

STATEMENT ON CORPORATE GOVERNANCE

Annual Report 2004
www.publicbank.com.my

Corporate Governance Statement on Corporate Governance

Adherence to the highest standards of corporate governance continues to be the cornerstone of Public Bank's corporate culture.

The mark of excellence in Public Bank's corporate conduct has been widely acclaimed by investors; financial industry professionals; financial journalists and professional investment analysts.

The distinction that Public Bank received was when it was presented the inaugural KLSE Corporate Excellence Award 2000, and went on to retain the prestigious KLSE Corporate Excellence Award for another 3 years consecutively in 2001; 2002 and 2003.

The other top honours that Public Bank had received in the KLSE Corporate Awards were as follows:

- KLSE Corporate Sectoral Award 2000
- KLSE Corporate Sectoral Award 2001
- Best Corporate Disclosure in Annual Report Award 2003 for the Main Board Category (inaugural award)

(With effect from the KLSE Corporate Awards 2002, Public Bank, being the overall winner of the KLSE Corporate Excellence Award 2002 and KLSE Corporate Excellence Award 2003, was not eligible to receive the KLSE Corporate Sectoral Award.)

The presentation of the KLSE Corporate Awards had been held annually by Bursa Malaysia Berhad ("Bursa Malaysia") from the year 2000 to 2003 to recognise and honour Malaysian listed companies which had displayed exemplary levels of corporate disclosure and corporate best practices.

According to a statement issued by Bursa Malaysia on 19 November 2004, Bursa Malaysia had decided to discontinue the KLSE Corporate Awards as it would soon be joining the ranks of public listed companies and thus it was deemed inappropriate for Bursa Malaysia to continue to judge the corporate conduct and best practices of other listed companies. The statement by Bursa Malaysia cited the National Annual Corporate Report Awards ("NACRA") and the Malaysian Business Corporate Governance Awards as

awards aimed at achieving similar objectives, that is, promoting corporate excellence through enhancing levels of disclosure and setting exemplary best practices.

The resounding attestations of Public Bank's excellent corporate conduct are the following corporate governance recognition awards (that were) cited by Bursa Malaysia in their statement issued on 19 November 2004, and which were presented to Public Bank in the preceding 3 years:

- Most Outstanding Annual Report of the Year 2002, and Industry Excellence Award for the Finance Sector in Main Board for the Year 2002, in the NACRA;
- Most Outstanding Annual Report of the Year 2003, and Industry Excellence Award for the Finance Sector in the Main Board for the Year 2003, in the NACRA;
- Most Outstanding Annual Report of the Year 2004, and Industry Excellence Award for the Finance Sector in the Main Board for the Year 2004, in the NACRA;
- Malaysian Business Corporate Governance Award for 2002 (inaugural award); and the
- Malaysian Business Corporate Governance Award for 2003

The Board of Directors, Management and staff are greatly encouraged and extremely proud that Public Bank's sound corporate conduct, transparency, and accountability to all its stakeholders, have received numerous accolades and accorded top recognition awards presented by the very stock exchange on which the Company's shares are listed and by various professional bodies and organisations.

BOARD OF DIRECTORS

Committed to Principles and Best Practices in Corporate Governance

The Board of Directors remains steadfast and committed in ensuring that the Principles and Best Practices in Corporate Governance established by the Malaysian Code on Corporate Governance are well applied in Public Bank. The Board subscribes to the policy of not just complying with, but rather exceeding, mandatory requirements in terms of the extent and timeliness of corporate disclosures and financial reporting.

Composition of the Board

The Board consists of nine (9) Members, of whom two (2) are Executive Directors, and six (6) out of the seven (7) Non-Executive Directors are independent as defined by the Bursa Malaysia Securities Berhad (“Bursa Securities”) Listing Requirements.

There is effective check and balance on the Board, with four-fifths of the Board Members being Non-Executive and four-fifths of the Non-Executive Directors being independent.

The Independent Directors, who are the majority on the Board, fulfill their role by the exercise of independent judgement and objective participation in the deliberations of the Board.

