordance with Section 129 of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting of the Bank.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in Public Bank Berhad ("PBB") shares and in shares of its subsidiary company during the financial year were as follows:

Bank Direct shareholdings	Number of Ordinary Shares of RM0.50 Each ("PBB Share")					
	Balance at 1.1.2003	+ Share Exchange	# Bonus Issue	Exercise of PBB Share Options	Disposed	Balance at 31.12.2003
Y.Bhg. Tan Sri Dato' Sri Dr. Teh Hong Piow	1,250,000	—	312,500	—	—	1,562,500
Y.Bhg. Tan Sri Dato' Thong Yaw Hong	400,000	30,000	107,500	—	—	537,500
Y.Bhg. Datuk Tay Ah Lek	226,850	4,950	57,949	7,500,000	5,000,000	2,789,749
Y.Bhg. Dato' Lee Kong Lam	17,875	—	4,468	4,000,000	2,200,000	1,822,343
Y.Bhg. Dato' Yeoh Chin Kee	30,000	—	—	—	30,000	—

Bank Deemed interest	Number of Ordinary Shares of RM0.50 Each					
	Balance at 1.1.2003	+ Share Exchange	Acquired	# Bonus Issue	Disposed	Balance at 31.12.2003
Y.Bhg. Tan Sri Dato' Sri Dr. Teh Hong Piow	1,233,613,519	—	—	308,403,371	—	1,542,016,890
Y.Bhg. Tan Sri Dato' Thong Yaw Hong	1,175,000	60,000	—	308,750	—	1,543,750
Y.Bhg. Datuk Tay Ah Lek	216,125	7,047	—	55,793	—	278,965
Y.Bhg. Dato' Yeoh Chin Kee	—	—	30,000	7,500	—	37,500

Note:

- + Arising from the exchange of shares on the basis of three (3) new PBB Shares for every one (1) Public Finance Berhad ("PFB") share held by the shareholders of PFB other than PBB ("Share Exchange").
- # Arising from the PBB bonus issue on the basis of one (1) new ordinary PBB Share for every four (4) ordinary PBB Shares held, issued and allotted on 16 July 2003 ("PBB Bonus Issue") after the Share Exchange.

DIRECTORS' REPORT

for the year ended 31 December 2003

DIRECTORS' INTERESTS (continued)

	Number of PBB Share Options				
	Balance at 1.1.2003	Granted	## Adjustment	Exercised	Balance at 31.12.2003
Y.Bhg. Tan Sri Dato' Sri Dr. Teh Hong Piow					
<i>Option price:</i>					
* RM0.82	406,250	—	101,563	—	507,813
** RM1.78	45,450,000	—	11,362,500	—	56,812,500
Y.Bhg. Datuk Tay Ah Lek					
<i>Option price:</i>					
* RM0.82	284,375	—	71,094	—	355,469
** RM1.78	12,500,000	—	3,125,000	—	15,625,000
*** RM1.70	—	6,000,000	1,500,000	7,500,000	—
RM2.30	—	4,000,000	—	—	4,000,000
Y.Bhg. Dato' Lee Kong Lam					
<i>Option price:</i>					
** RM1.78	3,750,000	—	937,500	1,500,000	3,187,500
*** RM1.70	—	2,000,000	500,000	2,500,000	—
RM2.30	—	1,500,000	—	—	1,500,000

Note:

- * Adjustment of the option price from RM1.02 to RM0.82 pursuant to the PBB Bonus Issue.
- ** Adjustment of the option price from RM2.22 to RM1.78 pursuant to the PBB Bonus Issue.
- *** Adjustment of the option price from RM2.13 to RM1.70 pursuant to the PBB Bonus Issue.
- ## Adjustment to the number of options granted pursuant to the PBB Bonus Issue.

DIRECTORS' INTERESTS (continued)

	Number of Ordinary Shares of RM1.00 Each				
	Balance at 1.1.2003	Exercise of PFB Share Options	+ Share Exchange	Disposed	Balance at 31.12.2003
Public Finance Berhad					
Direct shareholdings					
Y.Bhg. Tan Sri Dato' Sri Dr. Teh Hong Piow	16,500	3,300,000	—	3,316,500	—
Y.Bhg. Tan Sri Dato' Thong Yaw Hong	10,000	—	10,000	—	—
Y.Bhg. Datuk Tay Ah Lek	1,650	—	1,650	—	—
Deemed interest					
(excluding shares held by the Bank)					
Y.Bhg. Tan Sri Dato' Thong Yaw Hong	20,000	—	20,000	—	—
Y.Bhg. Datuk Tay Ah Lek	2,349	—	2,349	—	—

Note:

- + Arising from the exchange of shares on the basis of three (3) new PBB Shares for every one (1) PFB share held by the shareholders of PFB other than PBB.

	Number of PFB Share Options				
	Option Price	Balance at 1.1.2003	Granted	Exercised	Balance at 31.12.2003
PFB Employees' Share Option Scheme					
Y.Bhg. Tan Sri Dato' Sri Dr. Teh Hong Piow	RM6.60	3,300,000	—	3,300,000	—

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in PBB shares and in shares of its related corporations during the financial year.

Y.Bhg. Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his interest in shares of the Bank, is also deemed interested in the shares of all the Bank's subsidiary companies to the extent the Bank has an interest.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Bank or its subsidiary companies is a party with the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate, other than the share options to be granted pursuant to the PBB and PFB ESOS.

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full time employee of the Bank as disclosed in Note 31 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 36(b) to the financial statements.

BUSINESS REVIEW 2003

The banking business was highly competitive in 2003 with continued pressure on interest margin due to excess liquidity and competitive pricing.

The Public Bank Group achieved strong loans growth, in particular lending for consumer financing and to the retail commercial sectors. To promote its lending, the Group pursued competitive marketing strategies and leveraged on attractive product bundling and prompt processing time. At the same time, the Group continued to adhere to sound risk management policies and strict credit evaluation procedures.

The Group further improved its deposit mix with higher growth in low-cost current account and savings account deposits. The funding shift was aided by the Group's extensive branch network and the maintenance of high standards of customer service at branches. Customers' usage of Automated Teller Machines and internet banking also saw further expansion in 2003.

During the year, the Group focused on rationalising its branch network through the conversion of Public Finance branches into Public Bank branches. At the end of this rationalisation exercise in the first quarter of 2004, the Group is expected to have a more efficient network of around 250 full-fledged bank branches offering full banking and hire purchase financing business, compared to 384 bank and finance branches before the rationalisation exercise.

Public Bank Group's merchant banking, fund management and share broking activities experienced satisfactory growth and achieved improved profit in 2003.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2004

Public Bank Group expects the Malaysian economy to further rebound in 2004 based on the growing expectations of a strong recovery in the global economy and the strong growth momentum in the domestic economy. In 2004, the world economy is expected to grow by 4.1% and world trade to grow by 5.5%.

Consensus forecasts indicate that the Malaysian economy will grow by 5.4% in 2004, close to the Government's projection of 5.5%-6.0%. This positive outlook for 2004 is based on the expected recovery in the manufacturing and services sectors and higher domestic aggregate demand.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2004 (continued)

The Government's growth-oriented fiscal and monetary measures will continue to provide a conducive business environment for the private sector, particularly for the Small and Medium Sized Enterprises ("SMEs").

Malaysia's strong fundamentals such as low inflation, low unemployment, high national savings and healthy external position support the growth outlook. The ringgit peg is expected to remain supportive of the economy.

Despite the positive outlook for Malaysia, there are downside risks. These include the risk of a slower-than-expected recovery in major developed economies. Nevertheless, the Government has fiscal and monetary flexibility to deal with an adverse situation, if the need arises.

BUSINESS OUTLOOK FOR 2004

The Public Bank Group expects the banking industry to remain highly competitive in 2004 due to the persistent excess liquidity, continuous disintermediation of bank lending and further industry liberalisation in Malaysia. Nevertheless, the brighter economic outlook for 2004 will provide strong support to banking business and have a positive impact on asset quality of banks in Malaysia.

In terms of lending business, the Group expects continued strong growth in consumer and retail commercial loans. Corporate lending activity in 2004 will also increase due to favourable long term interest rates and high capacity utilisation in the manufacturing sector anticipated in the second half of 2004.

Barring unforeseen circumstances, the Group expects to sustain the current level of performance in 2004.

AUDITORS

The retiring auditors, Messrs. KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW

Director

TAN SRI DATO' THONG YAW HONG

Director

Kuala Lumpur,

Dated: 10 February 2004

STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOW and TAN SRI DATO' THONG YAW HONG, being two of the Directors of PUBLIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 170 to 281 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2003 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Director

TAN SRI DATO' THONG YAW HONG
Director

Kuala Lumpur,
Dated: 10 February 2004

STATUTORY DECLARATION

I, WONG JEE SENG, being the officer primarily responsible for the financial management of PUBLIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 170 to 281, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
WONG JEE SENG at KUALA LUMPUR in
WILAYAH PERSEKUTUAN this 10 February 2004

BEFORE ME:

NGUI KEE HEONG
Commissioner for Oaths
Kuala Lumpur

REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the financial statements set out on pages 170 to 281. The preparation of the financial statements is the responsibility of the Bank's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - i) the state of affairs of the Group and of the Bank as at 31 December 2003 and the results of their operations and cash flows for the year ended on that date; and
 - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Bank;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Bank and the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

The subsidiary companies in respect of which we have not acted as auditors are identified in Note 11 to the financial statements and we have considered their financial statements and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

None of the audit reports on the financial statements of the subsidiary companies were subject to any qualification nor included any comment under sub-section (3) of Section 174 of the Act.

KPMG

Firm Number: AF 0758
Chartered Accountants

KHAW HOCK HOE

Partner
Approval Number: 2229/04/04(J)

Kuala Lumpur,
Dated: 10 February 2004

BALANCE SHEETS

as at 31 December 2003

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
ASSETS					
Cash and short-term funds	3	7,970,828	9,932,135	11,498,710	7,695,083
Deposits and placements with banks and other financial institutions	4	819,085	3,071,743	6,332,508	3,848,379
Dealing securities	5	921,742	3,179,685	2,864,682	4,152,083
Investment securities	6	5,058,555	4,763,980	4,486,733	3,963,617
Loans, advances and financing	7	45,620,024	37,575,070	27,327,764	22,540,540
Other assets	8	667,216	452,758	651,138	600,544
Statutory deposits with Central Banks	9	1,511,141	1,233,909	870,680	759,800
Deferred tax assets	10	234,526	182,520	102,678	76,033
Investment in subsidiary companies	11	—	—	2,973,873	1,956,220
Investment in associated companies	12	47,438	46,748	28,465	28,465
Investment properties	13	28,111	29,274	—	—
Goodwill	14	818,304	477,654	338,756	358,412
Property and equipment	15	943,351	920,153	534,158	518,553
TOTAL ASSETS		64,640,321	61,865,629	58,010,145	46,497,729
LIABILITIES AND SHAREHOLDERS' FUNDS					
Deposits from customers	16	50,217,258	47,986,206	41,120,729	35,071,361
Deposits and placements of banks and other financial institutions	17	1,779,334	1,694,009	6,628,582	3,002,837
Obligations on securities sold under repurchase agreements		425,562	819,421	451,992	663,159
Bills and acceptances payable	18	1,211,088	1,135,218	1,209,150	1,134,416
Recourse obligations on loans sold to Cagamas	19	484,587	983,401	141,484	115,364
Other liabilities	20	1,145,549	789,471	833,321	634,516
Provision for tax expense and zakat	22	120,530	131,493	97,947	73,238
Deferred tax liabilities	10	3,080	3,080	—	—
Total Liabilities		55,386,988	53,542,299	50,483,205	40,694,891

		Group		Bank	
	Note	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Share capital	23	3,206,600	2,314,527	3,206,600	2,314,527
Reserves		5,136,041	4,375,948	3,987,300	3,188,324
Proposed dividends		503,000	299,987	503,000	299,987
Treasury shares	24	(169,960)	—	(169,960)	—
Shareholders' Funds		8,675,681	6,990,462	7,526,940	5,802,838
Minority interests		577,652	1,332,868	—	—
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		64,640,321	61,865,629	58,010,145	46,497,729
COMMITMENTS AND CONTINGENCIES	37	14,246,374	12,316,066	13,248,734	11,337,023

The accompanying notes form an integral part of the financial statements.

INCOME STATEMENTS

for the year ended 31 December 2003

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Operating revenue	2(r)	4,322,885	4,046,157	2,560,110	2,249,099
Interest income	27	3,354,215	3,212,619	2,101,499	1,885,429
Interest expense	28	(1,257,926)	(1,241,360)	(1,026,480)	(920,942)
Net interest income		2,096,289	1,971,259	1,075,019	964,487
Net income from Islamic Banking business	50(k)	296,808	208,734	97,946	62,600
Non-interest income	29	2,393,097 633,102	2,179,993 547,571	1,172,965 1,021,691	1,027,087 466,255
Net income		3,026,199	2,727,564	2,194,656	1,493,342
Overhead expenses	30	(1,171,492)	(1,140,012)	(692,658)	(622,909)
Operating profit		1,854,707	1,587,552	1,501,998	870,433
Allowance for losses on loans and financing	32	(403,714)	(349,073)	(92,796)	(38,418)
Share of results of associated companies		1,450,993 4,083	1,238,479 2,961	1,409,202 —	832,015 —
Profit before tax expense and zakat		1,455,076	1,241,440	1,409,202	832,015
Tax expense and zakat	33	(367,390)	(322,055)	(359,211)	(222,325)
Profit after tax expense and zakat		1,087,686	919,385	1,049,991	609,690
Minority interests		(84,548)	(150,203)	—	—
Net profit for the year		1,003,138	769,182	1,049,991	609,690
Earnings per 50 sen share:	34				
– basic (sen)		16.5	13.3		
– diluted (sen)		16.1	13.2		
Dividends per 50 sen share:	35				
– gross (sen)		11.0	9.0		
– net (sen)		7.9	6.5		

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

Group	Note	Non-distributable Reserves			Distributable Reserves			
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Proposed Dividends RM'000	Treasury Shares RM'000	Total RM'000
At 1 January 2002								
– as previously stated		1,833,819	1,066,895	1,483,791	1,603,432	284,034	—	6,271,971
– prior year adjustments	43	—	—	—	159,521	—	—	159,521
As restated		1,833,819	1,066,895	1,483,791	1,762,953	284,034	—	6,431,492
Issue of shares pursuant to:								
– exercise of share options		21,997	68,849	—	—	—	—	90,846
– bonus issue		458,711	(458,711)	—	—	—	—	—
Cost incurred for the issuance of shares		—	(585)	—	—	—	—	(585)
Currency translation differences		—	—	(16,439)	—	—	—	(16,439)
Net profit for the year (restated)		—	—	—	769,182	—	—	769,182
Transfer to statutory reserves		—	—	313,147	(313,147)	—	—	—
Dividends paid	35	—	—	—	—	(284,034)	—	(284,034)
Dividends proposed		—	—	—	(299,987)	299,987	—	—
At 31 December 2002		2,314,527	676,448	1,780,499	1,919,001	299,987	—	6,990,462
		Note 23		Note 25	Note 26		Note 24	

STATEMENTS OF CHANGES IN EQUITY

Group	Note	Non-distributable Reserves			Distributable Reserves			Total RM'000
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Proposed Dividends RM'000	Treasury Shares RM'000	
At 1 January 2003								
– as previously stated		2,314,527	676,448	1,780,499	1,760,535	299,987	—	6,831,996
– prior year adjustments	43	—	—	—	158,466	—	—	158,466
As restated		2,314,527	676,448	1,780,499	1,919,001	299,987	—	6,990,462
Issue of shares pursuant to:								
– exercise of share options		60,145	150,087	—	—	—	—	210,232
– share exchange		202,599	733,408	—	—	—	—	936,007
– bonus issue		629,329	(629,329)	—	—	—	—	—
Cost incurred for the issuance of shares		—	(2,181)	—	—	—	—	(2,181)
Currency translation differences		—	—	7,970	—	—	—	7,970
Net profit for the year		—	—	—	1,003,138	—	—	1,003,138
Transfer to statutory reserves		—	—	611,161	(611,161)	—	—	—
Share buy-back		—	—	—	—	—	(169,960)	(169,960)
Exchange equalisation reserves transferred to retained profits		—	—	(12,000)	12,000	—	—	—
Dividends paid	35	—	—	—	—	(299,987)	—	(299,987)
Dividends proposed		—	—	—	(503,000)	503,000	—	—
At 31 December 2003		3,206,600	928,433	2,387,630	1,819,978	503,000	(169,960)	8,675,681
		Note 23		Note 25	Note 26		Note 24	

The accompanying notes form an integral part of the financial statements.

Bank	Note	Non-distributable Reserves			Distributable Reserves			
		Share Capital RM'000	Share Premium RM'000	Other Reserves RM'000	Retained Profits RM'000	Proposed Dividends RM'000	Treasury Shares RM'000	Total RM'000
At 1 January 2002								
– as previously stated	43	1,833,819	1,066,895	1,022,859	1,069,812	284,034	—	5,277,419
– prior year adjustments		—	—	—	109,502	—	—	109,502
As restated		1,833,819	1,066,895	1,022,859	1,179,314	284,034	—	5,386,921
Issue of shares pursuant to:								
– exercise of share options		21,997	68,849	—	—	—	—	90,846
– bonus issue		458,711	(458,711)	—	—	—	—	—
Cost incurred for the issuance of shares		—	(585)	—	—	—	—	(585)
Net profit for the year (restated)		—	—	—	609,690	—	—	609,690
Transfer to statutory reserves	35	—	—	306,305	(306,305)	—	—	—
Dividends paid		—	—	—	—	(284,034)	—	(284,034)
Dividends proposed		—	—	—	(299,987)	299,987	—	—
At 31 December 2002		2,314,527	676,448	1,329,164	1,182,712	299,987	—	5,802,838
At 1 January 2003								
– as previously stated	43	2,314,527	676,448	1,329,164	1,076,130	299,987	—	5,696,256
– prior year adjustments		—	—	—	106,582	—	—	106,582
As restated		2,314,527	676,448	1,329,164	1,182,712	299,987	—	5,802,838
Issue of shares pursuant to:								
– exercise of share options		60,145	150,087	—	—	—	—	210,232
– share exchange		202,599	733,408	—	—	—	—	936,007
– bonus issue		629,329	(629,329)	—	—	—	—	—
Cost incurred for the issuance of shares		—	(2,181)	—	—	—	—	(2,181)
Net profit for the year		—	—	—	1,049,991	—	—	1,049,991
Transfer to statutory reserves		—	—	524,996	(524,996)	—	—	—
Share buy-back		—	—	—	—	—	(169,960)	(169,960)
Exchange equalisation reserves transferred to retained profits		—	—	(12,000)	12,000	—	—	—
Dividends paid	35	—	—	—	—	(299,987)	—	(299,987)
Dividends proposed		—	—	—	(503,000)	503,000	—	—
At 31 December 2003		3,206,600	928,433	1,842,160	1,216,707	503,000	(169,960)	7,526,940

Note 23

Note 25

Note 26

Note 24

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2003

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash flows from operating activities				
Profit before tax expense and zakat	1,455,076	1,241,440	1,409,202	832,015
Adjustments for:				
Share of results of associated companies	(4,083)	(2,961)	—	—
Depreciation	93,786	78,759	55,922	49,745
Amortisation of goodwill	40,364	25,386	19,656	19,656
Negative goodwill recognised	(45,625)	—	—	—
Net loss/(gain) on disposal of property and equipment	297	(215)	285	(244)
Net loss/(gain) on disposal of foreclosed properties	(138)	(228)	(138)	(228)
Allowance for bad and doubtful debts and financing	587,640	540,603	209,772	161,611
Write back of allowance for bad and doubtful debts and financing	(118,783)	(155,905)	(81,004)	(108,393)
Net interest income suspended	51,755	79,590	31,242	45,234
Gain on sale of investment securities	(21,649)	(48,961)	(16,453)	(28,423)
Amortisation of premium less accretion of discount	12,878	42,380	12,818	36,946
Net (write back of allowance)/allowance for diminution in value of investment securities	(11,085)	31,214	(1,003)	21,048
Short-term accumulating compensated absences	2,299	1,436	1,437	1,414
Pension cost charged – defined benefit plan	5,736	13,225	3,917	8,885
Profit Equalisation Reserves	19,017	948	12,017	948
Dividends from investment securities	(26,391)	(3,497)	(20,363)	(2,297)
Dividends from subsidiary companies	—	—	(695,592)	(215,708)
Dividends from associated companies	—	—	(1,707)	(1,962)
Allowance for diminution in value of investment in subsidiary company	—	—	100	300
Gain on deemed disposal of a subsidiary company	(11,278)	(15,661)	—	—
Property and equipment written off	1,194	8	—	—
Deficit on revaluation of investment properties	337	1,960	—	—
Operating profit before working capital changes	2,031,347	1,829,521	940,108	820,547

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
(Increase)/Decrease in operating assets/liabilities:				
Deposits and placements with banks and other financial institutions	2,252,658	309,866	(2,484,129)	(533,390)
Dealing securities	2,257,943	(147,642)	1,287,401	(1,346,716)
Loans, advances and financing	(8,596,423)	(7,342,808)	(4,979,015)	(3,002,109)
Statutory deposits with Central Banks	(277,232)	(313,642)	(110,880)	(198,300)
Other assets	(161,883)	58,546	(45,728)	(17,947)
Deposits from customers	2,231,052	8,203,902	6,049,368	5,118,033
Deposits and placements of banks and other financial institutions	85,325	(696,509)	3,625,745	23,056
Obligations on securities sold under repurchase agreements	(393,859)	46,589	(211,167)	(137,027)
Bills and acceptances payable	75,870	457,889	74,734	457,383
Recourse obligations on loans sold to Cagamas	(498,814)	135,632	26,120	(693)
Other liabilities	307,689	9,179	195,774	9,620
Cash (used in)/generated from operations	(686,327)	2,550,523	4,368,331	1,192,457
Income tax expense and zakat paid	(430,359)	(504,783)	(210,499)	(223,233)
Pension cost paid – defined benefit plan	(16,240)	(13,225)	(14,421)	(8,885)
Net cash (used in)/generated from operating activities	(1,132,926)	2,032,515	4,143,411	960,339
Cash flows from investing activities				
Purchase of property and equipment	(129,395)	(73,107)	(83,993)	(59,093)
Proceeds from disposal of property and equipment	12,633	849	12,274	735
Proceeds from disposal of foreclosed properties	3,518	2,645	3,518	2,645
(Net purchases)/Net sale of investment securities	(278,120)	947,856	(520,069)	(657,367)
Acquisition of shares in subsidiary companies	(127,917)	(280,576)	(81,746)	(280,276)
Additional investment in associated companies	—	(9,500)	—	(9,500)
Dividends received from associated companies	1,852	1,972	1,666	1,962
Dividends received from investment securities	26,391	3,497	20,363	2,297
Dividends received from subsidiary companies	—	—	570,099	94,508
Funds from subscription of shares by minority interests	99,383	96,206	—	—
Redemption of preference shares at a subsidiary company	—	(307)	—	—
Net cash (used in)/generated from investing activities	(391,655)	689,535	(77,888)	(904,089)

CASH FLOW STATEMENTS

for the year ended 31 December 2003

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash flows from financing activities				
Proceeds from issuance of shares	210,232	90,846	210,232	90,846
Dividends paid to shareholders of the Bank	(299,987)	(284,034)	(299,987)	(284,034)
Dividends paid to minority interests	(178,051)	(80,201)	—	—
Share issuance expenses	(2,181)	(585)	(2,181)	(585)
Share buy-back	(169,960)	—	(169,960)	—
Net cash used in financing activities	(439,947)	(273,974)	(261,896)	(193,773)
Net (decrease)/increase in cash and cash equivalents	(1,964,528)	2,448,076	3,803,627	(137,523)
Cash and cash equivalents at beginning of year	9,932,135	7,484,090	7,695,083	7,832,606
Exchange differences on translation of opening balances	3,221	(31)	—	—
Cash and cash equivalents at end of year Note 3	7,970,828	9,932,135	11,498,710	7,695,083

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Group is principally engaged in all aspects of banking, merchant banking, financing, stock broking, provision of finance to purchasers of licensed public vehicles, provision of related financial services, management of unit trusts and sale of trust units and investment holding.

