

# Human Capital is the Foundation of Value Creation



“Our success can be attributed to the commitment and dedication of our people, who have produced solid results even in challenging times.”

In Public Bank, we recognise that people have a huge impact on our business. It is our people who are our competitive advantage and who can boost our bottom line. The Bank thus place considerable emphasis on ensuring that our people are constantly connected and aligned to the organisation's business objectives and strategies.

## ENHANCING OUR INTELLECTUAL CAPITAL

It is our firm belief that enhancing our intellectual capital will increase shareholders' value. Our focus therefore is to create a high performance culture which encourages people to reach for their full potential and commit to excellence.

To perpetuate this, Public Bank has initiated a comprehensive skills building programme to cover the Bank's whole business spectrum, including developing staff innovation and creativity to increase their flexibility and adaptability in an ever-changing and challenging business environment. In addition, with the rationalisation of the businesses of Public Bank and Public Finance, re-skilling and up-scaling of staff will be intensified to create long-term “good fits”.

The Bank will continue its policy of mandatory training for all levels of staff instituted in 2003, which resulted in 11,000 participants being trained over 1,700 training days for the year.

To further extend the developmental outreach and in line with changes to the learning approach, part of the Bank's training curriculum will be migrated to an e-platform via online tools.



### SUPPORTING THE SERVICE QUALITY CULTURE

It has always been Public Bank's objective to cement customer relationships through the provision of high value added services. Our customer care symbolises the assurance of quick and dedicated service to our customers. The Bank will continue to invest in inculcating in its human capital a strong sense of pride to serve with competency and excellence, which we believe is the source of our competitive advantage.

Public Bank has successfully addressed the core service delivery chain of banking with ISO certification bankwide for both front-line and loan service delivery in 2003.

The Human Resource function of the Bank will continue to be a strategic partner and work hand-in-hand with the business units to ensure the right job fit with the required skills set to consistently uphold the Bank's commitment to "Doing It Right".

Public Bank has always recognised that rewarding key talents is necessary to drive motivation and retain talents. Accordingly, the Bank is constantly reviewing its compensation package with a view to ensure its flexibility and competitiveness while striking a good balance between fairness and differentiation, orientation towards short- and long-term results and cost containment.

We believe our biggest strength is our people!



# An Eventful Year

## 13 January 2003

### *Staff Activity*

Bayerische Hypo-und Vereinsbank, one of our Euro correspondent banks, conducted a presentation on the European Clearing System at Menara Public Bank to upgrade staff's knowledge of the system.



## 7 February 2003

### *Signing Ceremony*

A signing ceremony between ARORA Antarabangsa, a sports goods supplier from Indonesia and Public Bank for sponsorship of the Public Bank football team for sports wear and goods worth RM100,000 and cash of RM75,000.

## 10 February 2003

### *Community Service*

Public Bank contributed RM5,000 to the Malaysian Institute of Directors which organised a banquet to honour the fourth Prime Minister of Malaysia, Y.A.B. Tun Dr. Mahathir Mohamad's, final year in office. The banquet was held at the Putrajaya Marriott Hotel, Putrajaya.



## 18 February 2003

### *Corporate Event*

Public Bank, led by Tan Sri Dato' Sri Dr. Teh Hong Piow supported the call for world peace by presenting the Public Bank signature posters bearing 15,365 signatures of staff of the Public Bank Group to Datuk Steven Tan, Managing Director of Star Publications (M) Berhad at a presentation ceremony held at Menara Public Bank.

## 23 February 2003

### *Staff Activity*

Public Bank sent a contingent comprising members of staff to the Malaysians for Peace Rally, organised by the Peace Malaysia coalition at the Stadium Nasional Bukit Jalil, Kuala Lumpur as a demonstration of the Bank's support for world peace.

## 28 February 2003

### *Corporate Event*

A total of 110 primary school students from Sekolah Sri Inai Petaling Jaya, Sekolah Sri Inai Ulu Kelang and Sekolah Kebangsaan Jalan Bangsar took part in an art competition with an environmental theme entitled 'This is My World' held at Menara Public Bank. The competition was organised by Public Bank as part of the Environment Awareness Campaign Project.