Tan Sri Dato’ Sri Dr. Teh Hong Piow, the Chairman; Datuk Tay Ah Lek, the Managing Director; and Dato’ Lee Kong Lam, the Executive Director, are real experts in Public Bank’s line of business, having been fully engaged in the banking and finance sector since the onset of their respective careers. These three (3) Directors not only possess the relevant skills and knowledge, but more significantly, they collectively bring to Public Bank 137 years of experience in banking and related businesses.

The six (6) Independent Non-Executive Directors are persons of high calibre; with their academic and professional qualifications in the fields of economics, accounting, law, banking and business management, and their experience gained from senior positions held in the public sector as well as the private sector, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The profiles of the Members of the Board are set out on pages 26 to 32 of the Annual Report.

Duties and Responsibilities of the Board

The Board maps out and reviews the Bank’s medium term and long term strategic plans on an annual basis, so as to align the Bank’s business directions and goals with the prevailing economic and market conditions. The Board approves the Bank’s annual budget and carries out periodic review of the progress made by the various business units against the budget. The Board also reviews the action plans that are implemented by the Management to achieve business targets.

The Board prescribes minimum standards and establishes policies on the management of credit risks and other key areas of the Bank’s operations.

The Board’s other main duties include regular oversight of the Bank’s business operations and performance, and ensuring that the infrastructure, internal controls, and risk management processes that are well in place to assess and manage business risks inter-alia operational, credit, market and liquidity risks, are implemented consistently. The Board carries out various functions and responsibilities laid down by Bank Negara Malaysia (“BNM”) in guidelines and directives that are issued by BNM from time to time.

The roles of the Chairman and the Managing Director are distinct and separate, with each having his respective scope of duties and responsibilities, to ensure a proper balance of power and authority.

The Board has set up the Board Executive Committee to manage Public Bank in all aspects of its business; the Board Executive Committee comprises Tan Sri Dato’ Sri Dr. Teh Hong Piow, Datuk Tay Ah Lek and Dato’ Lee Kong Lam.

The Co-Chairman, Tan Sri Dato’ Thong Yaw Hong, is the Bank’s Senior Independent Non-Executive Director responsible for providing clarifications on issues that may be raised by shareholders at Public Bank’s general meetings, and he avails himself to clarify matters or enquiries from stakeholders.

Board Meetings and Supply of Information to the Board

Board meetings are held very regularly, once every month, whereby reports on the progress of Public Bank's business operations and minutes of meetings of Board Committees and Management Committees are tabled for review by Members of the Board. At these monthly Board meetings, the Members of the Board also evaluate business propositions and corporate proposals that require to be approved by the Board owing to statutory requirements, or because of significant financial impact on the Bank.

In addition to monthly Board meetings, adhoc Board meetings are convened for purposes such as to review and approve Public Bank's quarterly financial statements; to deliberate and assess corporate proposals or business issues that require expeditious decision from the Board.

The agenda for every Board meeting, together with comprehensive Management reports, proposal papers and supporting documents, are furnished to all Directors for their perusal well in advance of the Board meeting date, so that the Directors have ample time to review matters to be deliberated at the Board meeting and to facilitate informed decision making by the Directors.

Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board meeting.

Senior Management staff; merchant bankers appointed to act as advisers; accountants or solicitors appointed in relation to corporate proposals to be undertaken by Public Bank, are invited to attend Board meetings at which the corporate proposal is deliberated, in order that they provide the Board with professional opinion and advice, and clarify issues that may be raised by any Director.

The Directors are regularly updated and advised by the Company Secretary on new statutory as well as regulatory requirements relating to the duties and responsibilities of Directors, including policy guidelines issued by BNM that concern Public Bank or the discharge of their duties as Directors of a financial institution. Every Member of the Board has ready and unrestricted access to the advice and services of the Company Secretary, and the Directors have the liberty to seek external professional advice if so required by them.

The Members of the Board attended all the 16 Board meetings held during the financial year ended 31 December 2004, except for one Member who was not able to attend one of the Board meetings as he was overseas.