The Bank is principally engaged in all aspects of banking business which include Islamic banking and the provision of related financial services.

There have been no significant changes to these principal activities during the financial year.

The financial statements were approved and authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 10 February 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group and the Bank are consistent with those adopted in the previous years except for the adoption of the following:

- (a) New standards issued by Malaysian Accounting Standards Board ("MASB") which became effective in the current financial year:
 - (i) MASB 25, Income Taxes which has been adopted retrospectively;
 - (ii) MASB 27, Borrowing Costs. The adoption does not have any impact on the financial statements as the previous accounting policy was in line with this standard;
 - (iii) MASB 28, Discontinuing Operations. The adoption does not have any impact on the financial statements;
 - (iv) MASB 29, Employee Benefits which have been adopted retrospectively; and
 - (v) MASB i-1, Presentation of financial statements of Islamic Financial Institutions. The adoption resulted in extended disclosures for the Group and the Bank's Islamic Banking business.
- (b) Bank Negara Malaysia's Circular dated 4 July 2003 on the accounting treatment of handling fees paid to motor vehicle dealers for hire purchase loans ("BNM Circular on Handling Fees") which has been adopted retrospectively.

MASB 30, Accounting and Reporting by Retirement Benefit Plans is not adopted as it is not applicable to the Group and the Bank.

The effects of adopting the new MASB and BNM Circular on Handling Fees on the opening balance of the Group's and the Bank's retained profits are reflected as prior year adjustments in the Statements of Changes In Equity and as disclosed in Note 43 to the financial statements.

(a) Basis of Accounting

The financial statements of the Group and the Bank have been prepared on the historical cost basis except as disclosed in the notes to the financial statements and are in accordance with the applicable approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines and comply with the provisions of the Companies Act, 1965.

The financial statements incorporate all activities relating to the Islamic Banking business which have been undertaken by the Bank and its finance subsidiary company in Malaysia. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under the principles of Syariah.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiary companies made up to the end of the financial year.

Subsidiary companies are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or negative goodwill as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

(c) Investment in Subsidiary Companies

Investment in subsidiary companies which are eliminated on consolidation, are stated in the Bank's financial statements at cost, and an allowance is made in the event of any diminution in value which is other than temporary.

(d) Investment in Associated Companies

The Group treats associated companies as those companies in which a long term equity interest of between 20 to 50 percent is held and where it exercises significant influence through management participation.

In the consolidated balance sheet, the Group's interests in associated companies are stated at the net asset value of associated companies at the date of acquisition and the Group's share of post acquisition results and reserves less an allowance for diminution in value where such diminution in value is other than temporary. The difference, if any, between the cost of investment and the underlying net asset value on acquisition which represents goodwill or negative goodwill is accounted for in accordance with the policy as referred to in Note 2(e).

(e) Goodwill

Goodwill represents the difference between the purchase price and the fair values of the net identifiable assets of subsidiary companies at the dates of acquisition. Purchased goodwill represents the difference between the purchase price and the fair values of the net assets acquired at the date of acquisition.

Goodwill and purchased goodwill are amortised over an estimated useful life of not more than twenty years and are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Dealing Securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short-term, and are stated at the lower of cost and market value on a portfolio basis.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

(g) Investment Securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquidity compliance requirements pursuant to the New Liquidity Framework and are usually held to maturity.

Malaysian Government Securities, Malaysian Government Investment Issues, Cagamas Bonds, other Government Securities, and bank or government guaranteed private debt securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount, where applicable, to maturity dates. Other non-guaranteed private debt securities are stated at lower of cost and market value determined on a portfolio basis.

Quoted investments are stated at the lower of cost and market value determined on a portfolio basis.

Other investment securities are stated at cost less allowance for diminution in value when such diminution in value is other than temporary.

Debt converted securities are stated at lower of cost and market value determined on an individual basis.

(h) Investment Properties

Investment properties are interests in land and buildings which are intended to be held on a long term basis for their investment potential, with rental income being negotiated at arm's length. Such properties are not depreciated and are stated annually or such longer period as may be considered appropriate at their open market values on the basis of professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the capital reserve account. If the total outstanding of this capital reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to income statement immediately. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the capital reserves realised in respect of previous valuations is released to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j).

Freehold land and work-in-progress are not depreciated. Depreciation of other property and equipment is provided on a straight line basis calculated to write off the cost of each asset over the term of its estimated useful lives at the following principal annual rates:

Long term leasehold land	Over leasehold periods of 25 to 50 years
Buildings	2.0%
Renovations	Over the term of the leases ranging from 2 to 50 years
Office equipment, furniture and fittings	10.0% – 33.3%
Computer equipment and software	20.0% – 33.3%
Motor vehicles	20.0%

(j) Impairment of Assets

The carrying amount of the Group's assets, other than financial assets (other than investments in subsidiary and associated companies) and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement.

(k) Foreclosed Properties

Foreclosed properties are those acquired in full or partial satisfaction of debts, are stated at the lower of cost and net realisable value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Bills and Acceptances Payable

Bills and acceptances payable represent the Group's own bills and acceptances rediscounted and outstanding in the market.

(m) Repurchase Agreements

Securities purchased under resale agreements are securities which the Group and the Bank commits to resell at future dates and is reflected as an asset.

Obligation on securities sold under repurchase agreements are obligations which the Group and the Bank commits to repurchase at future dates and is reflected as a liability.

(n) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of a past event and a reliable estimate can be made of the amount.

(o) Liabilities

Deposits from customers are stated at placement values and adjusted for accrued interest. Deposits and placements of banks and financial institutions are stated at placement values.

(p) Profit Equalisation Reserves ("PER")

PER is the amount appropriated out of the total Islamic Banking gross income in order to maintain a certain level of return to depositors which is as stipulated by Bank Negara Malaysia's Circular on "The Framework of The Rate of Return". PER is deducted from the total Islamic Banking gross income in deriving the net distributable gross income. The amount appropriated is shared by the depositors and the Group/Bank.

(q) Treasury Shares

When the Bank bought back its own shares, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Shares bought back are held as treasury shares and presented as a deduction from the shareholders' funds.

(r) Operating Revenue

Operating revenue of the Group comprises all types of revenue derived from banking, merchant banking, financing, stock broking, leasing and factoring, management of unit trust and sales of trust units as well as trustee services but excluding all related companies transactions.

Operating revenue of the Bank comprises gross interest income, commission and other income derived from banking operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Recognition of Interest and Financing Income

Interest income is recognised in the income statement for all interest bearing assets on an accrual basis. Interest income includes the amortisation of premium or accretion of discount. Interest income on dealing and investment securities are recognised on an effective yield basis.

Interest income on overdrafts, term loans and housing loans is accounted for on an accrual basis by reference to rest periods as stipulated in the loan agreements, which are either monthly or daily. Interest income on hire purchase, block discounting and leasing business is recognised using the "sum-of-digits" method. Income from the Islamic Banking financing is recognised on an accrual basis in accordance with the principles of Syariah.

Where an account becomes non-performing, interest is suspended until it is realised on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for more than six (6) months and three (3) months after maturity date for trade bills, bankers' acceptances and trust receipts except for the subsidiary companies operating in Hong Kong SAR which deem customer accounts as non-performing where repayments are in arrears for more than three (3) months. Credit card holders are deemed non-performing where repayments are in arrears for three (3) months or more from first day of default. The policy on suspension of interest is in conformity with Bank Negara Malaysia's Guidelines on the suspension of interest on non-performing loans and provision for bad and doubtful debts, BNM/GP3.

(t) Recognition of Fees and Other Income

Income from the various business activities of the Group and the Bank is recognised using the following bases:

- (i) Loan arrangement, management and participation fees are recognised upfront as income based on contractual arrangements. Guarantee fee is recognised as income upon issuance of the guarantees;
- (ii) Dividends from dealing and investment securities are recognised when received. Dividends from subsidiary companies are recognised when the right to receive payment is established;
- (iii) Factoring commission income is recognised upon acceptance of the factored invoices. Factoring interest is recognised on an accrual basis;
- (iv) Revenue from sale of trust units is recognised upon allotment of units, net of cost of units sold;
- (v) Management fees from the management of unit trusts, net brokerage income, margin interest and rollover fees are recognised on an accrual basis;
- (vi) Other fees and commissions on services and facilities extended to customers are recognised on inception of such transactions; and
- (vii) Fees from advisory and corporate finance activities are recognised as income on completion of each stage of the assignment.

(u) Recognition of Interest, Financing and Related Expenses

Interest expense and attributable profit (on activities relating to Islamic Banking business) on deposits and borrowings of the Group and the Bank are recognised on an accrual basis.

Handling fees paid to motor vehicle dealers for hire purchase loans are expensed off to income statement in the period in which the handling fees are incurred in accordance with Bank Negara Malaysia's Circular dated 4 July 2003. Previously, handling fees were capitalised and amortised to the income statement over the hire purchase loans tenure using the "sum-of-digit" method. This change in accounting policy has been accounted for retrospectively and the effects of this change are disclosed in Note 43.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Allowance for Bad and Doubtful Debts and Financing

Loans, advances and financing are stated at cost less any allowance for bad and doubtful debts and financing.

Allowance for bad and doubtful debts and financing are made with regard to specific risks and relate to those loans or trade receivables that have been individually reviewed and specifically identified as sub-standard, doubtful or bad.

A general allowance based on a percentage of total outstanding loans (including accrued interest), net of interest in suspense and specific allowance for bad and doubtful debts, is maintained by the Bank and the Group against risks which are not specifically identified.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the opinion of management, there is no prospect of recovery.

(w) Employee Benefits

(i) Short-Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Overseas subsidiary companies make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the income statement as incurred.

(iii) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a fully funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the "Fund") for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Actuarial gains and losses are recognised as income or expense over the expected average remaining working lives of the participating employees when cumulative unrecognised actuarial gains or losses for the Fund exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Where there are any improvements in benefits for the Fund, past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee Benefits (continued)

(iv) Equity Compensation Benefits

The employees' share option scheme allows the Group's eligible employees, except the employees of JCG Holdings Limited and its subsidiary companies and Cambodian Public Bank Limited to acquire shares of the Bank. When the granted options are exercised, equity is increased by the amount of the proceeds received.

Prior to adoption of MASB 29 Employee Benefits, no liability was recognised for obligations in respect of short-term employee benefits in the form of accumulating compensated absences and the Group's obligation under the defined benefit plan was calculated using the Attained Age Method instead of the Projected Unit Credit Method. The changes in accounting policies have been accounted for retrospectively and the effects of the changes are disclosed in Note 43.

(x) Foreign Currency

(i) Foreign Currency Transactions

Transactions in foreign currencies during the financial year are translated into Ringgit Malaysia at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. All exchange differences are recognised in the income statement.

(ii) Financial Statements of Foreign Operations

The financial statements of foreign branches are translated into Ringgit Malaysia at the rates of exchange ruling at the balance sheet date. The results of these branches for the financial year are accounted for based on closing rates of exchange at balance sheet date. All exchange differences are recognised in the income statement.

The financial statements of foreign subsidiary companies and a subsidiary incorporated in the Federal Territory of Labuan are translated into Ringgit Malaysia at the rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are taken to the exchange equalisation reserve.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

	2003	2002
1 USD	RM3.8000	RM3.8000
1 HKD	RM0.4895	RM0.4873

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Interest Rate Swaps and Forward Contracts

The Bank acts as an intermediary with counter parties who wish to swap their interest obligations. The Bank also uses interest rate swaps and foreign exchange forward contracts to hedge its interest rate and foreign exchange risk.

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swap agreement as a component of interest income or interest expense. Interest rate swaps and foreign exchange forward contracts used for hedging purposes are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profits or loss arising is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Gains and losses on interest rate swaps and foreign exchange forward contracts that do not qualify as hedges, if any, are recognised in the year they arise using the mark-to-market method and are included in the income statement.

(z) Foreign Exchange Related Contracts

Outstanding foreign exchange related contracts at the balance sheet date are valued based on the applicable spot rates ruling at that date adjusted for the applicable premium or discount to maturity. Gains or losses are recognised in the income statement in the year they arise.

(aa) Operating Leases

Payments made under operating leases are recognised in the income statement on an accrual basis in accordance with the terms of the leases.

(bb) Income Taxes

Tax on profit or loss for the financial year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Prior to the adoption of MASB 25 Income Taxes, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation. The changes in accounting policies have been accounted for retrospectively and the effects of the changes are disclosed in Note 43.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances, and short-term deposits with original maturities of less than one month.

3. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash and balances with banks and other financial institutions	661,516	1,046,194	598,469	931,635
Money at call and deposit placements maturing within one month	7,309,312	8,885,941	10,900,241	6,763,448
	7,970,828	9,932,135	11,498,710	7,695,083

4. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Licensed banks	362,447	263,325	282,000	217,000
Licensed finance companies	72,399	168,847	5,357,220	880,000
Licensed merchant banks	6,239	67,392	561,347	315,000
Central Banks	209,000	1,848,500	—	1,787,700
Other financial institutions	169,000	723,679	131,941	648,679
	819,085	3,071,743	6,332,508	3,848,379

A fixed deposit of RM100,000 (2002 – RM100,000) included in the Group balance favouring the Accountant General has been placed by a subsidiary with a licensed bank in accordance with Section 4(2) of the Labuan Trust Companies Act, 1990.

Deposits totalling RM2,447,000 (2002 – RM2,436,000) have been pledged to certain banks by a foreign subsidiary company for facilities obtained.

5. DEALING SECURITIES

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Bank Negara Malaysia Bills	85,137	130,358	85,137	130,358
Malaysian Government Securities	115,816	25,359	115,816	150
Malaysian Government Treasury Bills	—	21,458	—	21,458
Cagamas bonds	247,846	15,052	247,846	15,052
Cagamas notes	—	104,833	—	104,833
Private debt securities	71,187	200,024	19,652	200,024
Negotiable instrument of deposits	383,800	2,660,261	2,393,366	3,680,261
	903,786	3,157,345	2,861,817	4,152,136
Trust units	15,091	22,393	—	—
	918,877	3,179,738	2,861,817	4,152,136
Premium/(Discount)	2,865	(53)	2,865	(53)
	921,742	3,179,685	2,864,682	4,152,083
Market value:				
Bank Negara Malaysia Bills	85,140	130,358	85,140	130,358
Malaysian Government Securities	118,861	25,378	118,861	155
Malaysian Government Treasury Bills	—	21,458	—	21,458
Cagamas bonds	247,891	15,000	247,891	15,000
Cagamas notes	—	104,833	—	104,833
Private debt securities	71,191	203,034	19,656	203,034
Negotiable instrument of deposits	384,045	2,656,939	2,393,659	3,679,110
Trust units	15,897	23,107	—	—

6. INVESTMENT SECURITIES

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Money market instruments:				
Malaysian Government Treasury Bills	119,973	121,997	119,973	104,529
Malaysian Government Securities	368,209	603,837	366,198	596,169
Malaysian Government Investment Certificates	25,000	—	25,000	—
Cagamas bonds	873,071	592,218	873,071	592,218
Cagamas Mudharabah bonds	127,480	50,384	127,480	50,384
Cagamas notes	326,413	312,896	326,413	312,896
Danamodal bonds	—	27,350	—	27,070
Danaharta bonds	5,726	49,972	—	42,568
Khazanah bonds	—	43,680	—	38,747
Bankers' acceptances and Islamic accepted bills	—	92,934	—	88,913
Negotiable instrument of deposits	134,083	280,504	80,081	229,664
Bank Negara Malaysia Bills	308,289	236,838	308,289	76,940
Bank Negara Malaysia Negotiable notes	29,984	49,970	29,984	—
Other government bonds	5,064	9,261	5,064	9,261
	2,323,292	2,471,841	2,261,553	2,169,359
Quoted securities:				
Shares and convertible loan stocks in Malaysia	60,841	86,400	53,208	61,785
Shares outside Malaysia	33,684	30,889	—	—
Private debt securities	27,483	27,483	—	—
Bonds trust units in Malaysia	771,112	—	702,544	—
	893,120	144,772	755,752	61,785
Unquoted securities:				
Shares	110,500	112,666	96,385	98,310
Private debt securities	1,800,760	2,150,054	1,418,301	1,687,627
	1,911,260	2,262,720	1,514,686	1,785,937
Total investment securities, at cost	5,127,672	4,879,333	4,531,991	4,017,081
Premium	31,332	16,927	29,804	17,166

6. INVESTMENT SECURITIES (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Allowance for diminution in value:				
Quoted shares and convertible loan stocks				
– in Malaysia	(28,719)	(43,309)	(27,746)	(28,104)
– outside Malaysia	(19,809)	(22,279)	—	—
Quoted bonds trust units	(1,507)	—	(907)	—
Unquoted securities				
– in Malaysia	(6,100)	(300)	(5,700)	—
– outside Malaysia	(2,500)	—	(2,500)	—
– private debt securities	(38,440)	(63,018)	(38,209)	(42,526)
General allowance	(3,374)	(3,374)	—	—
	(100,449)	(132,280)	(75,062)	(70,630)
	5,058,555	4,763,980	4,486,733	3,963,617

The maturity structure of money market instruments held are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Maturity within one year	1,701,630	2,086,926	1,620,631	1,777,766
One year to three years	567,897	289,402	589,168	303,475
Three years to five years	53,765	90,125	51,754	82,730
Over five years	—	5,388	—	5,388
	2,323,292	2,471,841	2,261,553	2,169,359

6. INVESTMENT SECURITIES (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Market value:				
Money market instruments:				
Malaysian Government Treasury Bills	119,986	121,978	119,986	104,513
Malaysian Government Securities	377,591	616,970	375,558	609,035
Malaysian Government Investment Certificates	23,419	—	23,419	—
Cagamas bonds	871,449	594,238	871,449	594,238
Cagamas Mudharabah bonds	127,480	50,384	127,480	50,384
Cagamas notes	326,577	312,842	326,577	312,842
Danamodal bonds	—	27,528	—	27,141
Danaharta bonds	7,293	51,832	—	43,016
Khazanah bonds	—	43,860	—	38,927
Bankers' acceptances and Islamic accepted bills	—	92,934	—	88,913
Negotiable instrument of deposits	134,686	282,577	81,723	233,627
Bank Negara Malaysia Bills	308,327	236,821	308,327	76,939
Bank Negara Malaysia Negotiable notes	29,984	49,965	29,984	—
Other government bonds	5,964	9,312	5,964	9,312
Quoted securities:				
Shares and convertible loan stocks in Malaysia	37,816	48,804	28,947	40,307
Shares outside Malaysia	13,878	8,613	—	—
Private debt securities	13,741	27,483	—	—
Bonds trust units in Malaysia	769,727	—	701,637	—

7. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Overdrafts	5,995,447	5,626,297	5,993,738	5,637,301
Term loans	24,561,940	20,471,192	20,395,843	15,932,961
Credit card receivables	404,450	357,906	402,456	354,710
Bills receivable	65,910	61,896	64,724	59,882
Trust receipts	343,882	312,324	324,263	308,444
Claims on customers under acceptance credits	1,195,917	1,090,835	1,195,917	1,090,835
Lease, factored and confirming receivables	37,621	66,390	76	262
Hire purchase	17,336,876	13,425,701	198,651	175,884
*Staff loans	618,230	596,798	417,132	400,442
Unearned interest and income	50,560,273 (3,632,141)	42,009,339 (2,978,600)	28,992,800 (974,367)	23,960,721 (617,133)
Gross loans, advances and financing	46,928,132	39,030,739	28,018,433	23,343,588
Allowance for bad and doubtful debts and financing:				
– general	(826,892)	(695,870)	(445,439)	(366,502)
– specific	(315,137)	(459,304)	(124,524)	(230,707)
Interest/Income-in-suspense	(166,079)	(300,495)	(120,706)	(205,839)
Net loans, advances and financing	45,620,024	37,575,070	27,327,764	22,540,540

*Included in staff loans of the Group and the Bank are loans to Directors amounting to RM2,271,032 (2002 – RM2,453,622) and Nil (2002 – RM33,514), respectively.