#### 4 March 2003

*Corporate Event*

More than 100 members of staff of the Public Bank Group branches from Negeri Sembilan gathered to clean the stretch of beach at Batu Dua Setengah, Port Dickson. Three stone benches were also presented to Tuan Hj. Md. Fadzilah bin A. Rahim, Assistant Health Officer of Majlis Perbandaran Port Dickson for the convenience of the public.



#### 14 March 2003

*Corporate Event*

Public Bank celebrated the 73rd birthday of its Chairman and Founder, Tan Sri Dato' Sri Dr. Teh Hong Piow, with a grand birthday banquet at the Sunway Pyramid Convention Centre, Petaling Jaya.

#### 14 March 2003

*Corporate Event*

A book entitled 'Setting the Records' was launched and presented to Tan Sri Dato' Sri Dr. Teh Hong Piow in conjunction with his 73rd birthday celebration. The book puts on record all the significant events in the history of Public Bank.



#### 25 March 2003

*Corporate Event*

A group of 23 delegates from the Vietnam Association of Banks visited Public Bank. The delegation was headed by Mr. Trinh Ba Tuu, Chief of the Training and Banking Technology Research Department of the Vietnam Association of Banks.

#### 29 March 2003

*Community Service*

Public Bank sponsored RM5,000 towards 'The Sultan of Selangor Cup 2003' football tournament held on 29 March 2003 in conjunction with the coronation of His Royal Highness the Sultan of Selangor.

#### 18 April 2003

*Community Service*

Public Bank contributed RM4,000 to the Sportswriters Association of Malaysia ("SAM") in conjunction with the SAM Awards Nite 2002 held at the JW Marriott Hotel, Kuala Lumpur. The event was officiated by the then Deputy Prime Minister, Y.A.B. Dato' Seri Abdullah Hj. Ahmad Badawi.





▲  
**19 April 2003**

*Staff Activity*

The Public Bank Group Sports Club organised the inaugural Table Tennis Closed Tournament at Menara Public Bank. The one-day tournament attracted staff from Kuala Lumpur/Selangor branches of the Public Bank Group.

**25 April 2003**

*Community Service*

Public Bank contributed RM3,000 to the Immigration Department's annual sports carnival. The cheque was presented to the Director of Federal Territory State Immigration, En. Saadun bin Mat Sabari, by En. Mohd Najeeb Abdullah, Director of Islamic Banking Division.



▲  
**29 April 2003**

*Community Service*

Public Bank, in a gesture of goodwill, donated RM2,000 to enable three disabled athletes and an accompanying coach to attend the World Summer Games 2003 in Dublin, Ireland.



▲  
**1 May 2003**

*Staff Activity*

Public Bank formed its first in-house fire-fighting team consisting of 18 volunteers from staff members. The volunteers attended a three-day training course on fire safety organised by the Fire Services Department.

**5 May 2003**

*Corporate Event*

Public Bank Group announced its results for the first quarter of 2003 posting a profit before taxation of RM336 million for the three months ended 31 March 2003.



▲  
**6 May 2003**

*Community Service*

Public Bank donated RM3,000 to the Royal Malaysian Police for the biennial World Police and Firemen Games held from 27 July 2003 to 3 August 2003 in Barcelona, Spain.



▲  
**17 May 2003**

*Staff Activity*

100 members of staff of Public Bank and Public Finance participated in the Labour Day Rally 2003 at Stadium Putra, Bukit Jalil, Kuala Lumpur. The event was organised by the Ministry of Human Resource and graced by the fourth Prime Minister of Malaysia, Y.A.B. Tun Dr. Mahathir Mohamad.



▲  
**27 May 2003**

*Corporate Event*

Zakat of RM10,000 was paid to Pusat Zakat Negeri Sembilan. The cheque was presented by En. Mohd Najeeb bin Abdullah, Director of Islamic Banking Division to the Menteri Besar of Negeri Sembilan, Y.A.B. Tan Sri Dato' Seri Hj. Mohd. Isa Dato' Hj. Abdul Samad.

**1 June 2003**

*Staff Activity*

A Carroms Closed Tournament was organised by the Public Bank Group Sports Club at the Main Lobby of Menara Public Bank.



▲  
**14 June 2003**

*Awards & Recognition*

Public Bank's Anugerah Bestari programme won the award for the Best Community Relations Project at the Anugerah Kristal IPRM 2002 Awards organised by the Institute of Public Relations Malaysia.