Appointment of Board Members

The proposed appointment of a new Member of the Board, as well as the proposed re-appointment/re-election of Directors seeking re-appointment/re-election at the annual general meeting of Public Bank, are recommended by the Nomination Committee to the Board for their approval. Being a financial institution and pursuant to provisions in the Banking and Financial Institutions Act, 1989 (“BAFIA”) and guidelines issued by BNM, the Bank’s applications on the proposed appointment of a new Member of the Board, and the proposed re-appointment/re-election of Directors at the annual general meeting of Public Bank, are required to be submitted to BNM for prior approval.

The Nomination Committee is made up entirely of Independent Non-Executive Directors. (Tan Sri Dato’ Sri Dr. Teh Hong Piow had on his own volition, relinquished his position as a Member of the Nomination Committee in September 2004.)

The terms of reference of the Nomination Committee are as follows:

- To recommend to the Board, the minimum requirements for the Board, ie. required mix of skills, experience, qualification and other core competencies required of a Director; and to recommend to the Board, the minimum requirements for the Chief Executive Officer (“CEO”).
- To assess and recommend to the Board technically competent persons of integrity with strong sense of professionalism and who foster and practise the highest standard of banking and finance in the country for appointment as Directors, CEO and Board Committee Members.
- To assess and recommend to the Board, the re-appointment of Directors and the CEO upon the expiry of their respective terms of appointment as approved by BNM.
- To oversee the overall composition of the Board, in terms of the appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review.

- To recommend to the Board the removal of a Director/CEO from the Board/Management if the Director/CEO is ineffective, errant and negligent in discharging his responsibilities.
- To establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board’s various committees and the performance of the CEO and other key Senior Management Officers. The annual assessment to be conducted would be based on an objective performance criteria as approved by the Board.
- To ensure that all Directors receive appropriate continuous training programmes in order to keep abreast with developments in the financial industry and with changes in the relevant statutory and regulatory requirements.
- To oversee the appointment, management succession planning and performance evaluation of key Senior Management Officers.
- To recommend to the Board the removal of key Senior Management Officers if they are ineffective, errant and negligent in discharging their responsibilities.
- To assess, on an annual basis, that the Directors and key Senior Management Officers are not disqualified under Section 56 of the BAFIA.
- To assess and recommend to the Board, the terms of reference of Board Committees.
- To review the adequacy of committee structures of Board Committees.
- Such other responsibilities as may be delegated by the Board from time to time.

Meetings of the Nomination Committee are held as and when required, and at least once a year.

Directors' Remuneration

The Remuneration Committee carries out annual reviews whereupon recommendations are submitted to the Board on the overall remuneration policy for Directors, CEO and key Senior Management Officers, to ensure that the Bank's remuneration policy remains in support of its corporate objectives and shareholder value, and is in tandem with its culture and strategy.

The Remuneration Committee reviews annually the performance of the Executive Directors and the CEO and furnishes recommendations to the Board on specific adjustments in remuneration and/or reward payments that reflect their respective contributions for the year, and which are competitive and are in tandem with the Bank's corporate objectives, culture and strategy.

The determination of the remuneration of Non-Executive Directors is a matter for the Board as a whole.

The Directors are paid annual fees and attendance allowances for Board meetings that they attend.

The Remuneration Committee is made up entirely of Independent Non-Executive Directors. (Tan Sri Dato' Sri Dr. Teh Hong Piow had on his own volition, relinquished his position as a Member of the Remuneration Committee in September 2004.)

The terms of reference of the Remuneration Committee are as follows:

- To review annually and recommend to the Board the overall remuneration policy for Directors, CEO and key Senior Management Officers to ensure that rewards commensurate with their contributions to the Company's growth and profitability; and that the remuneration policy supports the Company's objectives and shareholder value and is consistent with the Company's culture and strategy.
- To review annually the performance of the Executive Directors and the CEO and recommend to the Board specific adjustments in remuneration and/or reward payments if any reflecting their contributions for the year; and which are competitive and consistent with the Company's objectives, culture and strategy.