The maturity structure of gross loans, advances and financing are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Maturing within one year	12,530,197	12,371,861	10,937,027	10,411,136
One year to three years	4,892,521	3,986,454	1,789,967	1,342,612
Three years to five years	6,030,611	5,260,687	1,089,214	1,098,210
Over five years	23,474,803	17,411,737	14,202,225	10,491,630
	46,928,132	39,030,739	28,018,433	23,343,588

7. LOANS, ADVANCES AND FINANCING (continued)

Gross loans, advances and financing analysed by economic purposes are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Agriculture	590,442	426,068	507,975	349,306
Mining and quarrying	30,845	36,587	22,346	23,009
Manufacturing	2,513,805	2,312,839	2,045,902	1,881,764
Electricity, gas and water	26,924	224,559	19,099	217,392
Construction	1,873,237	2,043,803	1,234,334	1,433,620
Real estate	1,470,732	1,080,900	1,443,356	1,030,950
Purchase of landed properties				
– residential	10,480,976	8,136,804	8,593,713	6,358,808
– non-residential	4,608,991	3,268,464	4,472,230	3,144,758
General commerce	4,960,485	4,542,146	3,432,484	3,105,718
Transport, storage and communication	554,192	387,188	356,762	202,585
Finance, insurance and business services	2,255,831	2,441,214	1,962,965	2,108,566
Purchase of securities	604,728	735,266	489,172	575,986
Purchase of transport vehicles	12,228,900	9,084,315	267,260	231,681
Consumption credit	3,695,261	3,337,265	2,484,364	2,041,237
Others	1,032,783	973,321	686,471	638,208
	46,928,132	39,030,739	28,018,433	23,343,588

Movements in non-performing loans, advances and financing ("NPL") including interest/income receivable are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
At 1 January	1,661,726	2,113,248	987,740	1,321,222
Non-performing during the year	1,034,756	881,331	550,921	451,900
Reclassified as performing	(322,114)	(235,873)	(306,657)	(198,023)
Recoveries	(280,535)	(342,038)	(172,716)	(267,937)
Amount written off	(667,788)	(523,670)	(269,242)	(88,167)
Loans converted to investment securities	(5,531)	(231,184)	(5,531)	(231,184)
Exchange differences	1,191	(88)	3	(71)
At 31 December	1,421,705	1,661,726	784,518	987,740
Net NPL as % of gross loans, advances and financing less specific allowance and interest/income-in-suspense	2.02%	2.36%	1.94%	2.41%

7. LOANS, ADVANCES AND FINANCING (continued)

Movements in the allowance for bad and doubtful debts and financing and interest/income-in-suspense accounts are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
General allowance				
At 1 January	695,870	579,645	366,502	319,571
Allowance made during the year	130,537	116,238	78,917	46,931
Exchange differences	485	(13)	20	—
At 31 December	826,892	695,870	445,439	366,502
As % of gross loans, advances and financing less specific allowance and interest/income-in-suspense	1.78%	1.82%	1.60%	1.60%
Specific allowance				
At 1 January	459,304	603,922	230,707	267,103
Allowance made during the year	457,103	424,365	130,855	114,680
Amount written back in respect of recoveries	(118,783)	(155,905)	(81,004)	(108,393)
Amount written off	(481,357)	(406,185)	(154,630)	(35,797)
Amount transferred to allowance for diminution in value of investments	(1,401)	(6,868)	(1,401)	(6,868)
Exchange differences	271	(25)	(3)	(18)
At 31 December	315,137	459,304	124,524	230,707
Interest/Income-in-suspense				
At 1 January	300,495	329,734	205,839	208,473
Interest/Income suspended during the year	114,759	151,550	79,790	101,091
Amount transferred to allowance for diminution in value of investments	(2,000)	(420)	(2,000)	(420)
Amount written back in respect of recoveries	(61,103)	(70,410)	(48,548)	(56,251)
Amount written off	(186,136)	(109,927)	(114,371)	(47,022)
Exchange differences	64	(32)	(4)	(32)
At 31 December	166,079	300,495	120,706	205,839

8. OTHER ASSETS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Interest/Income receivable	15,721	24,071	8,048	22,810
Other debtors, deposits and prepayments	424,366	305,756	414,561	333,179
Foreclosed properties*	58,975	28,098	55,409	25,426
Taxi licenses	15,574	18,357	—	—
# Amount due from clients @	15,773	12,577	—	—
# Outstanding contracts on clients' accounts	136,807	63,899	—	—
Amount due from subsidiary companies	—	—	78,604	99,497
Dividend receivable from subsidiary companies	—	—	94,516	119,632
	667,216	452,758	651,138	600,544
* Stated net of allowance for impairment in value	5,010	4,184	5,010	3,547
@ Stated net of allowance for bad debts	29,363	81,688	—	—

The amount due from clients and outstanding contracts on clients' accounts are in respect of the stock broking activities of a subsidiary company.

9. STATUTORY DEPOSITS WITH CENTRAL BANKS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
* Statutory deposits with Bank Negara Malaysia	1,473,141	1,201,989	870,680	759,800
# Statutory deposits with National Bank of Cambodia	38,000	31,920	—	—
	1,511,141	1,233,909	870,680	759,800

* The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994), the amount of which is determined as set percentages of total eligible liabilities.

The non-interest bearing deposits are maintained with the National Bank of Cambodia in compliance with Cambodian banking law and are determined by set percentages of total eligible liabilities and the Cambodian Public Bank Limited's issued share capital together with other deposits as required by the National Bank of Cambodia.

10. DEFERRED TAX

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
At 1 January, restated	179,440	160,968	76,033	79,241
Recognised in income statement (net) (Note 33)	52,006	18,472	26,645	(3,208)
At 31 December	231,446	179,440	102,678	76,033

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and where the deferred income taxes relate to the same tax authority. The net deferred tax assets and liabilities shown on the balance sheet after appropriate offsetting are:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Deferred tax assets, net	234,526	182,520	102,678	76,033
Deferred tax liabilities, net	(3,080)	(3,080)	—	—
	231,446	179,440	102,678	76,033

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group	Allowance for Loan Loss RM'000	Tax Losses RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2003				
– as previously reported	—	—	—	—
– prior year adjustments	198,368	32,463	14,359	245,190
As restated	198,368	32,463	14,359	245,190
Recognised in income statement	38,477	1,836	7,770	48,083
At 31 December 2003	236,845	34,299	22,129	293,273

10. DEFERRED TAX (continued)

Deferred tax liabilities of the Group	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2003			
– as previously reported	45,497	13,401	58,898
– prior year adjustments	5,579	1,273	6,852
As restated	51,076	14,674	65,750
Recognised in income statement	5,251	(9,174)	(3,923)
At 31 December 2003	56,327	5,500	61,827

Deferred tax assets of the Bank	Allowance for Loan Loss RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2003			
– as previously reported	—	—	—
– prior year adjustments	114,022	11,187	125,209
As restated	114,022	11,187	125,209
Recognised in income statement	22,716	3,968	26,684
At 31 December 2003	136,738	15,155	151,893

10. DEFERRED TAX ASSETS (continued)

Deferred tax liabilities of the Bank	Excess of Capital Allowances Over Depreciation RM'000	Other Temporary Differences RM'000	Total RM'000
At 1 January 2003			
– as previously reported	42,417	6,759	49,176
– prior year adjustments	—	—	—
As restated	42,417	6,759	49,176
Recognised in income statement	5,461	(5,422)	39
At 31 December 2003	47,878	1,337	49,215

Deferred tax assets have not been recognised on the following item as it is not probable that the respective subsidiary companies will generate sufficient future taxable profits available against which it can be utilised:

	Group	
	2003 RM'000	2002 RM'000
Unutilised tax losses	145,730	185,661

Subject to the agreement by relevant tax authorities, the Group has tax losses carried forward of RM264,273,000 (2002 – RM301,600,000) which give rise to the recognised and unrecognised deferred tax assets in respect of unutilised tax losses above.

11. INVESTMENT IN SUBSIDIARY COMPANIES

Bank	2003		2002	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Quoted shares				
– in Malaysia	1,436,805	*	500,798	1,682,460
– in Malaysia	203,069	**	203,069	**
– in Hong Kong	455,277	1,380,323	392,656	809,637
Unquoted shares	2,095,151	1,380,323	1,096,523	2,492,097
	879,122	—	859,997	—
Less: Allowance for diminution in value	2,974,273 (400)	1,380,323 —	1,956,520 (300)	2,492,097 —
	2,973,873	1,380,323	1,956,220	2,492,097

* No market value had been disclosed as this relates to the net investment in Public Finance Berhad which remained under suspension following the privatisation of Public Finance Berhad on 13 June 2003 as set out on Note 48(a).

** No market value had been disclosed as this relates to the net investment in HHB Holdings Berhad which remained under suspension pending the completion of the proposed corporate exercise as set out on Note 48(b).

Details of the subsidiary companies are as follows:

Name	Principal Activities	Effective Interest		Issued and Paid-up Share Capital	
		2003 %	2002 %	2003	2002
Local subsidiary companies					
Public Finance Berhad #	Financing	100.0	65.2	RM359,394,000	RM344,336,000
Public Nominees (Tempatan) Sdn. Bhd.	Nominees services	100.0	100.0	RM10,000	RM10,000
Public Nominees (Asing) Sdn. Bhd.	Nominees services	100.0	100.0	RM10,000	RM10,000
Public Holdings Sdn. Bhd.	Property holding	100.0	100.0	RM2,500,000	RM2,500,000

11. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name	Principal Activities	Effective Interest		Issued and Paid-up Share Capital	
		2003 %	2002 %	2003	2002
Local subsidiary companies					
Public Leasing & Factoring Sdn. Bhd.	Leasing and factoring	100.0	100.0	RM10,000,000	RM10,000,000
PB International Factors Sdn. Bhd.	Factoring	55.0	55.0	RM10,000,000	RM10,000,000
+Public Consolidated Holdings Sdn. Bhd.	Investment holding	100.0	100.0	RM250,000,000	RM250,000,000
+PB Futures Sdn. Bhd.	Dormant	100.0	100.0	RM9,500,000	RM9,500,000
+PB Securities Sdn. Bhd.	Stock and share broking	100.0	100.0	RM350,000,000	RM350,000,000
+PB Securities Nominees (Tempatan) Sdn. Bhd.	Nominees services	100.0	100.0	RM10,000	RM10,000
+PB Securities Nominees (Asing) Sdn. Bhd.	Nominees services	100.0	100.0	RM10,000	RM10,000
+Public Mutual Berhad	Sale of trust units and management of unit trusts	90.0	85.0	RM6,000,000	RM6,000,000
+Business Premium Sdn. Bhd.	Investment holding	100.0	100.0	RM5,411,504	RM5,411,504
Public Bank (L) Ltd.	Offshore banking	100.0	100.0	USD10,000,000	USD10,000,000
PB Trust Company Sdn. Bhd.	Trustee services	100.0	100.0	RM150,000	RM150,000
PB Trust (L) Ltd.	Trustee services	100.0	—	USD40,000	—
PB Venture Capital Sdn. Bhd.	Investment holding	100.0	100.0	RM1,010,000	RM1,010,000
+Public Merchant Bank Berhad	Merchant banking	100.0	100.0	RM165,000,000	RM165,000,000

11. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name	Principal Activities	Effective Interest		Issued and Paid-up Share Capital	
		2003 %	2002 %	2003	2002
Local subsidiary companies					
+Public Merchant Nominees (Tempatan) Sdn. Bhd.	Nominees services	100.0	100.0	RM10,000	RM10,000
+Public Merchant Nominees (Asing) Sdn. Bhd.	Dormant	100.0	100.0	RM2	RM2
+HHB Holdings Berhad #	Dormant	100.0	100.0	RM125,377,000	RM125,377,000
PB Properties Sdn. Bhd.	Property holding	100.0	100.0	RM5,200,000	RM5,200,000
Hock Hua Finance Berhad	Dormant	100.0	100.0	RM22,500,000	RM22,500,000
Hock Hua Nominees (Tempatan) Sdn. Bhd.	Dormant	100.0	100.0	RM3	RM3
Hock Hua Finance Nominees (Tempatan) Sdn. Bhd.	Dormant	100.0	100.0	RM2	RM2
Overseas subsidiary companies					
++Cambodian Public Bank Limited	Banking	100.0	100.0	USD20,000,000	USD15,000,000
+JCG Holdings Limited*	Investment holding	65.3	61.4	HKD70,775,841	HKD70,775,841
+JCG Finance Company, Limited	Deposit-taking and finance	65.3	61.4	HKD258,800,000	HKD258,800,000
+Funds Fit Limited	Investment holding	65.3	61.4	HKD10,100,000	HKD10,100,000
+JCG Securities Limited	Stock and share broking	65.3	61.4	HKD10,000,000	HKD10,000,000
+JCG Nominees Limited	Nominees services	65.3	61.4	HKD10,000	HKD10,000

11. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name	Principal Activities	Effective Interest		Issued and Paid-up Share Capital	
		2003 %	2002 %	2003	2002
Overseas subsidiary companies					
+Winton Holdings (Bermuda) Limited	Investment holding	65.3	43.4	HKD33,394,993	HKD47,186,323@
+Eternal Success Company Limited	Property holding	65.3	43.4	HKD20	HKD20
+Winsure Company, Limited	Dormant	63.3	42.1	HKD1,600,000	HKD1,600,000
+Winton (B.V.I.) Limited	Investment and property holding	65.3	43.4	HKD61,773	HKD61,773
+Winton Financial Limited	Provision of financing for licensed public vehicles and provision of personal and short-term loans	65.3	43.4	HKD4,000,010	HKD4,000,010
+Winton Financial (Factoring) Limited	Provision of financing for licensed public vehicles	65.3	43.4	HKD1,000,000	HKD1,000,000
+Winton Investment Company (China) Limited	Investment holding, trading of taxi cabs and taxi licenses and leasing of taxis	65.3	43.4	HKD1,000,000	HKD1,000,000
+Winton Motors, Limited	Trading of taxi cabs and taxi licenses and leasing of taxis	65.3	43.4	HKD78,000	HKD78,000
+Winton Motors Trading Company Limited	Dormant	65.3	43.4	HKD2	HKD2

11. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name	Principal Activities	Effective Interest		Issued and Paid-up Share Capital	
		2003 %	2002 %	2003	2002
Overseas subsidiary companies					
+Winton Trading Company Limited	Trading of taxi cabs and taxi licenses and leasing of taxis	65.3	43.4	HKD20	HKD20

Shares quoted on the Main Board of the Malaysia Securities Exchange Berhad.

* Shares quoted on the Stock Exchange of Hong Kong Limited.

+ Subsidiary company not audited by KPMG.

++ Subsidiary company audited by KPMG Cambodia.

@ This amount exclude the convertible preference shares of HKD87,022,512.

All the local subsidiary companies are incorporated in Malaysia. All the overseas subsidiary companies are incorporated in Hong Kong SAR except for JCG Holdings Limited and Winton Holdings (Bermuda) Limited which are incorporated in Bermuda, Cambodian Public Bank Limited which is incorporated in Cambodia and Winton (B.V.I.) Limited which is incorporated in the British Virgin Islands.

12. INVESTMENT IN ASSOCIATED COMPANIES

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Unquoted shares, at cost	33,344	33,344	28,465	28,465
Share of post acquisition results	20,972	20,282	—	—
Less: Allowance for diminution in value	(6,878)	(6,878)	—	—
	47,438	46,748	28,465	28,465
Represented by:				
Group's share of net assets	47,438	46,748	—	—

12. INVESTMENT IN ASSOCIATED COMPANIES (continued)

Details of the associated companies, all of which are unquoted are as follows:

Name	Principal Activities	Place of Incorporation	Effective Interest		Issued and Paid-up Share Capital	
			2003 %	2002 %	2003 '000	2002 '000
PB Trustee Services Berhad	Trustee services	Malaysia	40.0	33.0	RM525	RM525
VID Public Bank	Banking	Socialist Republic of Vietnam	50.0	50.0	USD20,000	USD20,000
ZKW Enterprise (Group) Co., Ltd., Zhuhai Special Economic Zone	Investment holding, general trading and automobile repairs centre	The People's Republic of China	26.1	17.4	HKD23,365 and RMB19,289	HKD23,365 and RMB19,289
CPB Properties Company Ltd.	Property holding	Cambodia	49.0	49.0	USD8	USD8

13. INVESTMENT PROPERTIES

	Group	
	2003 RM'000	2002 RM'000
At valuation		
At 1 January	29,274	35,868
Gain/(Loss) on exchange taken to exchange equalisation reserves	134	(5)
	29,408	35,863
Reclassified to long term leasehold land	(640)	(3,086)
Reclassified to leasehold buildings	(320)	(1,543)
Revaluation deficit	(337)	(1,960)
At 31 December	28,111	29,274

13. INVESTMENT PROPERTIES (continued)

The Group's investment properties stated at market valuation are situated in Hong Kong SAR and are held under long term leases. The leasehold properties which were revalued by independent professional valuers during the current and previous financial years were on an open market value based on existing usage.

Certain of the above leasehold properties were pledged as security for banking facilities granted to certain subsidiary companies.

14. GOODWILL

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cost				
At 1 January	521,378	434,904	393,129	393,129
Arising from privatisation of subsidiary company	384,376	—	—	—
Arising from acquisition of additional shares in subsidiary company	—	88,530	—	—
Realisation of goodwill on deemed disposal	(3,362)	(2,056)	—	—
At 31 December	902,392	521,378	393,129	393,129
Accumulated amortisation				
At 1 January	43,724	18,338	34,717	15,061
Amortisation for the year	40,364	25,386	19,656	19,656
At 31 December	84,088	43,724	54,373	34,717
Net book value	818,304	477,654	338,756	358,412

15. PROPERTY AND EQUIPMENT

Group	Balance at 1.1.03 RM'000	Additions RM'000	Disposals RM'000	Transfers RM'000	Write-offs RM'000	Exchange differences RM'000	Balance at 31.12.03 RM'000
Cost							
Freehold land	112,777	2,404	—	—	—	—	115,181
Long term leasehold land	114,136	11,263	—	640	—	481	126,520
Freehold buildings	384,870	11,388	—	—	—	—	396,258
Leasehold buildings	119,842	9,279	—	320	—	235	129,676
Renovations	170,117	32,663	(8,555)	—	(155)	84	194,154
Office equipment, furniture & fittings	320,693	20,934	(2,634)	—	(4,741)	(29)	334,223
Computer equipment & software	508,597	40,925	(36,397)	—	(495)	50	512,680
Motor vehicles	20,430	689	(785)	—	—	5	20,339
Work-in-progress	2,711	—	—	—	—	—	2,711
	1,754,173	129,545	(48,371)	960	(5,391)	826	1,831,742

The additions for the year in respect of renovations includes accrued restoration cost of RM150,000 (2002 – RM11,655,000).

Group	Balance at 1.1.03 RM'000	Charge for the year RM'000	Disposals RM'000	Transfers RM'000	Write-offs RM'000	Exchange differences RM'000	Balance at 31.12.03 RM'000
Accumulated depreciation							
Long term leasehold land	9,186	1,299	—	—	—	31	10,516
Freehold buildings	61,365	16,879	—	—	—	—	78,244
Leasehold buildings	17,720	2,884	—	—	—	42	20,646
Renovations	100,920	14,666	(506)	—	(83)	75	115,072
Office equipment, furniture & fittings	207,775	25,437	(2,362)	—	(3,620)	26	227,256
Computer equipment & software	422,047	31,065	(31,796)	—	(494)	45	420,867
Motor vehicles	15,007	1,556	(777)	—	—	4	15,790
	834,020	93,786	(35,441)	—	(4,197)	223	888,391

Included in the depreciation charge for the year is an impairment loss on freehold buildings of RM9,157,000.