▲  
**21 June 2003**

*Staff Activity*

A regional management seminar attended by 180 management staff from Public Bank and Public Finance branches of Negeri Sembilan, Melaka and Johor was held at the Puteri Pan Pacific Hotel, Johor Bahru in conjunction with the Johor Region's celebration of the Bank's 37th Anniversary.





### 29 June 2003

*Staff Activity*

The first Bowling Closed Tournament was organised by the Public Bank Group Sports Club at Ampang Superbowl, Ampang Point, Kuala Lumpur. The tournament attracted a total of 150 staff participants representing 30 teams.

### 24 July 2003

*Community Service*

As a strong supporter of the development of football in the country, Public Bank purchased 200 tickets worth RM10,000 for the EPL Asia Cup 2003 Championship held at the National Stadium Bukit Jalil, Kuala Lumpur.

### 11 August 2003

*Corporate Event*

Public Bank Group announced its result for the second quarter of 2003 with profit before taxation for the six months ended 30 June 2003 of RM683 million, a 7% improvement compared with the same period in 2002.

### 16 August 2003

*Corporate Event*

A regional management seminar for Public Bank and Public Finance Klang Valley and East Coast branches held at Hotel Nikko, Kuala Lumpur, was attended by 356 members of management staff.



### 17 August 2003

*Staff Activity*

The Public Bank Group Sports Club organised the inaugural Public Bank Golf Tournament at the Bukit Beruntung Golf & Country Club.



### 20 August 2003

*Awards & Recognition*

JP Morgan Chase, one of Public Bank's correspondents in the USA, presented Public Bank with its Quality Recognition Award 2002 for US Dollar Clearing services.





▲  
**26 August 2003**

*Corporate Event*

Public Bank and Public Finance paid zakat of RM17,500 and RM12,100 respectively. The cheques were presented to Minister in the Prime Minister's Department, Y.B. Brig. General (R) Dato' Seri Abdul Hamid Hj. Zainal Abidin, who is also the Chairman of Wilayah Persekutuan Islamic Religious Council.



▲  
**3 September 2003**

*Community Service*

Public Bank contributed RM5,000 to the National Press Club for a luncheon talk by the Managing Director of the International Monetary Fund, Mr. Horst Kohler, on his first official visit to Malaysia.



▲  
**6 September 2003**

*Corporate Event*

A regional management seminar for Public Bank and Public Finance Perak, Penang, Kedah and Perlis branches was held at the Hotel Equatorial, Penang. Tan Sri Dato' Sri Dr. Teh Hong Piow graced the occasion and delivered the keynote address to an audience of 210 senior management, managers and assistant managers.



▲  
**20 September 2003**

*Corporate Event*

A regional management seminar for Public Bank and Public Finance Sarawak and Sabah/Labuan branches was held at the Holiday Inn, Kuching in Sarawak. A total of 86 participants attended the seminar with Tan Sri Dato' Sri Dr. Teh Hong Piow delivering the keynote address.





▲  
**26 September 2003**

*Corporate Event*

Public Bank Group participated in the second Islamic Banking & Takaful Week ("IBTW") launched by the Minister of Domestic Trade and Consumer Affairs, Y.B Tan Sri Dato' Muhyiddin Mohd. Yassin. The Bank had earlier presented a cheque of RM48,000 in support of its participation in the IBTW. The cheque was presented by En. Ismail Ibrahim, General Manager, Credit Control and Islamic Banking to the Deputy Finance Minister I, Y.B. Dato' Dr. Shafie Hj. Mohd. Salleh.

**12 October 2003**

*Corporate Event*

Public Bank sent a contingent of 100 members of staff to participate in the 'Larian Aman Malaysia' held in conjunction with the 10th Organisation of Islamic Countries Summit. The run, organised to demonstrate Malaysia's support for world peace was held at Dataran Merdeka, Kuala Lumpur and officiated by the fourth Prime Minister of Malaysia, Y.A.B. Tun Dr. Mahathir Mohamad.



▲  
**12 October 2003**

*Community Service*

Public Bank contributed corporate T-shirts and caps to Telekom Malaysia and Lembaga Hasil Dalam Negeri in conjunction with their family days held on 12 October and 18 October 2003 respectively. The contribution was presented by Cik Norasni Ayob, Manager of Cash Management Services and Marketing.