- To ensure that the level of remuneration for Non-Executive Directors and Independent Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.
- Keeps abreast of the terms and conditions of service of the Executive Directors and the CEO including their total remuneration package for market comparability. Reviews and recommends changes to the Board whenever necessary.
- Keeps abreast of the remuneration packages for Members of Board Committees to ensure that they commensurate with the scope of responsibility held. Reviews and recommends changes to the Board whenever necessary.

Meetings of the Remuneration Committee are held as and when necessary, and at least once a year.

Continuing Education of Directors

The Members of the Board keep abreast with developments in the banking and finance industry by their attendance at conferences and seminars organised by BNM.

Members of the Board have attended various training programmes accredited by Bursa Securities.

Directors are encouraged to attend talks, training programmes and seminars to update themselves on new developments in the business environment.

In addition, seminars and conferences organised by the relevant regulatory authorities and professional bodies on, inter-alia, areas relevant to the Bank's operations; Directors' responsibilities, and corporate governance issues, as well as on changes to statutory requirements and regulatory guidelines, are informed to the Directors, for their participation in such seminars and conferences.

Re-Election of Directors

Pursuant to Section 129(2) of the Companies Act, 1965, Directors who are over the age of seventy (70) years shall retire at every annual general meeting and subject to approval being obtained from BNM, may offer themselves for re-appointment to hold office until the next annual general meeting.

In accordance with the Articles of Association of Public Bank, one-third of Directors shall retire from office at every annual general meeting of Public Bank and subject to approval being obtained from BNM, may offer themselves for re-election. The Articles provide that all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election.

COMMITTEES ESTABLISHED BY THE BOARD

The Board has established Board Committees as well as various Management Committees to assist the Board in the running of the Bank. The functions and terms of reference of the Board Committees and Management Committees, as well as authority delegated by the Board to these Committees, have been clearly defined by the Board.

The Board Committees and Management Committees in Public Bank are as follows:

Board Committees

- Board Executive Committee
- Audit Committee
- Nomination Committee
- Remuneration Committee
- Risk Management Committee

Management Committees

- Group Human Resource Committee
- Loans Committee
- Credit Risk Management Committee
- Operational Risk Management Committee
- Assets & Liabilities Management Committee
- Share Investment Committee
- IT Steering Committee

The composition of the Board Committees and the attendance of Members at Board Committees meetings are reflected as follows:

	<i>Board Executive Committee</i>	<i>Audit Committee</i>	<i>Nomination Committee</i>	<i>Remuneration Committee</i>	<i>Risk Management Committee</i>
Tan Sri Dato' Sri Dr. Teh Hong Piow (<i>Non-Executive Chairman</i>)	C	—	—	—	—
Tan Sri Dato' Thong Yaw Hong (<i>Independent Non-Executive Co-Chairman</i>)	—	C	C	C	C
Datuk Tay Ah Lek (<i>Managing Director</i>)	M	—	—	—	—
Dato' Lee Kong Lam (<i>Executive Director</i>)	M	—	—	—	—
Dato' Yeoh Chin Kee (<i>Independent Non-Executive Director</i>)	—	M	M	M	M
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah (<i>Independent Non-Executive Director</i>)	—	M	M	M	M
Haji Abdul Aziz bin Omar (<i>Independent Non-Executive Director</i>)	—	M	M	M	M
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff (<i>Independent Non-Executive Director</i>)	—	M	—	—	M
Lee Chin Guan (<i>Independent Non-Executive Director</i>)	—	M	M	M	M

C – Chairman M – Member

	<i>Board Executive Committee</i>	<i>Audit Committee</i>	<i>Nomination Committee</i>	<i>Remuneration Committee</i>	<i>Risk Management Committee</i>
Tan Sri Dato' Sri Dr. Teh Hong Piow (<i>Non-Executive Chairman</i>)	99/99	—	—	—	—
Tan Sri Dato' Thong Yaw Hong (<i>Independent Non-Executive Co-Chairman</i>)	—	16/16	1/1	9/9	12/12
Datuk Tay Ah Lek (<i>Managing Director</i>)	94/99	—	—	—	—
Dato' Lee Kong Lam (<i>Executive Director</i>)	*179/99	—	—	—	—
Dato' Yeoh Chin Kee (<i>Independent Non-Executive Director</i>)	—	16/16	1/1	9/9	12/12
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah (<i>Independent Non-Executive Director</i>)	—	14/16	1/1	*32/2	11/12
Haji Abdul Aziz bin Omar (<i>Independent Non-Executive Director</i>)	—	16/16	1/1	9/9	12/12
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff (<i>Independent Non-Executive Director</i>)	—	16/16	—	—	12/12
Lee Chin Guan (<i>Independent Non-Executive Director</i>)	—	16/16	*2	9/9	12/12