15. PROPERTY AND EQUIPMENT (continued)

Group	Net Book Value		Depreciation Charge	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Freehold land	115,181	112,777	—	—
Long term leasehold land	116,004	104,950	1,299	1,222
Freehold buildings	318,014	323,505	16,879	9,525
Leasehold buildings	109,030	102,122	2,884	2,592
Renovations	79,082	69,197	14,666	10,886
Office equipment, furniture & fittings	106,967	112,918	25,437	25,454
Computer equipment & software	91,813	86,550	31,065	27,909
Motor vehicles	4,549	5,423	1,556	1,171
Work-in-progress	2,711	2,711	—	—
	943,351	920,153	93,786	78,759

Bank	Balance at 1.1.03 RM'000	Additions RM'000	Disposals RM'000	Transfers RM'000	Write-offs RM'000	Exchange differences RM'000	Balance at 31.12.03 RM'000
Cost							
Freehold land	80,894	—	—	—	—	—	80,894
Long term leasehold land	306	—	—	—	—	—	306
Freehold buildings	261,340	—	—	—	—	—	261,340
Leasehold buildings	1,400	—	—	—	—	—	1,400
Renovations	121,377	29,859	(7,836)	—	—	—	143,400
Office equipment, furniture & fittings	187,767	14,838	(1,237)	—	—	(59)	201,309
Computer equipment & software	442,702	38,761	(35,784)	—	—	(2)	445,677
Motor vehicles	12,800	685	(769)	—	—	(1)	12,715
Work-in-progress	2,711	—	—	—	—	—	2,711
	1,111,297	84,143	(45,626)	—	—	(62)	1,149,752

The additions for the year in respect of renovations includes accrued restoration cost of RM150,000 (2002 – RM6,615,000).

15. PROPERTY AND EQUIPMENT (continued)

Bank	Balance at 1.1.03 RM'000	Charge for the year RM'000	Disposals RM'000	Transfers RM'000	Write-offs RM'000	Exchange differences RM'000	Balance at 31.12.03 RM'000
Accumulated depreciation							
Long term leasehold land	35	1	—	—	—	—	36
Freehold buildings	36,673	5,225	—	—	—	—	41,898
Leasehold buildings	1,033	47	—	—	—	—	1,080
Renovations	64,680	8,107	(52)	—	—	(1)	72,734
Office equipment, furniture & fittings	116,619	14,644	(1,065)	—	—	—	130,198
Computer equipment & software	363,916	27,081	(31,187)	—	—	(4)	359,806
Motor vehicles	9,788	817	(763)	—	—	—	9,842
	592,744	55,922	(33,067)	—	—	(5)	615,594

Bank	Net Book Value		Depreciation Charge	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Freehold land	80,894	80,894	—	—
Long term leasehold land	270	271	1	1
Freehold buildings	219,442	224,667	5,225	5,225
Leasehold buildings	320	367	47	47
Renovations	70,666	56,697	8,107	6,433
Office equipment, furniture & fittings	71,111	71,148	14,644	14,843
Computer equipment & software	85,871	78,786	27,081	22,682
Motor vehicles	2,873	3,012	817	514
Work-in-progress	2,711	2,711	—	—
	534,158	518,553	55,922	49,745

16. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Demand deposits	7,357,983	6,342,339	7,337,300	6,458,339
Savings deposits	9,687,716	8,112,184	8,255,300	6,800,118
Fixed deposits	32,372,972	32,046,513	24,544,815	21,226,213
Negotiable instrument of deposits	530,000	1,188,000	737,567	316,650
Other deposits	268,587	297,170	245,747	270,041
	50,217,258	47,986,206	41,120,729	35,071,361

The maturity structure of fixed deposits and negotiable instrument of deposits are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Due within six months	25,740,986	26,990,340	19,757,168	16,943,140
Six months to one year	6,629,388	5,508,702	5,093,440	4,135,393
One year to three years	523,668	728,057	425,125	459,807
Three years to five years	8,930	7,414	6,649	4,523
	32,902,972	33,234,513	25,282,382	21,542,863

The deposits are sourced from the following types of customers:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Federal and state governments	367,299	606,022	229,709	317,740
Local government and statutory authorities	677,465	902,140	423,851	477,420
Business enterprises	9,219,604	9,359,736	8,345,493	5,373,995
Individuals	36,608,062	32,103,734	28,781,441	24,317,538
Foreign customers	365,294	873,165	526,141	731,794
Others	2,979,534	4,141,409	2,814,094	3,852,874
	50,217,258	47,986,206	41,120,729	35,071,361

17. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Licensed banks	582,541	532,894	539,229	412,111
Licensed finance companies	39,700	50,550	4,743,220	—
Licensed merchant banks	85,500	50,000	116,455	415,000
Other financial institutions	1,071,593	1,060,565	1,229,678	2,175,726
	1,779,334	1,694,009	6,628,582	3,002,837

18. BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represent the Bank and its finance company own bills and acceptances rediscounted and outstanding in the market.

19. RECOURSE OBLIGATIONS ON LOANS SOLD TO CAGAMAS

This represents the proceeds received from housing loans (excluding Islamic financing) sold directly to Cagamas Berhad with recourse to the Bank and its finance subsidiary company, Public Finance Berhad. Under this arrangement, the Bank and its finance subsidiary company undertake to administer the loans on behalf of Cagamas Berhad and to buy-back any loans which are regarded as defective based on prudential criteria set by Cagamas Berhad.

20. OTHER LIABILITIES

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Interest/Profit payable	322,418	302,651	242,911	206,724
Other creditors and accruals	584,201	382,529	298,774	142,403
Employee benefits (Note 21(a))	12,897	23,401	12,897	23,401
Accrued restoration cost	10,870	11,655	6,765	6,615
Profit Equalisation Reserves	26,531	7,514	19,531	7,514
Outstanding contracts on clients' accounts	188,632	61,721	—	—
Amount due to subsidiary companies	—	—	252,443	247,859
	1,145,549	789,471	833,321	634,516

The outstanding contracts on clients' accounts are in respect of the stock broking activities of a subsidiary company.

21. EMPLOYEE BENEFITS

(a) Defined Benefit Plan

The Bank and certain subsidiary companies contribute to a fully funded defined benefit scheme known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Contributions to the Fund are made to a separately administered fund. Under the Fund, eligible employees are entitled to one month of the final/last drawn salary for each completed year of service with the Group upon attainment of the retirement age of 55. Employees who leave before the attainment of the retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund.

2003

The amounts recognised in the balance sheet are determined as follows:

	Group RM'000	Bank RM'000
Present value of funded obligations	171,703	117,634
Fair value of fund assets	(197,964)	(135,626)
	(26,261)	(17,992)
Unrecognised actuarial gains	39,158	30,889
Net liability	12,897	12,897

Fund assets include ordinary shares issued by the Bank with a fair value of RM102,520,000. Fund assets also include properties occupied by the Group and the Bank of RM106,574,000 and RM97,157,000 respectively.

The amounts recognised in the income statement are as follows:

	Group RM'000	Bank RM'000
Current service cost	12,327	8,445
Interest cost	10,771	7,379
Expected return on fund assets	(26,653)	(18,260)
Transition obligation recognised	9,291	6,353
Amount included under "personnel costs"	5,736	3,917

21. EMPLOYEE BENEFITS (continued)**(a) Defined Benefit Plan (continued)**

	Group RM'000	Bank RM'000
Expected return on fund assets	26,653	18,260
Actuarial gain on fund assets	39,158	30,889
Actual return on fund assets	65,811	49,149

Movements in the net liability recognised in the balance sheets are as follows:

	Group RM'000	Bank RM'000
Net liability at 1 January	23,401	23,401
Contributions	(9,987)	(8,168)
Benefits paid	(6,253)	(6,253)
Expense recognised in the income statement	5,736	3,917
Net liability at 31 December	12,897	12,897

Principal actuarial assumptions used at the balance sheet date (expressed as weighted averages):

Discount rate	7.00%
Expected return on fund assets	8.00%
Expected rate of salary increases	6.00%

2002

As this is the first year adoption of MASB 29 and actuarial valuation under MASB 29 was not performed in prior year, comparative information is not presented.

(b) Equity Compensation Benefits

Public Bank Berhad Group Employees' Share Option Scheme

On 10 April 1998, an offer of options under the Public Bank Berhad Employees' Share Option Scheme ("PBB ESOS") to subscribe for ordinary shares of RM0.50 each at an option price of RM1.66 was made to eligible employees. At an Extraordinary General Meeting held on 20 May 2002, the PBB ESOS was extended from the initial expiry date of 25 February 2002 to an expiry date of 25 February 2005.

21. EMPLOYEE BENEFITS (continued)

(b) Equity Compensation Benefits (continued)

The following are the offer of options made under the PBB ESOS to subscribe for ordinary shares of RM0.50 each:

Offer Date	Option Price
10 April 1998	RM1.66
6 June 2002	RM2.78
16 June 2003	RM2.13
22 December 2003	RM2.30

The salient features of the PBB ESOS are as follows:

- The eligibility for participation in the PBB ESOS is at the discretion of the PBB ESOS Committee. It is open to any eligible employee, with at least three (3) years continuous service in the Bank and certain of its subsidiary companies;
- The total number of shares to be offered under the PBB ESOS and in respect of which options may be granted, shall not exceed 10% of the total issued and paid-up share capital of the Bank at any point in time during the duration of the PBB ESOS;
- The number of shares that may be offered and allotted to eligible employees under the PBB ESOS is determined at the discretion of the PBB ESOS Committee subject to no individual eligible employee receiving more than 10% of the shares available under the PBB ESOS and no option shall be granted for less than 1,000 shares;
- The option exercise price for each ordinary share of RM0.50 each shall be at a discount of not more than ten percent of the five (5)-day weighted average market price of PBB shares quoted as "Local" on the Main Board of the Malaysia Securities Exchange Berhad ("MSEB") and as shown in the daily official list issued by the MSEB at the time the option is granted;
- The number of outstanding options to subscribe for shares or the option price or both may be adjusted following any issue of additional shares by way of rights issues, bonus issues or other capitalisation issue carried out by the Bank while an option remains unexercised; and
- The options shall be capable of being exercised four (4) times per annum at such period or periods of time as the PBB ESOS Committee may in its discretion allow but not later than the expiry date of the PBB ESOS of 25 February 2005.

The exercise price of the options granted under the PBB ESOS were adjusted as follows:

	Granted on 10.4.1998	Granted on 6.6.2002	Granted on 16.6.2003	Granted on 22.12.2003
Exercise price at date of granting of options	RM1.66	RM2.78	RM2.13	RM2.30
After adjusting for:				
3 for 10 bonus issue on 23 April 2001	RM1.27	—	—	—
1 for 4 bonus issue on 12 July 2002	RM1.02	RM2.22	—	—
1 for 4 bonus issue on 16 July 2003	RM0.82	RM1.78	RM1.70	—

21. EMPLOYEE BENEFITS (continued)

(b) Equity Compensation Benefits (continued)

The movements in the number of options to subscribe for new ordinary shares of RM0.50 each of the PBB ESOS are as follows:

Option price (adjusted)	Number of PBB Share Options				
	RM0.82 '000	RM1.78 '000	RM1.70 '000	RM2.30 '000	Total '000
At 1 January 2003	2,788	265,385	—	—	268,173
Granted during the year	—	—	40,260	70,528	110,788
Adjustment for bonus issue	620	65,664	10,065	—	76,349
Exercised during the year	(1,568)	(87,793)	(30,928)	—	(120,289)
Lapsed due to resignation	(9)	(2,869)	(1)	—	(2,879)
At 31 December 2003	1,831	240,387	19,396	70,528	332,142

The options granted do not confer any right to participate in any share issue of any other company.

Details of share options granted during the year are as follows:

Exercise Price	Number of PBB Share Options	
	2003 '000	2002 '000
RM1.02	—	8
RM2.22	—	243,265
RM2.13	40,260	—
RM2.30	70,528	—
	110,788	243,273

21. EMPLOYEE BENEFITS (continued)

(b) Equity Compensation Benefits (continued)

Details of share options exercised during the year and the fair value, at exercise date, of shares issued are as follows:

Exercise Date	Exercise Price/Number of PBB Share Options						Fair Value of Shares Issued
	RM0.82	RM1.70	RM1.78	RM1.02	RM2.22	Total	
14.3.2003	—	—	—	224,816	81,500	306,316	RM2.19
9.4.2003	—	—	—	75,814	—	75,814	RM2.30
14.8.2003	500,846	—	16,174,750	—	—	16,675,596	RM2.29
5.9.2003	150,313	—	5,457,750	—	—	5,608,063	RM2.38
8.9.2003	135,711	2,479,250	3,190,284	—	—	5,805,245	RM2.36
12.9.2003	108,979	3,997,250	9,897,059	—	—	14,003,288	RM2.33
24.9.2003	12,500	588,250	1,831,376	—	—	2,432,126	RM2.33
15.10.2003	30,339	1,976,500	5,030,797	—	—	7,037,636	RM2.51
27.10.2003	6,626	1,186,000	2,915,876	—	—	4,108,502	RM2.54
29.10.2003	65,987	5,867,700	7,562,535	—	—	13,496,222	RM2.63
6.11.2003	78,230	2,135,500	7,612,749	—	—	9,826,479	RM2.56
13.11.2003	10,079	471,750	1,922,440	—	—	2,404,269	RM2.57
18.11.2003	—	99,000	812,500	—	—	911,500	RM2.55
21.11.2003	66,595	5,557,250	5,979,576	—	—	11,603,421	RM2.55
1.12.2003	32,649	679,000	2,124,139	—	—	2,835,788	RM2.55
4.12.2003	—	—	136,000	—	—	136,000	RM2.54
22.12.2003	26,969	788,750	3,778,781	—	—	4,594,500	RM2.53
26.12.2003	41,050	5,102,250	13,284,916	—	—	18,428,216	RM2.67
	1,266,873	30,928,450	87,711,528	300,630	81,500	120,288,981	
Considerations received (RM'000)	1,039	52,578	156,127	307	181	210,232	

22. PROVISION FOR TAX EXPENSE AND ZAKAT

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Tax expense	120,470	131,443	97,887	73,188
Zakat	60	50	60	50
	120,530	131,493	97,947	73,238

23. SHARE CAPITAL

Group and Bank	Number of ordinary shares of RM0.50 each		Amount	
	2003 '000	2002 '000	2003 RM'000	2002 RM'000
Authorised: Ordinary shares of RM0.50 each	10,000,000	10,000,000	5,000,000	5,000,000
Issued and fully paid: Ordinary shares of RM0.50 each				
At 1 January	4,629,054	3,667,638	2,314,527	1,833,819
Issued pursuant to share exchange	405,198	—	202,599	—
Bonus issue	1,258,658	917,422	629,329	458,711
Issued under the exercise of share options	120,289	43,994	60,145	21,997
At 31 December	6,413,199	4,629,054	3,206,600	2,314,527

24. TREASURY SHARES

The amount relates to the acquisition cost of treasury shares.

The shareholders of the Bank, by a special resolution passed at an Extraordinary General Meeting held on 18 April 2003, renewed their approval for the Bank's plan to buy-back its own shares. The Directors of the Bank are committed in enhancing the value of the Bank to its shareholders and believe the buy-back plan can be applied in the best interest of the Bank and its shareholders.

During the financial year, the Bank bought back 62,183,500 (2002 – Nil) of its issued ordinary shares of RM0.50 each on the open market at an average purchase price of RM2.73 per share. The total consideration paid for the share buy-back including transaction costs was RM169,960,479 and was financed by internally generated funds. The shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965.

As at 31 December 2003, the number of outstanding shares in issue after deducting treasury shares held is 6,351,015,955 (2002 – 4,629,054,106) ordinary shares of RM0.50 each. Treasury shares have no rights to voting, dividends and participation in other distribution. None of the treasury shares held were resold or cancelled during the financial year.

25. OTHER RESERVES

Group	Statutory Reserves RM'000	Capital Reserves RM'000	Exchange Equalisation Reserves RM'000	Total RM'000
At 1 January 2002	1,280,076	79,943	123,772	1,483,791
Currency translation differences	—	—	(16,439)	(16,439)
Transfer from income statement	313,147	—	—	313,147
At 31 December 2002	1,593,223	79,943	107,333	1,780,499
Currency translation differences	—	—	7,970	7,970
Transfer from/(to) net profit for the year	611,161	—	(12,000)	599,161
At 31 December 2003	2,204,384	79,943	103,303	2,387,630

Bank	Statutory Reserves RM'000	Exchange Equalisation Reserves RM'000	Total RM'000
At 1 January 2002	1,010,859	12,000	1,022,859
Transfer from income statement	306,305	—	306,305
At 31 December 2002	1,317,164	12,000	1,329,164
Transfer from/(to) net profit for the year	524,996	(12,000)	512,996
At 31 December 2003	1,842,160	—	1,842,160

The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

The capital reserves of the Group arose mainly from the capitalisation of retained profits that resulted from bonus issues by subsidiary companies and the restructuring exercise involving certain subsidiary companies undertaken by the Group in previous years.

The Bank's exchange equalisation reserves was set up to cover the Bank's foreign exchange exposure on its investment in foreign subsidiary and associated companies.

26. RETAINED PROFITS

As at 31 December 2003, the Bank has tax exempt profits available for distribution of approximately RM243,000,000 (2002 – RM222,000,000), subject to the agreement by the Inland Revenue Board.

Subject to the agreement by the Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and the balance in the tax exempt account to frank the payment of dividends out of the Bank's entire retained profits as at 31 December 2003.

27. INTEREST INCOME

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Loans, advances and financing	2,885,313	2,708,860	1,537,959	1,424,926
Money at call and deposit placements with financial institutions	258,359	318,020	370,543	306,579
Dealing securities	105,908	50,207	105,402	47,343
Investment securities	155,845	245,120	128,053	185,023
Others	11,482	11,419	3,256	3,344
	3,416,907	3,333,626	2,145,213	1,967,215
Amortisation of premium less accretion of discount	(12,878)	(42,380)	(12,818)	(36,946)
Net interest/income suspended	(49,814)	(78,627)	(30,896)	(44,840)
	3,354,215	3,212,619	2,101,499	1,885,429

28. INTEREST EXPENSE

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Deposits and placements of banks and other financial institutions	35,774	52,906	137,684	96,103
Deposits from customers	1,164,643	1,122,517	883,555	819,046
Loans sold to Cagamas	38,527	50,602	5,143	5,581
Others	18,982	15,335	98	212
	1,257,926	1,241,360	1,026,480	920,942

29. NON-INTEREST INCOME

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
(a) Fee income:				
Commissions	72,866	61,214	65,074	54,286
Service charges and fees	151,999	140,109	82,682	65,543
Guarantee fees	20,098	22,112	15,881	15,957
Processing fees	2,250	1,127	470	497
Commitment fees	29,149	22,775	25,773	22,775
Unit trust management fees	96,210	80,592	—	—
Net brokerage and commissions from stock broking activities	20,943	16,859	—	—
Other fee income	17,647	17,579	9,255	9,012
	411,162	362,367	199,135	168,070
(b) Investment and dealing income:				
Net gains from sale of dealing securities	271	5,993	257	4,042
Net gains from sale of investment securities	21,649	48,961	16,453	28,423
Gross dividends from:				
Dealing securities:				
– quoted in Malaysia	515	1,054	—	—
– quoted outside Malaysia	240	—	—	—
Investment securities:				
– quoted in Malaysia	740	1,038	368	754
– quoted outside Malaysia	517	301	—	—
– unquoted	25,134	2,158	19,995	1,543
	49,066	59,505	37,073	34,762

29. NON-INTEREST INCOME (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
(c) Gross dividend income from investment in subsidiary and associated companies:				
Associated companies	—	—	1,707	1,962
Subsidiary companies:				
– quoted in Malaysia	—	—	455,350	79,323
– quoted outside Malaysia	—	—	82,462	57,541
– unquoted in Malaysia	—	—	102,680	78,844
– unquoted outside Malaysia	—	—	55,100	—
	—	—	697,299	217,670
Write back of allowance/(Allowance) for diminution in value of:				
– investment securities	11,085	(31,214)	1,003	(21,048)
– investment in subsidiary company	—	—	(100)	(300)
	11,085	(31,214)	903	(21,348)
	11,085	(31,214)	698,202	196,322
(d) Other income:				
Foreign exchange profit/(loss)				
– realised	73,773	55,558	70,979	54,976
– unrealised	(4,424)	(2,632)	(4,424)	(2,632)
Rental income	6,999	6,706	3,073	2,807
(Loss)/Gain on disposal of property and equipment (net)	(297)	215	(285)	244
Gain on disposal of foreclosed properties	138	228	138	228
Gain on sale of trust units	55,179	48,124	—	—
Lease income and factoring charges	2,335	2,468	—	—
Others *	28,086	46,246	17,800	11,478
	161,789	156,913	87,281	67,101
Total Non-Interest Income	633,102	547,571	1,021,691	466,255

* This amount includes a gain of RM11,278,000 (2002 – RM15,661,000) arising from the dilution of interest in a subsidiary company due to the issuance of shares under the subsidiary company's employee share option scheme.

30. OVERHEAD EXPENSES

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Personnel costs	627,609	590,734	389,567	360,214
Establishment costs	258,673	243,151	170,183	133,794
Marketing expenses	177,177	174,028	37,619	36,044
Administration and general expenses	108,033	132,099	95,289	92,857
	1,171,492	1,140,012	692,658	622,909

(a) Included in the overhead expenses are the following statutory disclosures:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Amortisation of goodwill	40,364	25,386	19,656	19,656
Auditors' remuneration:				
– statutory audit fees	1,627	1,661	515	466
– non-audit fees	442	509	188	194
Deficit on revaluation of investment properties	337	1,960	—	—
Depreciation of property and equipment	93,786	78,759	55,922	49,745
Directors' remuneration (Note 31)	13,084	12,039	7,865	6,807
Negative goodwill recognised	(45,625)	—	—	—
Pension costs				
– defined contribution plan	61,959	59,009	39,281	36,951
– defined benefit plan	5,736	13,225	3,917	8,885
Rental of premises	54,376	53,274	60,471	57,472

Included in the statutory audit fees and non-audit fees of the Group are fees paid to accounting firms other than the Bank's auditors amounting to RM831,000 (2002 – RM931,000) and RM97,000 (2002 – RM189,000), respectively.

(b) Employees

The number of persons employed by the Group and the Bank (excluding Directors) as at the year end of the financial year was 12,530 (2002 – 12,535) and 8,222 (2002 – 8,118) respectively.