**27 October 2003**

*Corporate Event*

Public Bank Group announced its results for the third quarter of 2003 with profit before taxation for the nine months ended 30 September 2003 hitting RM1.37 billion, a 13% increase compared with the same period in 2002.



### 17 November 2003

#### *Community Service*

Public Bank and Public Finance made zakat payments totalling RM20,000 to five orphanages in five states. The recipients were Pertubuhan Asuhan dan Didikan Anak-Anak Yatim Islam Sik, Kedah, Rumah Tunas Harapan Darul Hilmi, Kuala Terengganu, Yayasan Kebajikan Anak-anak Yatim Kelantan, Asrama Damai Anak-Anak Yatim Kampung Damai Kuang, Selangor, and Rumah Kebajikan Anak Yatim dan Miskin, Paya Rumput Jaya, Melaka.

### 4 December 2003

#### *Awards & Recognition*

The Public Bank Annual Report 2002 won the Most Outstanding Annual Report Award and the Industry Excellence Award for the Finance Sector under the Main Board category at the National Annual Corporate Report Awards ("NACRA") 2003. Tan Sri Dato' Sri Dr. Teh Hong Piow received the award from the Minister of Domestic Trade and Consumer Affairs, Y.B. Tan Sri Dato' Haji Muhyiddin Yassin, at the Palace Of The Golden Horses, Selangor.



### 10 December 2003

#### *Awards & Recognition*

The Public Bank Annual Report 2002 in Bahasa Malaysia won the Merit Award for the Private Sector Annual Report category in the Anugerah Citra Wangsa Malaysia 2003 organised by Dewan Bahasa & Pustaka. Dato' Lee Kong Lam, our Executive Director, received the award from Datuk Mohd Daud Dol Moin, Assistant Governor of Bank Negara Malaysia on behalf of the Bank.



### 30 December 2003

#### *Community Service*

Tan Sri Dato' Sri Dr. Teh Hong Piow was presented with a Certificate of Appreciation by His Majesty, Seri Paduka Baginda Yang di-Pertuan Agong, Tuanku Syed Sirajudin Ibni Al-marhum Tuanku Syed Putra Jamalulail at the Institute of Public Relations Malaysia's launched of a special book entitled "World Class Public Relation In Practice – Tun Dr. Mahathir" for Public Bank's support towards the production of the book. The ceremony was held at the Shangri-La Hotel, Kuala Lumpur.

## Our Commitment for Conservation & Preservation of the Environment



In a society that is increasingly concerned with the effects of economic development on the environment and where the Government have taken the initiative to check unbridled development which is leading to degradation of the environment, the Public Bank Group is mindful of its responsibility to the future generations of Malaysians by playing its part in the conservation and preservation of the environment.



The Public Bank Group shows that it cares for the environment in promoting awareness of environmental issues, in supporting environmental protection initiatives and in maintaining a 'green' environment around its Head Office.

### ENVIRONMENTAL AWARENESS ART COMPETITION

In an effort to promote environmental awareness, Public Bank organised an environmental art competition for school children at Menara Public Bank on 28 February 2003. A total of 110 primary school students from Sekolah Sri Inai and Sekolah Kebangsaan Jalan Bangsar took part in this competition entitled 'This Is My World' with the objective of instilling the need for a greener, cleaner and safer environment in their young minds.





### BEACH CLEANING PROJECT

More than 100 staff of Public Bank Group branches from Negeri Sembilan organised a beach cleaning day on 4 March 2003. Equipped with grass cutters, rakes and gardening gloves, the staff worked together to clean the dirty and littered beach at Batu Dua Setengah, Port Dickson, leaving this sandy stretch of beach in pristine condition at the end of the day.

### 32ND WORLD FORESTRY DAY 2003

With the theme "Forest Development – A Reality of Future Needs", the 32nd World Forestry Day was launched on 27 September 2003 at the Segaliud Lokan Forest Reserve in Sandakan. In its continued support of the long term sustainability of the country's forests, Public Bank again sponsored the World Forestry Day posters. The posters, aimed at educating the public in preserving our forestry heritage, were distributed to government offices, universities and colleges throughout the country.