*1 Did not attend 20 meetings as he was on medical leave.

*2 Appointed in September 2004.

*3 Attended the 2 meetings held since his appointment in September 2004.

The salient terms of reference and frequency of meetings of Board Committees are as follows:

- **Board Executive Committee**
 - Manages the Bank in all aspects of its business.
 - Implements strategic business plans and policies as approved by the Board of Directors.
 - Identifies, formulates and prioritises strategic issues and charts strategic directions for action by the Management and staff.
 - The Board Executive Committee holds meetings with Heads of Divisions and Senior Management staff twice every week.
- **Audit Committee**
 - The terms of reference of the Audit Committee are set out under the Audit Committee Report.
 - The Audit Committee meets at least once a month.
- **Nomination Committee**
 - The terms of reference of the Nomination Committee are set out in the paragraph on “Appointment of Board Members” in this Statement on Corporate Governance.
 - The Nomination Committee meets as and when required, and at least once a year.
- **Remuneration Committee**
 - The terms of reference of the Remuneration Committee are set out in the paragraph on “Directors’ Remuneration” in this Statement on Corporate Governance.
 - The Remuneration Committee meets as and when required, and at least once a year.
- **Risk Management Committee**
 - Oversees the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management.
 - Reviews and approves risk management policies and risk tolerance limit.
 - Ensures infrastructure, resources and systems are in place for risk management.
 - The Risk Management Committee holds monthly meetings.

The salient terms of reference and frequency of meetings of Management Committees are as follows:

- **Group Human Resource Committee**
 - Formulates human resource policies and practices for the Bank and wholly-owned subsidiaries of the Bank.
 - Deliberates and decides on human resource operational issues which do not fall within the ambit of authorised individual officers.
 - The Group Human Resource Committee holds meetings twice a month.
- **Loans Committee**
 - Approves loan applications which are beyond the individual discretionary powers of senior officers.
 - Recommends credit policy and direction of lending.
 - The Loans Committee holds weekly meetings.
- **Credit Risk Management Committee**
 - Evaluates and assesses the adequacy of strategies to manage the overall credit risk associated with the Bank’s activities.
 - Evaluates risks under stress scenarios and the capacity of the capital to sustain such risk.
 - The Credit Risk Management Committee holds monthly meetings.

■ **Operational Risk Management Committee**

- Oversees the formal development of operational risk management policies encompassing all business activities, and ensuring the development of policy manuals, processes, procedures and practices.
- Evaluates and assesses the adequacy of controls to manage the overall operational risks associated with business activities including physical/premises security.
- The Operational Risk Management Committee holds monthly meetings.

■ **Assets & Liabilities Management Committee**

- Develops the framework and sets the objectives for the asset and liability management function.
- Develops adequate policies, procedures and internal control measures for the carrying out of the asset and liability management function.
- The Assets & Liabilities Management Committee holds monthly meetings.

■ **Share Investment Committee**

- Formulates policies, strategies, and other matters relating to share investment.
- Reviews the Bank's share investment portfolios and takes necessary measures to improve its value, profitability and risk.
- The Share Investment Committee holds quarterly meetings.

■ **IT Steering Committee**

- Formulates short term and long term IT plans and the budgets to be allocated.
- Ensures that the IT short term and long term strategic plans support the overall organisational strategic business plan and, where necessary, the group IT strategic plan.
- The IT Steering Committee holds monthly meetings.

ACCOUNTABILITY AND AUDIT

Financial Reporting

It is the Board's commitment to provide a balanced, clear and meaningful assessment of the financial position and prospects of Public Bank and the Public Bank Group in all the disclosures made to shareholders, investors and the regulatory authorities.