31. DIRECTORS' REMUNERATION

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Directors of the Bank:				
Executive Directors:				
Fees	451	490	120	120
Salary and other remuneration, including meeting allowances	1,917	1,629	1,856	1,563
Bonuses	1,291	994	1,291	994
Benefits-in-kind	2,484*	35	2,484*	35
	6,143	3,148	5,751	2,712
Non-Executive Directors:				
Fees	1,344	1,320	460	460
Other remuneration	4,735	4,282	4,138	3,670
Benefits-in-kind	2,698*	64	58	64
	8,777	5,666	4,656	4,194
Past Director:				
Benefits-in-kind	15	15	15	15
	15	15	15	15
Directors of subsidiary companies:				
Executive Directors:				
Fees	151	314	—	—
Salary and other remuneration, including meeting allowances	2,134	2,057	—	—
Bonuses	928	894	—	—
Benefits-in-kind	127	131	—	—
	3,340	3,396	—	—
Non-Executive Directors:				
Fees	133	59	—	—
	133	59	—	—
Grand Total	18,408	12,284	10,422	6,921
Total (excluding benefits-in-kind)	13,084	12,039	7,865	6,807

31. DIRECTORS' REMUNERATION (continued)

Included in the remuneration of the Executive Directors is the remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind, during the financial year amounted to RM3,367,106 (2002 – RM1,493,584).

* Included in the benefits-in-kind of the Group and the Bank is an amount of RM5,064,000 (2002 – Nil) and RM2,424,000 (2002 – Nil) respectively, arising from the exercise of share options.

The number of Directors of the Bank whose total remuneration for the financial year which fall within the required disclosure bands is as follows:

	Number of Directors	
	2003	2002
Executive Directors		
RM1,200,001 – RM1,250,000	—	1
RM1,450,001 – RM1,500,000	—	1
RM2,350,001 – RM2,400,000	1	—
RM3,350,001 – RM3,400,000	1	—
Non-Executive Directors		
RM100,001 – RM150,000	5	5
RM350,001 – RM400,000	1	1
RM3,150,001 – RM3,200,000	—	1
RM3,650,001 – RM3,700,000	1	—

32. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Allowance for bad and doubtful debts and financing:				
– general allowance	130,537	116,238	78,917	46,931
– specific allowance	457,103	424,365	130,855	114,680
– specific allowance written back	(118,783)	(155,905)	(81,004)	(108,393)
Net (write back)/allowance for share broking activities	(3,687)	3,168	—	—
Bad debts and financing written off	1,144	830	1,144	727
Bad debts and financing recovered	(62,600)	(39,623)	(37,116)	(15,527)
	403,714	349,073	92,796	38,418

33. TAX EXPENSE AND ZAKAT

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Malaysian income tax	402,756	336,730	386,289	220,814
Overseas income tax	20,468	15,031	280	271
	423,224	351,761	386,569	221,085
Over provision in prior years				
– Malaysian income tax	(4,102)	(12,043)	—	(2,018)
– Overseas income tax	(857)	(15)	(773)	—
	418,265	339,703	385,796	219,067
Share of tax expense of associated companies	1,039	759	—	—
	419,304	340,462	385,796	219,067
Deferred tax expense				
– Origination and reversal of temporary differences (Note 10)	(52,006)	(18,472)	(26,645)	3,208
	367,298	321,990	359,151	222,275
Tax expense	92	65	60	50
Zakat				
	367,390	322,055	359,211	222,325

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2002 – 28%) of the estimated chargeable profit for the year. Tax in foreign jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

33. TAX EXPENSE AND ZAKAT (continued)

A reconciliation of income tax expense applicable to profit before tax expense at the statutory tax rate to income tax expense at the effective income tax rate of the Group and of the Bank is as follows:

	%	2003 RM'000	%	2002 RM'000
Group				
Profit before tax expense		1,455,076		1,241,440
Income tax using Malaysian tax rate of 28% (2002 – 28%)	28.0	407,421	28.0	347,603
Effects of different tax rates in foreign jurisdictions	(1.4)	(20,844)	(2.1)	(25,656)
Income not subject to tax	(1.6)	(23,768)	(0.8)	(9,839)
Effects of previously unrecognised tax losses	(0.9)	(13,236)	(0.8)	(9,914)
Expenses not deductible for tax purposes	1.4	22,684	2.6	31,854
Over provision in prior years	25.5 (0.2)	372,257 (4,959)	26.9 (1.0)	334,048 (12,058)
Tax expense for the year	25.3	367,298	25.9	321,990
Bank				
Profit before tax expense		1,409,202		832,015
Income tax using Malaysian tax rate of 28% (2002 – 28%)	28.0	394,577	28.0	232,964
Income not subject to tax	(3.3)	(47,545)	(3.2)	(26,907)
Expenses not deductible for tax purposes	0.9	12,892	2.2	18,236
Over provision in prior years	25.6 (0.1)	359,924 (773)	27.0 (0.2)	224,293 (2,018)
Tax expense for the year	25.5	359,151	26.8	222,275

34. EARNINGS PER SHARE (EPS)

(a) Basic Earnings Per Share

The calculation of the basic earnings per share is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the financial year excluding treasury shares held by the Bank. The weighted average number of ordinary shares used in the previous financial year's EPS calculation has been adjusted for the effects of the bonus shares issued during the current financial year for comparability purposes.

	Group		Bank	
	2003	2002	2003	2002
Net profit for the year (RM'000)	1,003,138	769,182	1,049,991	609,690
'000				
Number of ordinary shares at beginning of the year	4,629,054	3,667,638	4,629,054	3,667,638
Effects of share options exercised during the year	23,796	26,127	23,796	26,127
Effects of shares issued pursuant to share exchange	224,246	—	224,246	—
Effects of 2002 bonus issue	—	917,324	—	917,324
Effects of 2003 bonus issue	1,213,400	1,152,772	1,213,400	1,152,772
Effects of shares bought back and held as treasury shares	(689)	—	(689)	—
Weighted average number of ordinary shares in issue	6,089,807	5,763,861	6,089,807	5,763,861
Basic earnings per share (sen)	16.5	13.3	17.2	10.6

34. EARNINGS PER SHARE (EPS) (continued)

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the net profit for the year divided by the adjusted weighted average number of ordinary shares in issue and issuable during the year, as set out as follows:

	Group		Bank	
	2003	2002	2003	2002
'000				
Weighted average number of ordinary shares	6,089,807	5,763,861	6,089,807	5,763,861
Effects of share options	145,319	50,620	145,319	50,620
Adjusted weighted average number of ordinary shares in issue or issuable	6,235,126	5,814,481	6,235,126	5,814,481
Diluted earnings per share (sen)	16.1	13.2	16.8	10.5

The comparative basic and diluted earnings per share has been restated to take into account the effect of the change in accounting policies (Note 43) on net profit for the year.

35. DIVIDENDS

	Group and Bank	
	2003 RM'000	2002 RM'000
Dividends paid:		
Final dividend of 18.0%, less 28% tax in respect of financial year ended 31 December 2002	299,987	—
Final dividend of 18.0% in respect of financial year ended 31 December 2001 comprising a tax exempt of 9.0% and a non-tax exempt of 9.0%	—	284,034
	299,987	284,034

35. DIVIDENDS (continued)

A proposed final dividend in respect of financial year ended 31 December 2003 of 22%, less 28% tax amounting to approximately RM503,000,464 based on the issued and paid-up capital, of 6,351,015,955 ordinary shares of RM0.50 each, excluding treasury shares held by the Bank have been proposed by the Directors for shareholders' approval at the forthcoming Annual General Meeting. Consistent with treatment adopted in prior year, the financial statements for the current financial year do not recognise this proposed dividend as a liability. Such dividend, if approved by the shareholders, will be excluded from shareholders' funds as an appropriation of retained profits in the financial year ending 31 December 2004.

Accordingly, based on the above, the gross and net dividend per share proposed for each financial year are as follows:

	Group and Bank	
	2003 Sen	2002 Sen
Dividends per 50 sen share:		
– gross	11.00	9.00
– net (after 28% tax)	7.92	6.48

36. RELATED PARTY TRANSACTIONS

Controlling related parties of the Bank are as follows:

- (i) Its subsidiary companies as disclosed in Note 11 to the financial statements; and
- (ii) A Director and substantial shareholder of the Bank, Tan Sri Dato' Sri Dr. Teh Hong Piow.

- (a) The significant transactions and outstanding balances of the Bank with its subsidiary companies are as follows:

	Bank	
	2003 RM'000	2002 RM'000
Income		
Interest income	292,508	82,211
Dividend income	695,592	215,708
Rental income for computer time	36,788	49,432
Staff training recharged	3,884	2,094
Overhead expenses recharged	9,353	—
Commission income	2,721	1,559
Commitment fees and bank charges received	483	439
Rental income from premises	1,848	1,811
	1,043,177	353,254

36. RELATED PARTY TRANSACTIONS (continued)

	Bank	
	2003 RM'000	2002 RM'000
Expenditure		
Interest expense	108,031	55,521
Rental of premises	27,079	26,118
Brokerage commission	715	1,409
Corporate advisory fees	535	90
Commission on loans	4,883	4,676
Others	1,508	1,404
	142,751	89,218
Other transactions		
Sale of loans	—	424,563
Purchase of loans	—	443,927
Amount due from		
Interbank loans	12,366,247	1,963,879
Revolving credits	187,664	173,888
Negotiable instruments of deposits	2,033,871	1,042,799
Demand deposits	44,410	45,822
Dividend receivable	94,516	119,632
Rental deposits	34,139	34,539
Interest receivable	22,002	5,870
Others	22,463	59,088
	14,805,312	3,445,517
Amount due to		
Demand deposits	181,219	253,849
Short-term deposits	888,859	517,164
Interbank borrowings	4,899,756	1,694,499
Interest payable	2,854	2,740
Others*	249,589	245,119
	6,222,277	2,713,371

* This amount is mainly the balance payable to HHB Holdings Berhad arising from the transfer of the banking business of Hock Hua Bank Berhad to the Bank on 31 March 2001.

36. RELATED PARTY TRANSACTIONS (continued)

- (b) The significant transactions of the Bank and its subsidiary companies with the Directors of the Bank or with companies, excluding Lonpac Insurance Berhad in which certain Directors have substantial interest are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Expenditure:				
Interest paid on placements and deposits				
– to Directors of the Bank	7,105	6,739	5,861	5,637
– to companies in which certain Directors of the Bank have interest	876	1,124	708	806

The significant non-banking transactions of the Group and the Bank with Lonpac Insurance Berhad, in which Tan Sri Dato' Sri Dr. Teh Hong Piow is deemed to have a substantial interest, are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Income:				
Commission income	10,062	9,192	5,547	4,749
Rental	1,364	1,237	12	12
Corporate advisory fees	30	68	—	—
Expenditure:				
Insurance premium	13,556	11,493	11,564	9,174
Interest expense	1,674	1,171	1,005	562
Dividend paid	7,874	6,299	7,874	6,299

The significant non-banking transactions of the Group and the Bank with the Group's retirement fund, Public Bank Group Officers' Retirement Benefits Fund ("the Fund"), are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Expenditure/(Income):				
Contribution to the Fund	9,987	13,225	8,168	8,885
Rental	8,204	5,670	7,760	5,328
Dividend paid	20,030	2,843	88	40
Brokerage income	(567)	(2,672)	—	—

All related party transactions are conducted at arm's length basis and on normal commercial terms which are not more favourable to the related party than those generally available to the public.

37. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitment and contingencies are not secured against the Group's and the Bank's assets.

The risk-weighted exposures of the Group and the Bank as at the end of financial year were as follows:

Group	2003		2002	
	Notional RM'000	Credit Equivalent RM'000	Notional RM'000	Credit Equivalent RM'000
Direct credit substitutes	877,307	877,307	761,146	761,146
Certain transaction-related contingent items	330,415	165,208	335,322	167,661
Short-term self-liquidating trade-related contingencies	509,270	101,854	434,583	86,917
Forward assets purchased	59,167	59,167	10,099	10,099
Obligations under underwriting agreements	30,000	15,000	23,272	11,636
Irrevocable commitments to extend credit:				
– maturity exceeding one year	2,992,405	1,496,202	2,463,923	1,231,962
– maturity not exceeding one year	6,845,794	—	5,918,432	—
Forward placements	38,490	—	—	—
Foreign exchange related contracts:				
– less than one year	1,144,020	17,603	1,410,567	18,175
– one year to less than five years	381,802	32,239	—	—
Interest rate related contracts:				
– less than one year	19,000	48	38,000	95
– one year to less than five years	190,000	4,180	440,800	10,108
– five years and above	828,704	53,671	478,549	34,412
Others	—	—	1,373	1,373
	14,246,374	2,822,479	12,316,066	2,333,584

37. COMMITMENTS AND CONTINGENCIES (continued)

Bank	2003		2002	
	Notional RM'000	Credit Equivalent RM'000	Notional RM'000	Credit Equivalent RM'000
Direct credit substitutes	864,323	864,323	748,593	748,593
Certain transaction-related contingent items	323,830	161,915	333,099	166,550
Short-term self-liquidating trade-related contingencies	447,197	89,439	371,636	74,327
Forward assets purchased	59,167	59,167	10,099	10,099
Obligations under underwriting agreements	20,000	10,000	20,000	10,000
Irrevocable commitments to extend credit:				
– maturity exceeding one year	2,236,504	1,118,252	1,638,794	819,397
– maturity not exceeding one year	6,753,187	—	5,865,886	—
Foreign exchange related contracts:				
– less than one year	1,144,020	17,603	1,410,567	18,175
– one year to less than five years	381,802	32,239	—	—
Interest rate related contracts:				
– less than one year	19,000	48	38,000	95
– one year to less than five years	190,000	4,180	440,800	10,108
– five years and above	809,704	52,341	459,549	32,892
	13,248,734	2,409,507	11,337,023	1,890,236

The Bank has given a continuing guarantee to Bank Negara Malaysia to meet the liabilities and financial obligations and requirements of its subsidiary, Public Bank (L) Ltd., arising from its offshore banking business in the Federal Territory of Labuan.

Foreign exchange and interest rate related contracts are subject to market risk and credit risk.

Principal amounts of the foreign exchange related contracts and interest rate related contracts are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Foreign exchange related contracts				
– Forward contracts	314,888	547,258	314,888	547,258
– Cross currency interest rate swaps	1,210,934	863,309	1,210,934	863,309
Interest rate related contracts				
– Swaps	1,037,704	957,349	1,018,704	938,349
	2,563,526	2,367,916	2,544,526	2,348,916

37. COMMITMENTS AND CONTINGENCIES (continued)

Market Risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2003, the amount of contracts which were not hedged in the Group and in the Bank and, hence, exposed to market risk was RM162,071,000 (2002 – RM140,917,000) and RM162,071,000 (2002 – RM140,917,000) respectively.

Credit Risk

Credit risk arises from the possibility that a counter party may be unable to meet the terms of a contract in which the Group or the Bank has a gain in a contract. As at 31 December 2003, the amounts of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM7,659,000 (2002 – RM3,476,000) and RM7,659,000 (2002 – RM3,476,000) respectively. This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

38. FINANCIAL RISK MANAGEMENT POLICIES

The guidelines and policies adopted by the Group and the Bank to manage the following risks that arise in the conduct of the business activities are as follows:

(a) Operational Risk

Operational risk is the potential loss which would result from inadequate or failed internal processes, people and systems and is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management and the Board.

The operational risk management processes include appropriate documentation of processes and procedures. Back-up procedures, regular contingency planning, self-compliance audit and internal audits also form an integral part of the operational risk management process.

(b) Credit Risk

Credit risk is the potential loss of revenue and principal losses in the form of specific allowances as a result of defaults by the borrowers or counter parties through its lending, hedging, trading and investing activities.

The primary exposure to credit risk arises through its loans, advances and financing. The amount of credit exposure in this area is represented by the carrying amounts of the assets in the balance sheet. The lending activities are guided by the Credit Policy which has been established to ensure that the overall objectives in the area of lending are achieved i.e. the loans portfolio is strong and healthy and credit risks are well diversified. The Credit Policy documents the lending policy, collateral policy and credit approval processes including an internal grading system known as the Credit Risk Rating.

38. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Credit Risk (continued)

Credit exposure also arises from financial transactions with counter parties including interbank market activities, derivative instruments used for hedging and debt instruments of which the amount of credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. This exposure is monitored on an on-going basis against predetermined counter party limits.

The credit exposure arising from off balance sheet activities i.e. commitments and contingencies are explained in Note 37.

(c) Market Risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the three key components being foreign currency exchange risk, interest rate risk and equity risk.

Market risk arising from the trading activities is controlled by mark-to-market the trading positions against their predetermined market risk limits.

(i) Foreign Currency Exchange Risk

Foreign currency exchange risk refers to the adverse exchange rate movements on foreign currency exchange positions taken from time to time. Foreign currency exchange open positions are monitored against predetermined position limits and cut-loss limits.

(ii) Interest Rate Risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

The effects of changes in the levels of interest rates on the market value of investment and dealing securities are monitored closely and mark-to-market valuations are regularly reported to management.

(iii) Equity Risk

Equity risk refers to the adverse movements in the price of equities on the equity positions taken from time to time. Equity positions are monitored against predetermined cut-loss limits.

(d) Liquidity Risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

Liquidity risk is controlled through the Bank Negara Malaysia New Liquidity Framework and the internal liquidity risk management policy.

In addition, liquidity contingency funding plan is also established to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risk that may arise due to unforeseen adverse changes in the market place.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2003

39. INTEREST RATE RISK

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following table indicates the effective interest rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

Group 2003	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short-term funds	7,357,940	—	—	—	—	—	612,888	7,970,828	2.79
Deposits and placements with banks and other financial institutions	2,738	554,478	202,804	50,579	8,486	—	—	819,085	3.10
Dealing securities	10,011	374,210	267,297	161,831	92,410	—	15,983	921,742	3.13
Investment securities	39,057	337,581	977,827	460,383	1,364,301	966,907	912,499	5,058,555	3.10
Loans, advances and financing – performing	22,090,609	2,670,362	2,177,660	3,197,146	12,011,818	3,358,792	—	45,506,387	7.49
– non-performing *	—	—	—	—	—	—	113,637	113,637	—
Other non-interest sensitive balances	—	—	—	—	—	—	4,250,087	4,250,087	—
TOTAL ASSETS	29,500,355	3,936,631	3,625,588	3,869,939	13,477,015	4,325,699	5,905,094	64,640,321	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	25,066,845	6,876,635	4,353,373	6,629,679	413,890	8,783	6,868,053	50,217,258	2.97
Deposits and placements of banks and other financial institutions	1,094,344	609,932	—	—	—	—	75,058	1,779,334	2.07
Obligations on securities sold under repurchase agreements	425,562	—	—	—	—	—	—	425,562	2.32
Bills and acceptances payable	355,246	148,676	—	—	—	—	707,166	1,211,088	2.89
Recourse obligations on loans sold to Cagamas	88,431	20,620	24,538	43,432	307,566	—	—	484,587	4.72
Other non-interest sensitive balances	—	—	—	—	—	—	1,269,159	1,269,159	—
Total Liabilities	27,030,428	7,655,863	4,377,911	6,673,111	721,456	8,783	8,919,436	55,386,988	
Shareholders' funds	—	—	—	—	—	—	8,675,681	8,675,681	—
Minority interests	—	—	—	—	—	—	577,652	577,652	—
Total Liabilities and Shareholders' funds	27,030,428	7,655,863	4,377,911	6,673,111	721,456	8,783	18,172,769	64,640,321	
On-balance sheet interest sensitivity gap	2,469,927	(3,719,232)	(752,323)	(2,803,172)	12,755,559	4,316,916	(12,267,675)		
Off-balance sheet interest sensitivity gap (interest rate swaps)	266,000	600,704	171,000	(19,000)	(190,000)	(828,704)	—		
Total interest sensitivity gap	2,735,927	(3,118,528)	(581,323)	(2,822,172)	12,565,559	3,488,212	(12,267,675)		

* This is arrived at after deducting the general allowance, specific allowance and interest/income-in-suspense from gross non-performing loans outstanding.

39. INTEREST RATE RISK (continued)

Group 2002	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short-term funds	8,778,283	—	—	—	—	—	1,153,852	9,932,135	2.63
Deposits and placements with banks and other financial institutions	—	2,543,423	403,320	125,000	—	—	—	3,071,743	3.00
Dealing securities	520,622	363,024	1,292,023	741,241	215,173	25,209	22,393	3,179,685	2.99
Investment securities	343,114	545,138	1,121,755	245,042	1,550,183	800,557	158,191	4,763,980	3.37
Loans, advances and financing – performing	18,256,751	1,958,573	2,126,031	3,839,143	7,821,858	3,366,657	—	37,369,013	8.23
– non-performing *	—	—	—	—	—	—	206,057	206,057	—
Other non-interest sensitive balances	—	—	—	—	—	—	3,343,016	3,343,016	—
TOTAL ASSETS	27,898,770	5,410,158	4,943,129	4,950,426	9,587,214	4,192,423	4,883,509	61,865,629	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	23,841,343	7,839,185	4,052,060	5,545,056	607,826	48,328	6,052,408	47,986,206	3.12
Deposits and placements of banks and other financial institutions	799,803	808,854	38,111	—	—	—	47,241	1,694,009	2.29
Obligations on securities sold under repurchase agreements	802,452	16,969	—	—	—	—	—	819,421	2.49
Bills and acceptances payable	454,565	173,141	4,873	—	—	—	502,639	1,135,218	2.85
Recourse obligations on loans sold to Cagamas	50,018	26,015	38,313	41,981	827,074	—	—	983,401	4.97
Other non-interest sensitive balances	—	—	—	—	—	—	924,044	924,044	—
Total Liabilities	25,948,181	8,864,164	4,133,357	5,587,037	1,434,900	48,328	7,526,332	53,542,299	
Shareholders' funds	—	—	—	—	—	—	6,990,462	6,990,462	—
Minority interests	—	—	—	—	—	—	1,332,868	1,332,868	—
Total Liabilities and Shareholders' funds	25,948,181	8,864,164	4,133,357	5,587,037	1,434,900	48,328	15,849,662	61,865,629	
On-balance sheet interest sensitivity gap	1,950,589	(3,454,006)	809,772	(636,611)	8,152,314	4,144,095	(10,966,153)		
Off-balance sheet interest sensitivity gap (interest rate swaps)	399,000	368,349	190,000	(38,000)	(440,800)	(478,549)	—		
Total interest sensitivity gap	2,349,589	(3,085,657)	999,772	(674,611)	7,711,514	3,665,546	(10,966,153)		

* This is arrived at after deducting the general allowance, specific allowance and interest/income-in-suspense from gross non-performing loans outstanding.