### ANNUAL CORPORATE GIFTS PROMOTING BIRDS

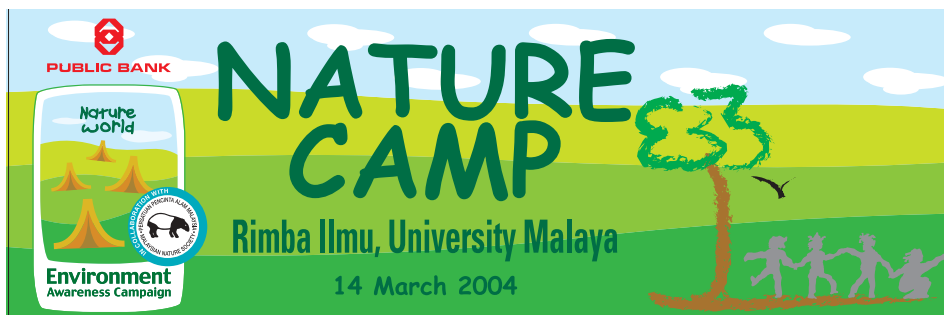
As part of its continuing effort in promoting environmental awareness, the Public Bank Group's annual corporate gifts for 2004 such as corporate calendars, desktop calendars and diaries continued to adopt an environmental friendly theme featuring Malaysian birds. In featuring the Malaysian birds, Public Bank contributed RM18,000 to the Malaysian Nature Society for the use of the Society's picture library, in the process lending financial support to the Malaysian Nature Society. The theme for 2004 continued the Group's focus on the flora and fauna of Malaysia in the promotion of its corporate image through its annual corporate gifts.



## CARING FOR OUR ENVIRONMENT

### NATURE DAY CAMP FOR THE YOUNG

Public Bank held a Nature Day Camp attended by 60 children on 14 March 2004 at the University Malaya, Kuala Lumpur. This is part of the Bank's Environment Awareness Campaign programme. The programme was highly educational for the young children, as for many, it was the first time that they were formally introduced to the tropical rainforests and the many species of flora and fauna of our country by our Malaysian Nature Society experts who partnered the Bank in this project. Puan Angela Hijjas, Chairman of Malaysian Nature Society, Selangor branch, delivered a motivating speech encouraging the young to learn to appreciate nature and to understand conservation efforts and recycling early in life to help save the environment. The participants were thrilled by the walk in the botanical garden to study the flora and fauna in their natural habitat. They learnt new terms like 'stream ecology' and discovered that paper recycling can happen in the garden. En. Razak Dali, General Manager of Public Affairs Division presented a cheque for RM17,000 to the Malaysian Nature Society and certificate of participation and souvenirs to each of the participants.







# FINANCIALS

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### ANALYSIS OF THE BALANCE SHEET

#### Total Assets

The Public Bank Group's total assets stood at RM64.64 billion as at 31 December 2003, an increase of 4.5% over its total assets as at 31 December 2002. The increase in total assets in 2003 was primarily driven by the growth in deposits from customers. During 2003, a significant portion of the Group's funds was channelled to loans, advances and financing in line with the Group's strategy to leverage on the improvement in the Malaysian economy. This has resulted in an increase in the ratio of gross loan to customer deposits from 94% as at 31 December 2002 to 81% as at 31 December 2003.

#### Cash and Short-Term Funds

The Group's cash and short-term funds registered a drop of RM1,961 million from RM9,932 million as at 31 December 2002 to RM7,971 million as at 31 December 2003. The decline was mainly due to the shift of low yield short-term interbank funds to higher yielding assets, primarily loans, advances and financing.

#### Deposits and Placements with Banks and Other Financial Institutions

The Group's deposits and placements with banks and other financial institutions declined by RM2,253 million or 73% in 2003. The decline was also due to the shift of low yield short-term interbank funds to higher yielding assets, primarily loans, advances and financing.

#### Dealing Securities

The Group's holdings of dealing securities declined by RM2,258 million or 71% in 2003 mainly due to the maturity of short-term secondary negotiable instrument of deposits.

#### Investment Securities

The Group's investment securities increased by RM295 million or 6.2% in 2003 in line with the Group's continued efforts to re-allocate its assets invested in the short-term interbank money market to the capital market to enhance returns. Investment securities comprised mainly Malaysian Government Securities, Malaysian Government Investment Issues, Cagamas Bonds, government- and bank-guaranteed private debt securities, as well as highly rated private debt securities and bond funds with investments that are in high quality securities.