Early releases of announcements on quarterly financial statements and the press releases accompanying these results announcements reflect the Board's commitment to provide timely, transparent and up-to-date disclosures of the performance of Public Bank and the Public Bank Group.

The Board is assisted by the Audit Committee to oversee the financial reporting processes and the quality of financial reporting of Public Bank and the Public Bank Group.

The Statement of Responsibility by Directors in respect of the preparation of the annual audited financial statements of Public Bank and the Public Bank Group is set out on page 157.

Internal Control

The Board has the overall responsibility of maintaining a system of internal controls that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures and guidelines.

The size and complexity of the operations of Public Bank and the Public Bank Group involve the acceptance and management of a wide variety of risks. The nature of these risks means that events may occur which would give rise to unanticipated or unavoidable losses. Public Bank's and the Public Bank Group's system of internal controls is designed to provide reasonable but not absolute assurance against the risk of material errors, frauds or losses occurring. During the year, the

Board has, through the Risk Management Committee, carried out the ongoing process of identifying, evaluating and management of the key operational and financial risks confronting Public Bank and the Public Bank Group.

The effectiveness of the system of internal controls of Public Bank and the Public Bank Group is reviewed periodically by the Audit Committee. The review covers the financial, operational and compliance controls as well as risk management.

The Statement on Internal Control, which provides an overview of the state of internal control within the Public Bank Group, is set out on pages 79 to 81.

Audit Committee

In addition to the duties and responsibilities set out under its terms of reference, the Audit Committee also acts as a forum for discussion of internal control and risk management issues and it contributes to the Board's review of the effectiveness of the internal control and risk management systems of Public Bank and the Public Bank Group.

The minutes of the Audit Committee meetings are tabled to the Board for noting and for action by the Board where appropriate.

The activities carried out by the Audit Committee during the year are set out under the Audit Committee Report on pages 77 to 78.

Relationship With External Auditors

It is the policy of the Audit Committee to meet with the external auditors at least twice a year to discuss their audit plan, audit findings and the Bank's financial statements. These meetings are held without the presence of the Executive Directors and the Management. The Audit Committee also meets with the external auditors whenever it deems necessary.

The details of audit/non-audit fees paid/payable to KPMG, the external auditors, are set out below:

	2004 RM'000
Audit fees paid/payable to KPMG	
• Malaysia	650
• Overseas	154
Non-audit fees paid/payable to KPMG	
• Malaysia	376
Audit fees paid/payable to other auditors	
• Malaysia	122
• Overseas	653
Non-audit fees paid/payable to other auditors	
• Malaysia	16
• Overseas	53
Total	2,024



COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Public Bank Group clearly recognises the importance of transparency and accountability to all its stakeholders, particularly its shareholders and investors. Through extensive disclosures of appropriate and relevant information, using different channels on a timely basis, the Group aims to effectively provide shareholders and investors with information to fulfill transparency and accountability objectives. A key channel of communication with shareholders and investors is the annual report of Public Bank. The contents of the annual report are well beyond the minimum legal and regulatory requirements. In addition, being a financial institution, the Public Bank Group prepares its financial statements in accordance with BNM's guidelines, BNM/GP8, in respect of the format of financial statements of financial institutions, which require a significantly higher level of financial information disclosure as compared to a non-financial institution. As such, there is a greater level of disclosure of financial statement information by Public Bank.

An important forum for communication and dialogue with shareholders is the general meeting of Public Bank, whereby shareholders are accorded both the opportunity and time to raise questions on the agenda items of the general meeting. At the annual general meeting of Public Bank, the Chairman of the Bank would present a comprehensive review of the financial performance of the Public Bank Group, aided by visual presentation of key points and financial figures. Copies of the review of the Group's financial performance presented by the Chairman at the annual general meeting are also furnished to shareholders upon their request.

The turnout of shareholders at general meetings of Public Bank has always been high. A total of 2,200 shareholders had attended the annual general meeting held in 2004.