39. INTEREST RATE RISK (continued)

Bank 2003	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short-term funds	10,973,732	—	—	—	—	—	524,978	11,498,710	2.85
Deposits and placements with banks and other financial institutions	—	6,164,508	168,000	—	—	—	—	6,332,508	2.97
Dealing securities	10,011	2,383,776	257,265	161,831	51,799	—	—	2,864,682	2.91
Investment securities	38,818	327,366	861,509	453,022	1,222,852	771,101	812,065	4,486,733	3.10
Loans, advances and financing – performing	19,121,483	1,739,547	1,026,255	1,134,067	2,547,468	1,665,095	—	27,233,915	6.40
– non-performing *	—	—	—	—	—	—	93,849	93,849	—
Other non-interest sensitive balances	—	—	—	—	—	—	5,499,748	5,499,748	—
TOTAL ASSETS	30,144,044	10,615,197	2,313,029	1,748,920	3,822,119	2,436,196	6,930,640	58,010,145	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	20,663,284	4,798,689	3,058,621	5,093,526	650,734	8,783	6,847,092	41,120,729	2.71
Deposits and placements of banks and other financial institutions	5,899,503	609,932	45,600	—	—	—	73,547	6,628,582	2.62
Obligations on securities sold under repurchase agreements	451,992	—	—	—	—	—	—	451,992	2.30
Bills and acceptances payable	355,246	148,676	—	—	—	—	705,228	1,209,150	2.89
Recourse obligations on loans sold to Cagamas	83,305	10,313	8,936	11,714	27,216	—	—	141,484	3.74
Other non-interest sensitive balances	—	—	—	—	—	—	931,268	931,268	—
Total Liabilities	27,453,330	5,567,610	3,113,157	5,105,240	677,950	8,783	8,557,135	50,483,205	
Shareholders' funds	—	—	—	—	—	—	7,526,940	7,526,940	—
Total Liabilities and Shareholders' funds	27,453,330	5,567,610	3,113,157	5,105,240	677,950	8,783	16,084,075	58,010,145	
On-balance sheet interest sensitivity gap	2,690,714	5,047,587	(800,128)	(3,356,320)	3,144,169	2,427,413	(9,153,435)		
Off-balance sheet interest sensitivity gap (interest rate swaps)	266,000	600,704	152,000	(19,000)	(190,000)	(809,704)	—		
Total interest sensitivity gap	2,956,714	5,648,291	(648,128)	(3,375,320)	2,954,169	1,617,709	(9,153,435)		

* This is arrived at after deducting the general allowance, specific allowance and interest/income-in-suspense from gross non-performing loans outstanding.

39. INTEREST RATE RISK (continued)

Bank 2002	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short-term funds	6,862,824	—	—	—	—	—	832,259	7,695,083	2.70
Deposits and placements with banks and other financial institutions	—	2,852,379	871,000	125,000	—	—	—	3,848,379	3.00
Dealing securities	520,622	733,024	1,942,023	741,241	215,173	—	—	4,152,083	2.97
Investment securities	108,303	537,516	1,056,162	244,748	1,288,776	603,653	124,459	3,963,617	3.32
Loans, advances and financing – performing	16,218,871	1,140,489	1,113,275	2,103,443	496,183	1,283,587	—	22,355,848	6.75
– non-performing *	—	—	—	—	—	—	184,692	184,692	—
Other non-interest sensitive balances	—	—	—	—	—	—	4,298,027	4,298,027	—
TOTAL ASSETS	23,710,620	5,263,408	4,982,460	3,214,432	2,000,132	1,887,240	5,439,437	46,497,729	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	16,960,157	4,476,313	2,623,907	4,141,847	653,335	48,328	6,167,474	35,071,361	3.00
Deposits and placements of banks and other financial institutions	2,100,449	785,519	70,411	—	—	—	46,458	3,002,837	2.39
Obligations on securities sold under repurchase agreements	648,190	14,969	—	—	—	—	—	663,159	2.43
Bills and acceptances payable	454,565	173,141	4,873	—	—	—	501,837	1,134,416	2.85
Recourse obligations on loans sold to Cagamas	44,772	15,522	22,573	21,666	10,831	—	—	115,364	4.47
Other non-interest sensitive balances	—	—	—	—	—	—	707,754	707,754	—
Total Liabilities	20,208,133	5,465,464	2,721,764	4,163,513	664,166	48,328	7,423,523	40,694,891	
Shareholders' funds	—	—	—	—	—	—	5,802,838	5,802,838	—
Total Liabilities and Shareholders' funds	20,208,133	5,465,464	2,721,764	4,163,513	664,166	48,328	13,226,361	46,497,729	
On-balance sheet interest sensitivity gap	3,502,487	(202,056)	2,260,696	(949,081)	1,335,966	1,838,912	(7,786,924)		
Off-balance sheet interest sensitivity gap (interest rate swaps)	380,000	368,349	190,000	(38,000)	(440,800)	(459,549)	—		
Total interest sensitivity gap	3,882,487	166,293	2,450,696	(987,081)	895,166	1,379,363	(7,786,924)		

* This is arrived at after deducting the general allowance, specific allowance and interest/income-in-suspense from gross non-performing loans outstanding.

40. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The aggregate fair values of financial assets and liabilities carried on the balance sheet as at 31 December are represented in the following table:

Recognised financial instruments

Group	2003		2002	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial assets				
Cash and short-term funds	7,970,828	7,970,828	9,932,135	9,932,135
Deposits and placements with banks and other financial institutions	819,085	819,085	3,071,743	3,071,856
Dealing securities	921,742	923,025	3,179,685	3,180,107
Investment securities	5,058,555	5,065,629	4,763,980	4,769,866
* Loans, advances and financing	46,446,916	47,537,401	38,270,940	39,027,269
Financial liabilities				
Deposits from customers	50,217,258	50,221,044	47,986,206	48,005,100
Deposits and placements of banks and other financial institutions	1,779,334	1,779,334	1,694,009	1,694,009
Obligations on securities sold under repurchase agreements	425,562	425,562	819,421	819,421
Bills and acceptances payable	1,211,088	1,211,088	1,135,218	1,135,218
Recourse obligations on loans sold to Cagamas	484,587	480,272	983,401	1,000,170

Bank	2003		2002	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial assets				
Cash and short-term funds	11,498,710	11,498,710	7,695,083	7,695,083
Deposits and placements with banks and other financial institutions	6,332,508	6,332,508	3,848,379	3,848,379
Dealing securities	2,864,682	2,865,207	4,152,083	4,153,948
Investment securities	4,486,733	4,522,534	3,963,617	3,976,976
* Loans, advances and financing	27,773,203	27,791,597	22,907,042	22,942,803
Financial liabilities				
Deposits from customers	41,120,729	41,139,214	35,071,361	35,096,812
Deposits and placements of banks and other financial institutions	6,628,582	6,628,582	3,002,837	3,002,837
Obligations on securities sold under repurchase agreements	451,992	451,992	663,159	663,159
Bills and acceptances payable	1,209,150	1,209,150	1,134,416	1,134,416
Recourse obligations on loans sold to Cagamas	141,484	140,972	115,364	115,662

40. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- * The general allowance of the Group and of the Bank of RM826,892,000 (2002 – RM695,870,000) and RM445,439,000 (2002 – RM366,502,000), respectively is not included in the carrying values.

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

- (a) *Cash and Short-Term Funds* – The carrying values are a reasonable estimate of the fair values because of their short-term nature.
- (b) *Deposits and Placements with Banks and Other Financial Institutions* – The fair values of deposits and placements with remaining maturities less than one year are estimated to approximate their carrying values. For deposits and placements with maturities of more than one year, the fair values are estimated based on discounted cash flows using the prevailing market rates for placements of similar remaining maturities at balance sheet date.
- (c) *Dealing and Investment Securities* – The fair values are estimated based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using the prevailing market rates for similar instruments at balance sheet date.
- (d) *Loans, Advances and Financing* – The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate and Islamic loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment and discounted at prevailing rates at balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of interest/income-in-suspense and specific allowance for bad and doubtful debts and financing.
- (e) *Deposits and Placements from Customers, Banks and Other Financial Institutions* – The fair values of deposit liabilities payable on demand (demand and savings deposits) or deposits with remaining maturities of less than one year are estimated to approximate their carrying values. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using prevailing rates offered for deposits of similar remaining maturities. The fair values of Islamic deposits are deemed to approximate their carrying values as profit rates are determined at the end of their holding periods based on the profit generated from the assets invested. For negotiable instrument of deposits, the estimated fair values are based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair values of negotiable instrument of deposits are estimated using discounted cash flow technique.
- (f) *Obligations on Securities Sold under Repurchase Agreements and Bills and Acceptances Payable* – The carrying amounts are a reasonable estimate of their fair values because of their short-term nature.
- (g) *Recourse Obligations on Loans Sold to Cagamas* – The fair values for recourse obligations on housing loans sold to Cagamas are determined based on the discounted cash flows of future instalments at prevailing Cagamas rates at balance sheet date.
- (h) *Other Assets and Other Liabilities* – The fair values of the other assets and other liabilities, which are considered short-term in nature, are estimated to approximate their carrying values.

40. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Unrecognised financial instruments

The fair values of unrecognised financial instruments comprising of interest rate swaps used to hedge the investment securities are included in the fair values of the investment securities.

41. OPERATING LEASES

The Group and the Bank leases a number of premises under operating leases. The leases typically run for an initial period of three years, with an option to renew the leases. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group RM'000	Bank RM'000
Within one year	11,282	2,517
Between one and five years	8,449	2,602
More than five years	202	—
	19,933	5,119

42. CAPITAL AND OTHER COMMITMENTS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Capital expenditure:				
Authorised and contracted for	23,060	21,371	21,880	20,251
Authorised but not contracted for	17,212	22,343	5,446	11,592
	40,272	43,714	27,326	31,843
Uncalled share capital of:				
Associated company	210	60	105	30
Subsidiary company	—	—	150	150
	40,482	43,774	27,581	32,023

43. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

Changes in Accounting Policies

During the current financial year, the Group and the Bank adopted certain new MASB Standards which became effective from 1 January 2003 and the treatment on handling fees paid to motor vehicle dealers for hire purchase loans as prescribed in Bank Negara Malaysia's Circular dated 4 July 2003 ("BNM Circular on Handling Fees") in the financial statements. The adoption of these new standards and the BNM Circular on Handling Fees have resulted in changes in accounting policies which has been applied retrospectively for which comparatives have been restated.

In summary the changes are:

(i) MASB 25, Income Taxes

Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. Previously, deferred tax liabilities were not provided if no liability was expected to arise in the foreseeable future and there were no indications that the timing differences would reverse thereafter. In addition, the Group and the Bank have commenced recognition of deferred tax assets for all deductible temporary differences, when it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised. Previously, deferred tax assets were not recognised unless there was a reasonable expectation of their realisation.

(ii) MASB 29, Employee Benefits

The adoption of MASB 29 resulted in the Group and the Bank making provisions for obligations in respect of short-term employee benefits in the form of accumulating compensated absences. These obligations were not provided for prior to the adoption of MASB 29. In addition, the adoption of MASB 29 resulted in the Group and the Bank using the Projected Unit Credit Method instead of the Attained Age Method to calculate the obligation under the defined benefit plan.

(iii) BNM Circular on Handling Fees

The adoption of BNM Circular on Handling Fees resulted in the Group and the Bank expensing off the handling fees paid to motor vehicle dealers for hire purchase loans in the period in which the handling fees are incurred. Previously, handling fees were capitalised and amortised to the income statement over the hire purchase loans tenure using the "sum-of-digit" method.

Prior Year Adjustments

The change in accounting policies described above applied retrospectively has the following impact on results:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Effects on retained profits:				
At 1 January, as previously stated	1,760,535	1,603,432	1,076,130	1,069,812
Effects of adopting MASB 25	208,125	189,971	125,209	122,223
Effects of adopting MASB 29*	(13,649)	(12,222)	(13,383)	(11,969)
Effects of adopting BNM Circular on Handling Fees	(36,010)	(18,228)	(5,244)	(752)
	158,466	159,521	106,582	109,502
At 1 January, as restated	1,919,001	1,762,953	1,182,712	1,179,314

43. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Effects on net profit for the year:				
Net profit before changes in accounting policies	969,115	770,237	1,027,844	612,610
Effects of adopting MASB 25	50,572	18,154	26,684	2,986
Effects of adopting MASB 29	(1,507)	(1,427)	(1,436)	(1,414)
Effects of adopting BNM Circular on Handling Fees	(15,042)	(17,782)	(3,101)	(4,492)
	34,023	(1,055)	22,147	(2,920)
Net profit for the year	1,003,138	769,182	1,049,991	609,690

Note:

* Included in the effects of adopting MASB 29 of the Group and the Bank is the accrual for compensated absences made for directors of RM8,346,208.

Comparative Figures

The presentation and classifications of items in the current year's financial statements are consistent with the previous financial year except the following comparative figures which have been restated as a result of the adoption of the new MASB Standards and BNM Circular on Handling Fees, which are as follows:

	Group		Bank	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
(a) Balance sheets as at 31 December 2002				
Other assets	452,758	534,804	600,544	607,828
Deferred tax assets	182,520	—	76,033	—
Deferred tax liabilities	3,080	58,898	—	49,176
Other liabilities	789,471	775,622	634,516	621,133
Provision for tax expense and zakat	131,493	154,462	73,238	75,278

43. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

	Group		Bank	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
(b) Income statements for year ended 31 December 2002				
Overhead expenses	1,140,012	1,100,394	622,909	615,257
Profit before tax expense and zakat	1,241,440	1,281,058	832,015	839,667
Tax expense and zakat	(322,055)	(359,340)	(222,325)	(227,057)
Profit after tax expense and zakat	919,385	921,718	609,690	612,610
Minority interests	(150,203)	(151,481)	—	—
Net profit for the year	769,182	770,237	609,690	612,610
(c) Financial ratios as at 31 December 2002				
Earnings per RM0.50 share:				
– basic (sen)	13.3	13.4	—	—
– diluted (sen)	13.2	13.3	—	—
Capital adequacy ratios				
Core capital ratio	19.5%	19.5%	15.8%	15.6%
Risk-weighted capital ratio	21.3%	21.3%	15.8%	15.6%

44. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank and the Group as at 31 December are as follows:

	Group		Bank	
	2003	2002	2003	2002
Without deducting proposed dividends*:				
Core capital ratio	17.6%	19.5%	15.2%	15.8%
Risk-weighted capital ratio	19.4%	21.3%	15.2%	15.8%
After deducting proposed dividends:				
Core capital ratio	16.5%	18.7%	13.5%	14.7%
Risk-weighted capital ratio	18.3%	20.5%	13.5%	14.7%

* In arriving at the capital base used in the ratio calculations of the Group and the Bank, the proposed dividends were not deducted.

44. CAPITAL ADEQUACY (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Components of Tier I and Tier II capital:				
Tier I capital				
Paid-up share capital	3,206,600	2,314,527	3,206,600	2,314,527
Share premium	928,433	676,448	928,433	676,448
Other reserves	4,710,608	3,999,487	3,636,437	2,884,229
Treasury shares	(169,960)	—	(169,960)	—
Minority interests	577,652	1,332,868	—	—
Less: Goodwill	(818,304)	(477,654)	(338,756)	(358,412)
Less: Deferred tax assets, net	(234,526)	(182,520)	(102,678)	(76,033)
Total Tier I capital	8,200,503	7,663,156	7,160,076	5,440,759
Tier II capital				
General allowance for bad and doubtful debts	830,266	699,244	455,059	376,122
Total Tier II capital	830,266	699,244	455,059	376,122
Total capital	9,030,769	8,362,400	7,615,135	5,816,881
Less: Investment in subsidiary companies	—	—	(2,963,081)	(1,945,428)
Capital Base	9,030,769	8,362,400	4,652,054	3,871,453

Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

Group	2003		2002	
	Notional RM'000	Risk-weighted RM'000	Notional RM'000	Risk-weighted RM'000
0%	10,740,217	—	12,135,915	—
10%	1,780,696	178,070	1,947,972	194,797
20%	3,873,314	774,662	8,323,211	1,664,642
50%	11,130,562	5,565,281	8,752,581	4,376,291
100%	40,022,943	40,022,943	33,064,728	33,064,728
	67,547,732	46,540,956	64,224,407	39,300,458

44. CAPITAL ADEQUACY (continued)

The components of the capital base and risk-weighted assets of the Group above comprise the consolidated balances of the Bank and its subsidiary companies.

Bank	2003		2002	
	Notional RM'000	Risk-weighted RM'000	Notional RM'000	Risk-weighted RM'000
0%	7,320,720	—	9,457,718	—
10%	1,628,159	162,816	1,646,262	164,626
20%	17,251,672	3,450,334	9,809,709	1,961,942
50%	9,108,868	4,554,434	6,834,356	3,417,178
100%	22,518,558	22,518,558	19,027,270	19,027,270
	57,827,977	30,686,142	46,775,315	24,571,016

The components of the capital base and risk-weighted assets of the Bank above comprise the balances of the Bank and its offshore banking subsidiary company, Public Bank (L) Ltd..

45. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments.

The primary format, business segments, is prepared based on internal financial reporting system to reflect the Group's management reporting structure. The amounts for each business segment are shown after the allocation of certain centralised costs, funding income and the application of transfer pricing, where appropriate. Inter-segment pricing is determined on a negotiated basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise Head Office assets, payables and expenses to support the operating business segment.

Segmental capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

45. SEGMENT INFORMATION (continued)

(a) By Business Segments:

The Group comprises the following main business segments:

- (i) **Retail Operations**
Retail operations focus on providing products and services to individual customers and small and medium enterprises. The products and services offered to customers include credit facilities (mortgages, trade, personal loans and hire purchase financing), credit cards, remittance services, deposit collection and investment products.
- (ii) **Corporate Lending**
The corporate lending operations caters to funding needs of large corporate customers which are primarily public listed companies and its related corporations.
- (iii) **Investment Banking**
The investment banking operations caters to the business needs of large corporate customers through the provision of financial solutions and direct lending. The services offered include structured financing, corporate advisory services, merger and acquisition and debt restructuring advisory services.
- (iv) **Treasury and Capital Market Operations**
The treasury and capital market operations is involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading. Income from customer trading is reflected in Retail Operations.
- (v) **Share Broking and Fund Management**
The share broking operations is carried out by PB Securities Sdn Bhd and the fund management operations is conducted by Public Mutual Berhad.

45. SEGMENT INFORMATION (continued)

(a) By Business Segments:

2003	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Share Broking and Fund Management RM'000	Others RM'000	Inter- segment Elimination RM'000	Total RM'000
External revenue	3,347,107	212,524	514,153	72,342	173,020	3,739	—	4,322,885
Revenue from other segments	476,903	—	158,222	—	—	—	(635,125)	—
Total revenue	3,824,010	212,524	672,375	72,342	173,020	3,739	(635,125)	4,322,885
Segment results	1,171,146	99,354	184,640	16,018	82,164	1,978	—	1,555,300
Unallocated expenses								(109,568)
Amortisation of goodwill net of negative goodwill recognised								5,261
Profit from operations								1,450,993
Share of profit of associated companies	4,083	—	—	—	—	—	—	4,083
Profit before tax expense								1,455,076
Tax expense and zakat								(367,390)
Minority interests								(84,548)
Net profit for the year								1,003,138
Other information:								
Segment assets	43,993,664	3,676,590	12,943,443	1,826,153	501,097	219,059	—	63,160,006
Investment in associated companies	47,438	—	—	—	—	—	—	47,438
Unallocated assets								614,573
Goodwill								818,304
Total assets								64,640,321
Segment liabilities	33,449,026	3,759,491	17,203,872	141,838	312,150	6,727		54,873,104
Unallocated liabilities								513,884
Total liabilities								55,386,988
Other segment items								
Capital expenditure	95,928	56	5,863	30	7,107	20,411	—	129,395
Depreciation	51,645	673	301	117	7,255	33,795	—	93,786
Amortisation of goodwill	—	—	—	—	—	40,364	—	40,364
Other non-cash net expenses	491,845	19,206	9,561	—	—	—	—	520,612

45. SEGMENT INFORMATION (continued)

(a) By Business Segments:

2002	Retail Operations RM'000	Corporate Lending RM'000	Treasury and Capital Market Operations RM'000	Investment Banking RM'000	Share Broking and Fund Management RM'000	Others RM'000	Inter- segment Elimination RM'000	Total RM'000
External revenue	2,948,359	274,561	619,449	55,263	144,820	3,705	—	4,046,157
Revenue from other segments	439,399	—	34,095	—	—	—	(473,494)	—
Total revenue	3,387,758	274,561	653,544	55,263	144,820	3,705	(473,494)	4,046,157
Segment results	1,044,601	128,913	131,779	13,246	54,083	10,703	—	1,383,325
Unallocated expenses								(119,460)
Amortisation of goodwill								(25,386)
Profit from operations								1,238,479
Share of profit of associated companies	2,961	—	—	—	—	—	—	2,961
Profit before tax expense								1,241,440
Tax expense and zakat								(322,055)
Minority interests								(150,203)
Net profit for the year								769,182
Other information:								
Segment assets	34,983,008	3,484,266	21,094,945	804,093	316,564	214,758	—	60,897,634
Investment in associated companies	46,748	—	—	—	—	—	—	46,748
Unallocated assets								443,593
Goodwill								477,654
Total assets								61,865,629
Segment liabilities	29,097,422	4,402,055	19,382,565	141,883	158,682	43,452	—	53,226,059
Unallocated liabilities								316,240
Total liabilities								53,542,299
Other segment items								
Capital expenditure	62,864	434	3,735	273	—	5,801	—	73,107
Depreciation	47,266	33	1,177	95	7,179	23,009	—	78,759
Amortisation of goodwill	—	—	—	—	—	25,386	—	25,386
Other non-cash (income)/expenses	474,345	(25,097)	15,116	(76)	—	—	—	464,288

45. SEGMENT INFORMATION (continued)**(b) By Geographical Location**

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical locations of assets.