#### Loans, Advances and Financing

The Group's total gross loans, advances and financing grew strongly by 20% to RM46.93 billion in 2003. The growth rate of domestic lending was even higher at 22% which is more than four times the growth rate for the Malaysian banking industry of 4.8% in 2003. The Group's sustainable strong loans growth was achieved due to innovative product packaging and proactive product enhancement as well as improved loan service delivery standards, including fast approval turnaround time and efficient documentation and disbursement processes.

In 2003, 89% of the Group's gross loans, advances and financing outstanding or RM41.88 billion was channelled to finance the retail sector, in particular the business needs of small- and medium-sized enterprises ("SMEs"), and the purchase of residential properties and passenger vehicles. Lending to SMEs is assessed on the cash flow and financial strength of the SMEs, as well as any collateral provided. Loans to SMEs increased by 14% to stand at RM10.57 billion as at the end of 2003.

The Group's Islamic financing surged by 59% in 2003 compared to the industry's increase of 29%. Islamic financing now accounts for 13% of the Group's overall loans, advances and financing against 10% in 2002. The expansion reflects the Group's continued focus and commitment to Bank Negara Malaysia's efforts to further develop the Islamic banking sector.

Lending to corporate customers was relatively flat mainly due to loan disintermediation by the capital market which saw continued preference by large corporates to access the private debt securities market as an alternative source of funding.

Gross non-performing loans of the Group fell by RM240 million in 2003 to RM1,422 million. The net non-performing loans ratio improved to 2.0% from 2.4% and 3.8% as at end of 2002 and 2001 respectively, 71% lower than the banking system's ratio of 6.9%. The Group's continued improvement in asset quality is the result of consistent prudent lending policies and practices which is complemented by strong credit management and recovery processes. Provision coverage for non-performing loans, taking into account collateral for these loans, was 155%.

#### **Total Liabilities and Shareholders' Funds**

The Group's total liabilities grew by RM1.85 billion in 2003, mainly from increase in deposits from customers which is the Group's primary source of funds.

The Group's shareholders' funds, which is the second largest in the banking industry, continued to grow with an increase of RM1.69 billion in 2003 to RM8.68 billion as at 31 December 2003. The increase was mainly due to the strong net profit registered for 2003 of RM1.00 billion and

shares issued pursuant to the privatisation of Public Finance. In terms of the Group's shareholders' funds over customer deposits, the Group's ratio of 16% as at 31 December 2003 was well above banking system's average ratio of 9.6%.

#### **Deposits from Customers**

The Group's customer deposits grew by 4.6% in 2003, with strong growth in lower cost current and savings account deposits of 16% and 19% respectively. The growth was mainly supported by the Group's wide branch network to service its customers and its high standard of customer service delivery.

Deposits from individuals, a stable source of funds, increased from 67% of total customer deposits as at 31 December 2002 to 73% as at 31 December 2003.

Consequently, the Group's overall funding structure continued to improve with a further shift in deposit-mix towards lower cost current and savings account deposits. Current account and savings account deposits comprised 15% and 19% of total deposits as at end of 2003 compared to 13% and 17% respectively a year earlier whilst the ratio of fixed deposits to total deposits registered a decline of 2.3% to 64% in 2003.

#### **Deposits and Placements of Banks and Other Financial Institutions**

Deposits and placements of banks and other financial institutions was maintained at the same level of RM1.78 billion.

#### **Obligations on Securities Sold Under Repurchase Agreements**

Obligations on securities sold under repurchase agreements saw a decrease of RM394 million, or 48% mainly due to maturity of repurchase deposits.

#### **Bills and Acceptances Payable**

Bills and Acceptances Payable increased by RM76 million, or 6.7% in 2003. The increase was mainly due to higher volume of bankers' acceptances rediscounted in 2003.

## ANALYSIS OF FINANCIAL STATEMENTS

### **Recourse Obligations on Loans sold to Cagamas**

Loans sold to Cagamas declined by RM499 million, or 51% in 2003. The decline was mainly due to the repayment of Cagamas funding and the use of lower cost internal funds to fund loans, advances and financing of the Group.

### **Commitments and Contingencies**

Commitments and contingencies increased by RM1.93 billion to RM14.25 billion. The increase was mainly due to higher irrevocable commitments to extend credit, in line with the higher volume of loans approved in 2003.