	Operating Revenue RM'000	Profit Before Tax Expense RM'000	Total Assets RM'000	Total Liabilities RM'000	Capital Expenditure RM'000
2003					
Malaysia	3,885,242	1,272,864	62,325,661	54,292,450	112,476
Overseas	437,643	182,212	2,314,660	1,094,538	16,919
Total	4,322,885	1,455,076	64,640,321	55,386,988	129,395
2002					
Malaysia	3,565,432	1,095,734	59,013,711	52,320,845	70,800
Overseas	480,725	145,706	2,851,918	1,221,454	2,307
Total	4,046,157	1,241,440	61,865,629	53,542,299	73,107

The Group has operations in Hong Kong SAR, Sri Lanka, Socialist Republic of Vietnam, Cambodia and the People's Democratic Republic of Laos.

46. CURRENCY

All amounts are in Ringgit Malaysia unless otherwise stated.

47. RATING STATEMENT

As at 31 December 2003, the Bank was accorded the following ratings:

Agencies	Date accorded/Reaffirmed	Ratings
Rating Agency Malaysia Berhad	12 June 2003 (Affirmed) 12 June 2003 (Affirmed)	Long Term Rating – AAA Short Term Rating – P1
Moody's Investors Services	26 September 2002 (Upgraded) 26 September 2002 (Upgraded) 26 September 2002 (Unchanged)	Long Term Deposit Rating – Baa1 Short Term Deposit Rating – P-2 Financial Strength – C-
Standard & Poor's	12 April 2000 (Affirmed)	Public Information Rating – BBBpi
Fitch IBCA Limited	27 June 2000 (Upgraded) 27 June 2000 (Affirmed)	Individual Rating – B/C Support Rating – 2

48. SIGNIFICANT EVENTS

- (a) On 13 June 2003, Public Bank Berhad ("PBB") completed the privatisation of Public Finance Berhad ("PFB") by way of a scheme of arrangement under Section 176 of the Companies Act, 1965 between PFB and its shareholders, other than PBB, with the following:
- (i) PBB acquired all the remaining ordinary shares of RM1.00 each in PFB not already owned by PBB by the issuance of 405,197,847 new ordinary shares of RM0.50 each in PBB to be listed and quoted as "Local" on the Main Board of Malaysia Securities Exchange Berhad, ("PBB Local Shares") in exchange for 135,065,949 PFB shares, on the basis of three (3) new PBB Local Shares for every one (1) existing PFB share held by the shareholders of PFB, other than PBB ("Share Exchange"); and
 - (ii) the payment of a special gross interim dividend of 138.9% less tax of 28% prior to the completion of the Share Exchange ("PFB Special Dividend") amounting to RM1.00 per PFB Share.

The Share Exchange and PFB Special Dividend are collectively referred to as the PFB Privatisation.

The bonus issue by PBB of 1,258,658,521 new PBB Shares which was credited as fully paid-up on the basis of one (1) new PBB Share for every four (4) existing PBB Shares held, conditional upon and after the completion of the PFB Privatisation, was completed on 16 July 2003.

- (b) On 31 March 2003, HHB Holdings Berhad ("HHB"), a wholly-owned subsidiary of Public Bank Berhad ("PBB") which is listed on the Main Board of Malaysia Securities Exchange Berhad ("MSEB") had announced that MSEB had granted an extension of time of six months from 28 February 2003 to 27 August 2003 for HHB to make the Requisite Announcement pursuant to the requirements of Practice Note 10/2001 (on "Level of operations") and Paragraph 8.15 (on "Compliance with shareholding spread requirement") of the Listing Requirements of MSEB to warrant continued listing and trading of HHB Shares on the Main Board of MSEB ("Requisite Announcement").

48. SIGNIFICANT EVENTS (continued)

On 21 May 2003, HHB announced that HHB had entered into a Memorandum of Understanding (“MOU”) with PBB, Rentak Baru (Sabah) Sdn Bhd (“RBSB”), Mr Lee Nyuk Heng (“LNH”) and Dr. Tan Su Haw (“TSH”) for HHB to undertake a corporate exercise which included, inter-alia, the following:

- (i) proposed repayment of capital exercise by HHB;
- (ii) proposed acquisition of HHB from PBB by RBSB or LNH and TSH;
- (iii) proposed acquisition of assets by HHB; and
- (iv) proposed offer for sale of HHB Shares.

(collectively known as the “Proposals”).

On 24 September 2003, HHB announced that the MOU had lapsed on 17 September 2003 and had not been extended.

On 6 October 2003, HHB had announced that MSEB had granted further extension of time until 31 December 2003 for HHB to make the Requisite Announcement. On 31 December 2003, HHB had announced that an application had been submitted to MSEB for extension of time for HHB to make the Requisite Announcement pursuant to paragraph 6.1(a) of Practice Note 10/2001 and on 20 January 2004, HHB had announced that MSEB had granted an extension of time of six months from 31 December 2003 to 30 June 2004 for HHB to make the Requisite Announcement.

- (c) On 28 July 2003, PBB had announced that JCG Holdings Ltd (“JCGH”), its subsidiary which is incorporated under the Companies Act 1981 of Bermuda (“Bermuda Companies Act”) and listed on the Hong Kong Stock Exchange (“HKSE”) would be proposing to the shareholders of JCGH, other than PBB, (“Scheme Shareholders”) for the privatisation of JCGH by way of a scheme of arrangement pursuant to Section 99 of the Bermuda Companies Act (“Proposed Scheme”) involving the cancellation of ordinary shares of HK\$0.10 each in JCGH held by the Scheme Shareholders (“Scheme Shares”).

Under the Proposed Scheme, the Scheme Shares would be cancelled and in consideration thereof, each Scheme Shareholder would be entitled to receive HK\$4.61 in cash per Scheme Share from JCGH.

On 24 September 2003, PBB had announced that the Proposed Scheme was not approved at the meeting of the Scheme Shareholders convened at the direction of the Supreme Court of Bermuda held on 23 September 2003 and hence had lapsed. The listing of JCGH Shares on the HKSE will be maintained.

49. SUBSEQUENT EVENT

On 16 January 2004, PBB had announced that PBB is proposing to undertake a consolidation and division of its entire share capital into ordinary shares of par value of RM1.00 each (“Proposed Share Consolidation”) from the existing ordinary shares of par value of RM0.50 each, upon implementation of which, every two (2) existing ordinary shares of RM0.50 each in PBB will be consolidated and re-issued as one (1) ordinary shares of RM1.00 each in PBB.

Conditional upon approvals being obtained from the relevant authorities and shareholders of PBB for the Proposed Share Consolidation, PBB will be proposing to amend its Memorandum and Articles of Association.

50 ISLAMIC BANKING BUSINESS

The state of affairs at 31 December 2003 and results for the financial year ended on this date under the Islamic Banking business of the Bank and its subsidiary company, Public Finance Berhad, included in the Group financial statements are summarised as follows:

Balance Sheets as at 31 December 2003

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
ASSETS					
Cash and short-term funds	(a)	316,052	661,575	1,286,815	750,393
Deposits and placements with banks and other financial institutions		—	—	450,000	750,000
Investment securities	(b)	157,464	219,424	157,464	164,521
Loans, advances and financing	(c)	5,806,114	3,659,941	1,392,133	884,328
Other assets	(d)	13,734	39,159	3,925	34,066
Statutory deposits with Bank Negara Malaysia		187,086	128,664	30,676	34,500
Deferred tax assets	(e)	35,212	17,600	12,957	4,226
Property and equipment		47	54	47	54
Total Assets		6,515,709	4,726,417	3,334,017	2,622,088
LIABILITIES AND ISLAMIC BANKING FUNDS					
Deposits from customers	(f)	3,036,984	3,957,233	2,430,443	2,466,722
Deposits and placements of banks and other financial institutions	(g)	2,152,368	170,588	103,358	38
Bills and acceptances payable		27,408	13,882	27,408	13,882
Other liabilities	(h)	119,775	36,285	96,474	16,695
Provision for tax expense and zakat	(j)	28,795	20,431	15,943	8,227
Total liabilities		5,365,330	4,198,419	2,673,626	2,505,564
Islamic Banking Funds		1,150,379	527,998	660,391	116,524
Total Liabilities and Islamic Banking Funds		6,515,709	4,726,417	3,334,017	2,622,088
COMMITMENTS AND CONTINGENCIES	(o)	379,820	250,128	203,790	150,002

The accompanying notes form an integral part of the financial statements.

50. ISLAMIC BANKING BUSINESS (continued)**Income Statements for the financial year ended 31 December 2003**

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Income from Islamic Banking business	(k)	296,808	208,734	97,946	62,600
Overhead expenses	(l)	(71,359)	(62,351)	(26,109)	(21,080)
Net income		225,449	146,383	71,837	41,520
Allowance for losses on loans and financing	(m)	(58,105)	(37,752)	(13,589)	(8,583)
Profit before tax expense and zakat		167,344	108,631	58,248	32,937
Tax expense and zakat	(n)	(44,963)	(28,484)	(14,381)	(7,140)
Profit after tax expense and zakat		122,381	80,147	43,867	25,797
Retained profits brought forward		203,858	123,711	92,391	66,594
Retained profits carried forward		326,239	203,858	136,258	92,391

The accompanying notes form an integral part of the financial statements.

50. ISLAMIC BANKING BUSINESS (continued)

Statement of Changes in Islamic Banking Funds

	Note	Group			Bank		
		Capital Funds RM'000	Retained Profits RM'000	Total RM'000	Capital Funds RM'000	Retained Profits RM'000	Total RM'000
At 1 January 2002							
As previously stated		114,140	122,043	236,183	24,133	64,521	88,654
Prior year adjustments	(t)	—	1,668	1,668	—	2,073	2,073
As restated		114,140	123,711	237,851	24,133	66,594	90,727
Funds allocated from Head Office		210,000	—	210,000	—	—	—
Net profit for the year (restated)		—	80,147	80,147	—	25,797	25,797
At 31 December 2002		324,140	203,858	527,998	24,133	92,391	116,524
At 1 January 2003							
As previously stated		324,140	216,439	540,579	24,133	102,043	126,176
Prior year adjustments	(t)	—	(12,581)	(12,581)	—	(9,652)	(9,652)
As restated		324,140	203,858	527,998	24,133	92,391	116,524
Funds allocated from Head Office		500,000	—	500,000	500,000	—	500,000
Net profit for the year		—	122,381	122,381	—	43,867	43,867
		824,140	326,239	1,150,379	524,133	136,258	660,391

The accompanying notes form an integral part of these financial statements.

50. ISLAMIC BANKING BUSINESS (continued)**Cash Flow Statements for the year ended 31 December 2003**

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash flows from operating activities				
Profit before tax expense and zakat	167,344	108,631	58,248	32,937
Adjustments for:				
Depreciation	17	16	17	16
Allowance for bad and doubtful debts and financing	59,754	38,150	13,791	8,598
Write back of allowance for bad and doubtful debts and financing	(1,342)	(222)	(202)	(15)
Net interest income suspended	1,941	963	346	394
Gain on sale of investment securities	(172)	(972)	(172)	(42)
Dividends from investment securities	(4,108)	(4,859)	(4,107)	(4,858)
Profit Equalisation Reserves	19,017	948	12,017	948
Allowance for diminution in value of other receivables	—	1,200	—	1,200
Operating profit before working capital changes	242,451	143,855	79,938	39,178
(Increase)/Decrease in operating assets/liabilities:				
Deposits and placements with banks and other financial institutions	—	—	300,000	(750,000)
Dealing securities	—	8,688	—	—
Loans, advances and financing	(2,206,526)	(2,000,255)	(521,740)	(438,061)
Statutory deposits with Bank Negara Malaysia	(58,422)	(83,434)	3,824	(34,500)
Other assets	21,729	66,718	30,141	69,364
Deposits from customers	(920,249)	1,484,375	(36,279)	931,867
Deposits and placements of banks and other financial institutions	1,981,780	(444,927)	103,320	(240,577)
Bills and acceptances payable	13,526	7,437	13,526	7,437
Other liabilities	73,565	6,333	73,159	896
Cash (used in)/generated from operations	(852,146)	(811,210)	45,889	(414,396)
Tax expense and zakat paid	(59,607)	(43,406)	(20,793)	(10,722)
Net cash (used in)/generated from operating activities	(911,753)	(854,616)	25,096	(425,118)

50. ISLAMIC BANKING BUSINESS (continued)

Cash Flow Statements for the year ended 31 December 2003

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash flows from investing activities				
Purchase of property and equipment	(10)	(7)	(10)	(7)
Dividends received from investment securities	4,108	4,859	4,107	4,858
Net sale/(Net purchases) of investment securities	62,132	24,579	7,229	(15,506)
Net cash generated from/(used in) investing activities	66,230	29,431	11,326	(10,655)
Cash flows from financing activities				
Funds allocated from Head Office	500,000	210,000	500,000	—
Net cash generated from financing activities	500,000	210,000	500,000	—
Net (decrease)/increase in cash and cash equivalents	(345,523)	(615,185)	536,422	(435,773)
Cash and cash equivalents at beginning of year	661,575	1,276,760	750,393	1,186,166
Cash and cash equivalents at end of year	316,052	661,575	1,286,815	750,393

50. ISLAMIC BANKING BUSINESS (continued)**Notes to the Financial Statements for the financial year ended 31 December 2003**

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
(a) Cash and Short-Term Funds				
Cash and balances with banks and other financial institutions	80,152	561,575	70,915	550,393
Money at call and deposit placements maturing within one month	235,900	100,000	1,215,900	200,000
	316,052	661,575	1,286,815	750,393
(b) Investment Securities				
Money market instruments:				
Khazanah bonds	—	43,680	—	38,747
Bank Negara Malaysia Bills	29,984	125,360	29,984	75,390
Cagamas Mudharabah bonds	127,480	50,384	127,480	50,384
	157,464	219,424	157,464	164,521
Market value:				
Khazanah bonds	—	43,860	—	38,927
Bank Negara Malaysia Bills	29,984	125,355	29,984	75,390
Cagamas Mudharabah bonds	127,480	50,384	127,480	50,384

The maturity structure of money market instruments held are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Maturity within one year	29,984	169,040	29,984	114,137
One year to three years	75,726	—	75,726	—
Three to five years	51,754	50,384	51,754	50,384
	157,464	219,424	157,464	164,521

50. ISLAMIC BANKING BUSINESS (continued)

(c) Loans, Advances and Financing

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Al-Qardhassan (overdraft)	1,075	573	1,075	573
Al-Bai Bithaman Ajil (deferred payment sale)	2,294,467	1,439,310	2,179,282	1,350,025
Al-Ijarah Thamma Al-Bai' (leasing)	5,386,256	3,450,382	46,892	46,100
Bai Al-Einah	161,203	109,162	161,203	109,162
Unearned income	7,843,001 (1,919,932)	4,999,427 (1,267,635)	2,388,452 (965,374)	1,505,860 (604,131)
Gross loans, advances and financing	5,923,069	3,731,792	1,423,078	901,729
Allowance for bad and doubtful debts and financing:				
– general	(99,224)	(62,860)	(26,744)	(15,094)
– specific	(15,337)	(7,353)	(3,164)	(1,513)
Income-in-suspense	(2,394)	(1,638)	(1,037)	(794)
Net loans, advances and financing	5,806,114	3,659,941	1,392,133	884,328

(i) The maturity structure of gross loans, advances and financing are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Maturity within one year	65,579	38,668	33,688	21,564
One year to three years	558,222	336,634	110,122	72,452
Three years to five years	1,403,408	901,300	154,326	88,870
Over five years	3,895,860	2,455,190	1,124,942	718,843
	5,923,069	3,731,792	1,423,078	901,729

50. ISLAMIC BANKING BUSINESS (continued)

(ii) Gross loans, advances and financing analysed by economic purposes are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Agriculture	11,059	6,843	1,988	527
Mining and quarrying	712	736	—	—
Manufacturing	72,522	49,904	22,268	14,220
Construction	124,450	91,275	16,991	7,141
Real estate	64,788	57,578	62,815	55,779
Purchase of landed properties				
– residential	881,301	529,138	822,290	485,292
– non-residential	248,307	161,519	247,347	161,114
General commerce	260,377	204,658	40,064	31,177
Transport, storage and communication	26,137	18,759	1,488	294
Finance, insurance and business services	75,530	55,846	4,558	4,586
Purchase of securities	2,506	2,553	1,631	1,655
Purchase of transport vehicles	3,911,638	2,376,732	788	—
Others	243,742	176,251	200,850	139,944
	5,923,069	3,731,792	1,423,078	901,729

(iii) Gross loans, advances and financing analysed by type of customers are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Bank financial institutions	49	—	49	—
Non-bank financial institutions	3,165	2,998	—	—
Business enterprises	87,553	118,579	49,898	87,078
Other entities	5,484	2,289	5,202	1,916
Small and medium sized industries	673,211	467,144	186,555	94,170
Local government and statutory authorities	1,905	91	1,846	—
Individuals	5,138,256	3,134,101	1,177,141	718,170
Foreign customers	13,446	6,590	2,387	395
	5,923,069	3,731,792	1,423,078	901,729

50. ISLAMIC BANKING BUSINESS (continued)

(iv) Movements in non-performing loans, advances and financing ("NPL") including income receivable are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
At 1 January	28,936	11,720	12,336	5,808
Non-performing during the year	64,404	24,446	25,489	10,597
Reclassified as performing	(12,741)	(2,489)	(11,622)	(2,079)
Recoveries	(8,995)	(3,185)	(3,703)	(1,990)
Amount written off	(15,253)	(1,556)	(396)	—
At 31 December	56,351	28,936	22,104	12,336
Net NPL as % of gross loan, advances and financing less specific allowance and income-in-suspense	0.65%	0.54%	1.26%	1.12%

Movements in the allowance for bad and doubtful debts and financing and income-in-suspense accounts are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
General allowance				
At 1 January	62,860	30,994	15,094	7,403
Allowance made during the year	36,364	31,866	11,650	7,691
At 31 December	99,224	62,860	26,744	15,094
As % gross loans, advances and financing less specific allowance and income-in-suspense	1.68%	1.69%	1.88%	1.68%

50. ISLAMIC BANKING BUSINESS (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Specific allowance				
At 1 January	7,353	2,639	1,513	621
Allowance made during the year	23,390	6,284	2,141	907
Amount written back in respect of recoveries	(1,342)	(222)	(202)	(15)
Amount written off	(14,064)	(1,348)	(288)	—
At 31 December	15,337	7,353	3,164	1,513
Income-in-suspense				
At 1 January	1,638	883	794	400
Income suspended during the year	3,016	1,026	1,317	394
Amount written back in respect of recoveries	(1,075)	(63)	(971)	—
Amount written off	(1,185)	(208)	(103)	—
At 31 December	2,394	1,638	1,037	794

(d) Other Assets

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Income receivable	18	1,685	3,713	1,685
Other debtors, deposits and prepayments	13,716	5,789	212	697
Amount due from Head Office	—	31,685	—	31,684
	13,734	39,159	3,925	34,066

50. ISLAMIC BANKING BUSINESS (continued)

(e) Deferred Tax Assets

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
At 1 January, as restated	17,600	8,678	4,226	2,073
Recognised in income statement (Note n)	17,612	8,922	8,731	2,153
At 31 December	35,212	17,600	12,957	4,226

The components and movements of deferred tax assets during the financial year are as follows:

	Allowance for Loan Loss RM'000	Profit Equalisation Reserves RM'000	Total RM'000
Group			
At 1 January 2003			
– as previously reported	—	—	—
– prior year adjustments	17,600	—	17,600
As restated	17,600	—	17,600
Recognised in income statement	10,183	7,429	17,612
At 31 December 2003	27,783	7,429	35,212
Bank			
At 1 January 2003			
– as previously reported	—	—	—
– prior year adjustments	4,226	—	4,226
As restated	4,226	—	4,226
Recognised in income statement	3,262	5,469	8,731
At 31 December 2003	7,488	5,469	12,957

50. ISLAMIC BANKING BUSINESS (continued)**(f) Deposits From Customers**

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Al-Mudharabah General Investment deposits	1,047,516	2,101,654	591,147	734,239
Al-Wadiah Saving deposits	1,247,302	764,011	1,074,635	618,502
Al-Wadiah Demand deposits	742,166	1,091,568	764,661	1,113,981
	3,036,984	3,957,233	2,430,443	2,466,722

The maturity structure of Al-Mudharabah General Investment deposits are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Due within six months	799,037	1,874,358	376,935	542,055
Six months to one year	232,377	209,776	207,081	187,573
One year to three years	9,751	11,708	2,489	1,254
Three years to five years	6,351	5,812	4,642	3,357
	1,047,516	2,101,654	591,147	734,239

The deposits are sourced from the following types of customers:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Federal and state governments	265,183	486,251	187,835	263,365
Local government and statutory authorities	319,270	514,444	174,767	244,461
Business enterprises	595,325	887,963	449,187	283,607
Individuals	1,472,229	957,444	1,261,862	761,947
Foreign customers	32,937	20,779	31,500	19,821
Others	352,040	1,090,352	325,292	893,521
	3,036,984	3,957,233	2,430,443	2,466,722

50. ISLAMIC BANKING BUSINESS (continued)

(g) Deposits and Placements of Banks and Other Financial Institutions

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Licensed banks	2,139,298	120,038	103,358	38
Licensed finance companies	13,070	50,550	—	—
	2,152,368	170,588	103,358	38

(h) Other Liabilities

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Income payable	13,169	19,768	6,001	8,964
Other liabilities	32,651	9,003	30,559	217
Profit Equalisation Reserves (Note 50 (i))	26,531	7,514	19,531	7,514
Amount due to Head Office	47,424	—	40,383	—
	119,775	36,285	96,474	16,695

(i) Profit Equalisation Reserves

The movements in Profit Equalisation Reserves are as follows:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
At 1 January	7,514	6,566	7,514	6,566
Amount arising during the year	19,107	5,947	12,107	5,947
Amount written back	(90)	(4,999)	(90)	(4,999)
At 31 December	26,531	7,514	19,531	7,514

50. ISLAMIC BANKING BUSINESS (continued)**(j) Provision for Tax Expense and Zakat**

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Tax expense	28,735	20,381	15,883	8,177
Zakat	60	50	60	50
	28,795	20,431	15,943	8,227

(k) Income from Islamic Banking Business

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Income derived from investment of depositors' funds	411,251	295,396	142,326	96,706
Income attributable to depositors:				
– customers	(60,054)	(75,844)	(35,981)	(34,636)
– banks and financial institutions	(40,069)	(12,780)	(688)	(1,300)
Profit Equalisation Reserves	311,128 (19,017)	206,772 (948)	105,657 (12,017)	60,770 (948)
Income attributable to the Group/Bank	292,111	205,824	93,640	59,822
Other income from Islamic Banking business	4,697	2,910	4,306	2,778
	296,808	208,734	97,946	62,600

50. ISLAMIC BANKING BUSINESS (continued)

(k) Income from Islamic Banking Business (continued)

The details of the income derived from investment of depositors' funds and Islamic Banking Funds ("IBF") are as follows:

	Group		Bank	
	Depositors' Funds RM'000	IBF RM'000	Depositors' Funds RM'000	IBF RM'000
2003				
Income from financing	351,904	46,014	94,309	9,982
Income from placements with financial institutions	4,510	2,737	29,313	2,734
Investment and dealing income:				
– profit received from investment securities	1,648	158	1,563	146
– gains from sale of investment securities	157	15	157	15
– gross dividends from investment securities	3,758	350	3,757	350
	361,977	49,274	129,099	13,227
Fee income:				
– commission	—	358	—	315
– service charges and fees	—	3,728	—	3,698
– other fee income	—	611	—	293
	—	4,697	—	4,306
	361,977	53,971	129,099	17,533

50. ISLAMIC BANKING BUSINESS (continued)**(k) Income from Islamic Banking Business (continued)**

	Group		Bank	
	Depositors' Funds RM'000	IBF RM'000	Depositors' Funds RM'000	IBF RM'000
2002				
Income from financing	223,606	34,317	59,868	3,357
Income from placements with financial institutions	27,335	1,457	26,915	1,377
Investment and dealing income:				
– profit received from investment securities	4,618	677	1,417	72
– profit received from dealing securities	67	12	—	—
– gains from sale of investment securities	822	150	40	2
– gains from sale of dealing securities	15	3	—	—
– gross dividends from investment securities	4,623	236	4,622	236
Amortisation of premium less accretion of discount	(1,129)	(213)	—	—
Provision for diminution in value of other receivables	(1,200)	—	(1,200)	—
	258,757	36,639	91,662	5,044
Fee income:				
– commission	33	144	—	138
– service charges and fees	4	2,427	—	2,426
– other fee income	74	228	—	214
	111	2,799	—	2,778
	258,868	39,438	91,662	7,822

50. ISLAMIC BANKING BUSINESS (continued)

(l) Overhead Expenses

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Personnel costs	33,958	27,642	15,403	12,746
Establishment costs	10,138	11,184	8,281	6,187
Marketing expenses	23,732	21,201	740	429
Administration and general expenses	3,531	2,324	1,685	1,718
	71,359	62,351	26,109	21,080

(m) Allowance for Losses on Loans and Financing

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Allowance for bad and doubtful debts and financing:				
– general allowance	36,364	31,866	11,650	7,691
– specific allowance	23,390	6,284	2,141	907
– specific allowance written back	(1,342)	(222)	(202)	(15)
Bad debts and financing recovered	(307)	(176)	—	—
	58,105	37,752	13,589	8,583

(n) Tax Expense and Zakat

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Malaysian income tax	62,483	37,341	23,052	9,243
Deferred tax expense				
– Origination and reversal of temporary differences (Note e)	(17,612)	(8,922)	(8,731)	(2,153)
Tax expense	44,871	28,419	14,321	7,090
Zakat	92	65	60	50
	44,963	28,484	14,381	7,140

50. ISLAMIC BANKING BUSINESS (continued)

(o) Commitments and Contingencies

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a results of these transactions. The commitment and contingencies are not secured against the Group's and the Bank's assets.

The risk-weighted exposures of the Group and the Bank as at the end of financial year were as follows:

	2003		2002	
	Notional RM'000	Credit Equivalent RM'000	Notional RM'000	Credit Equivalent RM'000
Group				
Irrevocable commitments to extend credit:				
– maturity exceeding one year	375,358	187,679	245,270	122,635
– maturity not exceeding one year	4,462	—	4,858	—
	379,820	187,679	250,128	122,635
Bank				
Irrevocable commitments to extend credit:				
– maturity exceeding one year	199,328	99,664	145,144	72,572
– maturity not exceeding one year	4,462	—	4,858	—
	203,790	99,664	150,002	72,572

(p) Capital Adequacy

The capital adequacy ratios under the Islamic Banking business of the Bank and its subsidiary company, Public Finance Berhad, included in the Group financial statements as at 31 December are as follows:

	Group		Bank	
	2003	2002	2003	2002
Core capital ratio	19.6%	14.1%	45.4%	12.1%
Risk-weighted capital ratio	21.3%	15.8%	47.2%	13.7%

50. ISLAMIC BANKING BUSINESS (continued)

(p) Capital Adequacy (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Components of Tier I and Tier II capital:				
Tier I capital				
Capital funds	824,140	324,140	524,133	24,133
Retained profits	326,239	203,858	136,258	92,391
Less: Deferred tax assets	(35,212)	(17,600)	(12,957)	(4,226)
Total Tier I capital	1,115,167	510,398	647,434	112,298
Tier II capital				
General allowance for bad and doubtful debts	99,224	62,860	26,744	15,094
Total Tier II capital	99,224	62,860	26,744	15,094
Capital Base	1,214,391	573,258	674,178	127,392

Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

Group	2003		2002	
	Notional RM'000	Risk-weighted RM'000	Notional RM'000	Risk-weighted RM'000
0%	222,436	—	767,056	—
10%	127,480	12,748	50,384	5,038
20%	312,927	62,585	248,422	49,684
50%	966,554	483,277	600,640	300,320
100%	5,138,029	5,138,029	3,263,213	3,263,213
	6,767,426	5,696,639	4,929,715	3,618,255

50. ISLAMIC BANKING BUSINESS (continued)**(p) Capital Adequacy (continued)**

Bank	2003		2002	
	Notional RM'000	Risk-weighted RM'000	Notional RM'000	Risk-weighted RM'000
0%	62,915	—	612,484	—
10%	127,480	12,748	50,384	5,038
20%	1,740,468	348,094	1,072,543	214,509
50%	900,540	450,270	548,350	274,175
100%	616,064	616,064	436,969	436,969
	3,447,467	1,427,176	2,720,730	930,691

The disclosure of the capital adequacy ratios of the Bank and the Group's Islamic Banking business as set out above is in accordance with the Bank Negara Malaysia circular dated 19 November 2002 on "Pematuhan Nisbah Modal Berwajaran Risiko bagi Portfolio Perbankan Islam". In this circular, it is stipulated that all financial institutions participating in the Islamic Banking Scheme are required to comply with a minimum core capital ratio of 4% and a minimum risk-weighted capital ratio of 8% with effect from 2 January 2002.

50. ISLAMIC BANKING BUSINESS (continued)

(q) Yield/Profit Rate Risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table indicates the effective profit rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

Group 2003	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- yield/profit sensitive RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	304,411	—	—	—	—	—	11,641	316,052	2.72
Investment securities	29,984	—	—	—	127,480	—	—	157,464	3.36
Loans, advances and financing									
– performing	148,558	167,387	250,802	494,795	3,176,140	1,629,036	—	5,866,718	7.89
– non-performing *	—	—	—	—	—	—	(60,604)	(60,604)	—
Other non-profit sensitive balances	—	—	—	—	—	—	236,079	236,079	—
TOTAL ASSETS	482,953	167,387	250,802	494,795	3,303,620	1,629,036	187,116	6,515,709	
LIABILITIES AND ISLAMIC BANKING FUNDS									
Deposits from customers	1,690,461	274,045	219,743	232,379	16,102	—	604,254	3,036,984	2.03
Deposits and placements of banks and other financial institutions	1,150,137	1,002,220	—	—	—	—	11	2,152,368	2.90
Other non-profit sensitive balances	—	—	—	—	—	—	175,978	175,978	—
Total Liabilities	2,840,598	1,276,265	219,743	232,379	16,102	—	780,243	5,365,330	
Islamic Banking Funds	—	—	—	—	—	—	1,150,379	1,150,379	—
Total Liabilities and Islamic Banking Funds	2,840,598	1,276,265	219,743	232,379	16,102	—	1,930,622	6,515,709	
On-balance sheet profit sensitivity gap	(2,357,645)	(1,108,878)	31,059	262,416	3,287,518	1,629,036	(1,743,506)		
Off-balance sheet profit sensitivity gap	—	—	—	—	—	—	—		
Total profit sensitivity gap	(2,357,645)	(1,108,878)	31,059	262,416	3,287,518	1,629,036	(1,743,506)		

* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing loans outstanding.

50. ISLAMIC BANKING BUSINESS (continued)**(q) Yield/Profit Rate Risk (continued)**

Group 2002	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- yield/profit sensitive RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	186,243	—	—	—	—	—	475,332	661,575	2.72
Investment securities	75,664	49,696	—	43,680	50,384	—	—	219,424	3.19
Loans, advances and financing									
– performing	94,214	106,887	160,530	318,174	2,061,466	961,585	—	3,702,856	8.72
– non-performing *	—	—	—	—	—	—	(42,915)	(42,915)	—
Other non-profit sensitive balances	—	—	—	—	—	—	185,477	185,477	—
TOTAL ASSETS	356,121	156,583	160,530	361,854	2,111,850	961,585	617,894	4,726,417	
LIABILITIES AND ISLAMIC BANKING FUNDS									
Deposits from customers	2,239,605	843,315	248,974	209,774	17,519	—	398,046	3,957,233	2.45
Deposits and placements of banks and other financial institutions	130,550	40,000	—	—	—	—	38	170,588	2.78
Other non-profit sensitive balances	—	—	—	—	—	—	70,598	70,598	—
Total Liabilities	2,370,155	883,315	248,974	209,774	17,519	—	468,682	4,198,419	
Islamic Banking Funds	—	—	—	—	—	—	527,998	527,998	—
Total Liabilities and Islamic Banking Funds	2,370,155	883,315	248,974	209,774	17,519	—	996,680	4,726,417	
On-balance sheet profit sensitivity gap	(2,014,034)	(726,732)	(88,444)	152,080	2,094,331	961,585	(378,786)		
Off-balance sheet profit sensitivity gap	—	—	—	—	—	—	—		
Total profit sensitivity gap	(2,014,034)	(726,732)	(88,444)	152,080	2,094,331	961,585	(378,786)		

* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing loans outstanding.

50. ISLAMIC BANKING BUSINESS (continued)

(q) Yield/Profit Rate Risk (continued)

Bank 2003	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- yield/profit sensitive RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	1,284,411	—	—	—	—	—	2,404	1,286,815	2.88
Deposits and placements of banks and other financial institutions	—	450,000	—	—	—	—	—	450,000	2.93
Investment securities	29,984	—	—	—	127,480	—	—	157,464	3.36
Loans, advances and financing									
– performing	10,132	12,599	19,182	39,407	338,602	981,052	—	1,400,974	8.36
– non-performing *	—	—	—	—	—	—	(8,841)	(8,841)	—
Other non-profit sensitive balances	—	—	—	—	—	—	47,605	47,605	—
TOTAL ASSETS	1,324,527	462,599	19,182	39,407	466,082	981,052	41,168	3,334,017	
LIABILITIES AND ISLAMIC BANKING FUNDS									
Deposits from customers	1,379,375	106,462	103,644	207,082	7,131	—	626,749	2,430,443	1.82
Deposits and placements of banks and other financial institutions	103,347	—	—	—	—	—	11	103,358	2.71
Other non-profit sensitive balances	—	—	—	—	—	—	139,825	139,825	—
Total Liabilities	1,482,722	106,462	103,644	207,082	7,131	—	766,585	2,673,626	
Islamic Banking Funds	—	—	—	—	—	—	660,391	660,391	—
Total Liabilities and Islamic Banking Funds	1,482,722	106,462	103,644	207,082	7,131	—	1,426,976	3,334,017	
On-balance sheet profit sensitivity gap	(158,195)	356,137	(84,462)	(167,675)	458,951	981,052	(1,385,808)		
Off-balance sheet profit sensitivity gap	—	—	—	—	—	—	—		
Total profit sensitivity gap	(158,195)	356,137	(84,462)	(167,675)	458,951	981,052	(1,385,808)		

* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing loans outstanding.

50. ISLAMIC BANKING BUSINESS (continued)**(q) Yield/Profit Rate Risk (continued)**

Bank 2002	Up to 1 month RM'000	> 1 – 3 months RM'000	> 3 – 6 months RM'000	> 6 – 12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Non- yield/profit sensitive RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	286,243	—	—	—	—	—	464,150	750,393	2.75
Deposits and placements of banks and other financial institutions	—	220,000	530,000	—	—	—	—	750,000	2.85
Investment securities	25,694	49,696	—	38,747	50,384	—	—	164,521	3.33
Loans, advances and financing									
– performing	5,992	8,709	13,311	27,537	254,127	579,717	—	889,393	8.85
– non-performing *	—	—	—	—	—	—	(5,065)	(5,065)	—
Other non-profit sensitive balances	—	—	—	—	—	—	72,846	72,846	—
TOTAL ASSETS	317,929	278,405	543,311	66,284	304,511	579,717	531,931	2,622,088	
LIABILITIES AND ISLAMIC BANKING FUNDS									
Deposits from customers	1,508,773	171,648	173,660	187,572	4,610	—	420,459	2,466,722	2.10
Deposits and placements of banks and other financial institutions	—	—	—	—	—	—	38	38	—
Other non-profit sensitive balances	—	—	—	—	—	—	38,804	38,804	—
Total Liabilities	1,508,773	171,648	173,660	187,572	4,610	—	459,301	2,505,564	
Islamic Banking Funds	—	—	—	—	—	—	116,524	116,524	—
Total Liabilities and Islamic Banking Funds	1,508,773	171,648	173,660	187,572	4,610	—	575,825	2,622,088	
On-balance sheet profit sensitivity gap	(1,190,844)	106,757	369,651	(121,288)	299,901	579,717	(43,894)		
Off-balance sheet profit sensitivity gap	—	—	—	—	—	—	—		
Total profit sensitivity gap	(1,190,844)	106,757	369,651	(121,288)	299,901	579,717	(43,894)		

* This is arrived at after deducting the general allowance, specific allowance and income-in-suspense from gross non-performing loans outstanding.

50. ISLAMIC BANKING BUSINESS (continued)

(r) Fair Values of Financial Assets and Liabilities

The aggregate fair values of financial assets and liabilities carried on the balance sheet as at 31 December are represented in the following table:

Recognised financial instruments

Group	2003		2002	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial assets				
Cash and short-term funds	316,052	316,052	661,575	661,575
Investment securities	157,464	157,464	219,424	219,599
* Loans, advances and financing	5,905,338	6,312,195	3,722,801	3,912,725
Financial liabilities				
Deposits from customers	3,036,984	3,036,984	3,957,233	3,957,233
Deposits and placements of banks and other financial institutions	2,152,368	2,152,368	170,588	170,588
Bills and acceptances payable	27,408	27,408	13,882	13,882

Bank	2003		2002	
	Carrying Value RM'000	Fair Value RM'000	Carrying Value RM'000	Fair Value RM'000
Financial assets				
Cash and short-term funds	1,286,815	1,286,815	750,393	750,393
Deposits and placements with financial institutions	450,000	450,000	750,000	750,000
Investment securities	157,464	157,464	164,521	164,701
* Loans, advances and financing	1,418,877	1,431,326	899,422	935,940
Financial liabilities				
Deposits from customers	2,430,443	2,430,443	2,466,722	2,466,722
Deposits and placements of banks and other financial institutions	103,358	103,358	38	38
Bills and acceptances payable	27,408	27,408	13,882	13,882

Note: The fair values of the other assets and other liabilities, which are considered short-term in nature, are estimated to approximate their carrying values.

* The general allowance of the Group and of the Bank of RM99,224,000 (2002 – RM62,860,000) and RM26,744,000 (2002 – RM15,094,000), respectively is not included in the carrying values.

50. ISLAMIC BANKING BUSINESS (continued)**(s) Related Party Transactions**

The significant transactions and outstanding balances of the Bank with its subsidiary company are as follows:

	Bank	
	2003	2002
Amount due from		
Interbank loans	1,430,000	850,000
Profit receivable	3,695	1,678
	1,433,695	851,678
Amount due to		
Al-Wadiah Demand deposits	22,495	30,923

(t) Change in Accounting Policies and Prior Year Adjustments

The prior year adjustments relates to the change in accounting policies on adoption of MASB 25, Income Taxes and BNM Circular on Handling Fees as described on Note 43 to the financial statements and the change in basis of allocation of overhead expenses to the Islamic Banking business.

Prior Year Adjustments

The change in accounting policies applied retrospectively has the following impact on results:

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Effects on retained profits:				
At 1 January, as previously stated	216,439	122,043	102,043	64,521
Effects of adopting MASB 25	17,600	8,678	4,226	2,073
Effects of adopting BNM Circular on Handling Fees	(16,303)	(7,010)	—	—
Effects of allocation of expenses	(13,878)	—	(13,878)	—
	(12,581)	1,668	(9,652)	2,073
At 1 January, as restated	203,858	123,711	92,391	66,594

50. ISLAMIC BANKING BUSINESS (continued)

(t) Change in Accounting Policies and Prior Year Adjustments (continued)

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Effects on net profit for the year:				
Net profit before changes in accounting policies	129,011	94,396	52,408	37,522
Effects of adopting MASB 25	17,612	8,922	8,731	2,153
Effects of adopting BNM Circular on Handling Fees	(6,970)	(9,293)	—	—
Effects of allocation of expenses	(17,272)	(13,878)	(17,272)	(13,878)
	(6,630)	(14,249)	(8,541)	(11,725)
Net profit for the year	122,381	80,147	43,867	25,797

Comparative Figures

The presentation and classification of items in the current year's financial statements are consistent with the previous financial year except the following comparative figures which have been restated as a result of the adoption of the new MASB 25, Income Taxes and BNM Circular on Handling Fees as described on Note 43 and the change in basis of allocation of overhead expenses to the Islamic Banking business.

	Group		Bank	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
(a) Balance sheets as at 31 December 2002				
Other assets	39,159	81,076	34,066	53,341
Deferred tax assets	17,600	—	4,226	—
Provision for tax expense and zakat	20,431	32,167	8,227	13,624
(b) Income statements for the year ended 31 December 2002				
Overhead expenses	62,351	30,169	21,080	1,805
Profit before tax expense	108,631	140,813	32,937	52,212
Tax expense and zakat	28,484	46,417	7,140	14,690
Profit after tax expense and zakat	80,147	94,396	25,797	37,522

50. ISLAMIC BANKING BUSINESS (continued)

(u) Allocation of Income

The method of allocation of income to the types of deposits is based on “The Framework on Rate of Return” issued by Bank Negara Malaysia. This Framework on Rate of Return which is based on the return on assets concept, calculates the income on assets. The return on assets after deducting incidental expenses and allowances for losses on loans and financing are distributed to the depositors using the weighted average method.

(v) Syariah Advisor

The Group and the Bank hold regular meetings with appointed Syariah Panel who provides technical assistance in ensuring the Islamic Banking products and services offered by the Group and the Bank are in compliance with Syariah principles. The Syariah Panel also provide guidance on legal matters on Islamic Banking products and services.