## **ANALYSIS OF THE INCOME STATEMENT**

### **Net Interest Income**

The Public Bank Group's net interest income grew by RM125 million or 6.3% to RM2,096 million. The increase largely emanated from the Group's domestic operations, with the commercial banking operations registering an increase of RM111 million or 12%, whilst the finance company operations recorded an increase of RM52 million or 9.2%.

The Group's growth in net interest income was driven by strong domestic loans growth of 22%, which more than offset the impact of reduced net interest margins on interest-earning assets in 2003.

The reduction in the base lending rate ("BLR") by 40 basis points in May 2003 had an adverse effect on interest margins of financial institutions as lending rates fell more than the cost of funds. The pressure on interest margins was strongly felt in retail lending, particularly for vehicle hire purchase financing. Public Finance's overall net interest margin fell by 72 basis points as a result of the significant reduction in financing rates for new vehicle hire purchase loans. The commercial banking operations of Public Bank recorded a smaller margin squeeze of 11 basis points.

The continued improvement in the Group's asset quality also had a positive impact on net interest income as net interest suspended on non-performing loans fell by RM29 million in 2003 compared to 2002. At the Bank level, net interest suspended on non-performing loans fell by RM14 million.

Net interest income from overseas operations declined by RM29 million or 7.7% as a result of contraction in average loans, advances and financing as well as lower net interest margins.



### Islamic Banking Income

In 2003, net income from Islamic Banking operations for the Group increased by 42% to RM297 million. This was largely contributed by strong Islamic financing growth of 59% to RM5.92 billion. For the Bank, net income from Islamic Banking operations grew by 56% to RM98 million, whilst Public Finance achieved an increase of RM53 million to RM199 million.

### Non-Interest Income

The Group's non-interest income increased by 16% or RM86 million to RM633 million. This was mainly due to write-back of allowance for diminution in value of investment securities of RM11 million in 2003 as against an allowance of RM31 million made in 2002. Fee based income of the Group also improved significantly, registering a growth of 13% mainly from commissions and unit trust management fees of unit trust funds managed by Public Mutual. Dividend income from the Group's investment in securities increased by RM23 million, whilst foreign exchange income increased by 31%.

At the Bank level, non-interest income (excluding dividends from subsidiaries and associated companies) improved by 30% or RM76 million to RM324 million. Major contributors to the increase were higher commissions (+20%), service charges and fees (+26%), and dividend income from investment securities (+787%). This reflects the continuation of the Group's strategy to expand its non-interest based income to mitigate the effects of eroding interest margins.

The ratio of non-interest income to total income for the Group increased marginally from 20% in 2002 to 21% in 2003. As for the Bank, the ratio excluding dividends received from subsidiaries and associated companies, increased to 22% in 2003, from 19% in 2002.

### Overhead Expenses

Total overhead expenses of the Group increased by 2.7% to RM1,171 million in 2003 mainly due to higher personnel costs (+6.2%) and establishment related expenses (+6.4%), partially offset by lower administration and general expense (-18%).

The increase in personnel expenses was mainly due to salary increments as staff strength remained stable at 12,530 at the end of 2003 compared to 12,535 at the end of 2002. During 2003, the Group also incurred expenses for the rationalisation of the Public Finance branch network with the branch network of Public Bank.

The Group's cost income ratio improved to 39% in 2003 from 42% in 2002. At the Bank level, the cost income ratio also registered an improvement, from 42% in 2002 to 32% in 2003.

### Allowance for Losses on Loans and Financing

Allowance for loan losses of the Group increased by RM55 million or 16% to RM404 million for 2003. The increase was mainly due to higher specific and general allowance coupled with lower write-back of specific allowance in 2003.

The general allowance charged for 2003 of RM131 million, an increase of RM14 million or 12% in 2003, was in line with the 20% growth in the Group's loan base from RM39.03 billion in 2002 to RM46.93 billion in 2003.

### Tax Expense and Zakat

The Group's effective tax rate of 25% for the year remained consistent with that of 2002 which was 26%. The lower tax rate compared to the Malaysian corporate tax rate of 28% was primarily due to the effects of the lower tax rate in Hong Kong SAR and the effects of previously unrecognised tax losses of certain subsidiary companies.