Public Bank also conducted media briefings in conjunction with the release of each quarterly financial results announcement in 2004, in order that the announcement of the financial performance of the Public Bank Group is disseminated to as wide an audience of shareholders and investors as possible.

The quarterly announcements of the financial performance of the Public Bank Group, corporate disclosures pursuant to Bursa Securities Listing Requirements and other corporate information are easily accessible on Public Bank's website, www.publicbank.com.my.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Public Bank Group. Disclosures of information requiring immediate release as specified by Bursa Securities have been complied with. The Public Bank Group has consistently released its quarterly financial results well

before the Bursa Securities deadlines for their release. Such early releases of quarterly financial results are achieved despite the regulatory requirement that the quarterly financial results are to be approved by BNM prior to their public release.

Release of Quarterly Financial Results

2004	Date of Release	Bursa Securities Deadline
1st Quarter	21 April 2004	31 May 2004
2nd Quarter	22 July 2004	31 August 2004
3rd Quarter	25 October 2004	30 November 2004
4th Quarter	18 January 2005	28 February 2005

INVESTOR RELATIONS

A key channel of communications with shareholders, investors and the investment community at large, both domestic and international, is the Public Bank Group's investor relations activities. The Public Bank Group has a strong following amongst domestic and international institutional investors and the stockbroking industry's research analysts, and a direct channel to them exists in the investor relations function of the Group.

Senior Management Personnel Responsible for Investor Relations Activities

Public Bank

- Datuk Tay Ah Lek, Managing Director
- Leong Kwok Nyem, Senior General Manager, Treasury & Corporate Operations
- Wong Jee Seng, General Manager, Finance & Risk Management
- Nasaruddin bin Arshad, Group Economist, Economics & Corporate Planning Division
- Zulkifli bin Mohd Ali, Director, Corporate Structure

JCG Holdings Ltd

- Tan Yoke Kong, Executive Director
- Lee Huat Oon, Executive Director

Public Bank conducted briefings for research analysts and fund managers immediately upon the release of the Public Bank Group's quarterly financial results for each quarter in 2004. Representatives of the Public Bank Group conducted presentations and meetings at 2 investor conferences or forums, participated in 2 corporate days with leading investment banks and conducted 4 tele-conferences in 2004.

In addition, the Management personnel responsible for investor relations activities held 209 meetings with equity research analysts, fund managers and institutional shareholders and investors in 2004.

A measurable outcome of the active investor relations function of the Public Bank Group is the high number of stock brokerages and equity research companies that covered the listed companies of the Group, as seen in the number of contributors to the Thomson Financial Institutions Brokers' Earnings System (I/B/E/S) earnings estimates:

	Public Bank	JCG Holdings Ltd
No. of contributors to I/B/E/S earnings estimates	25	10

This statement is made in accordance with the resolution of the Board of Directors dated 26 January 2005.

TAN SRI DATO' SRI DR. TEH HONG PIOW
Chairman

RISK MANAGEMENT

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www.publicbank.com.my

Corporate Governance Risk Management

INTRODUCTION

The Public Bank Group recognises that effective risk management and risk-return management is vital as the Group strives to achieve sustainable growth in shareholders' value in today's challenging financial and economic environment. With the impending implementation of the new Basel II Capital Accord in 2008, the Group will continue to place emphasis on the strengthening of the Group's risk management infrastructure and capabilities within its integrated enterprise-wide risk management framework, not only for regulatory compliance but with a view to improving operational and financial performance and optimising capital efficiency.

OVERALL RISK MANAGEMENT FRAMEWORK

Public Bank believes that there must be clear accountability and responsibility for the risk management process. The current risk management framework within Public Bank is based on the following 6 broad principles which outline the principal risk management and control responsibilities:

1. The Board of Directors ("Board") is ultimately responsible for the management of risks. The Board, through the Risk Management Committee, maintains overall responsibility for risk oversight within Public Bank.
2. The Risk Management Committee ("RMC") is responsible for total risk oversight covering credit risk, operational risk, market risk and liquidity risk. Other key functions of the RMC include approving risk management policies and limits, reviewing the adequacy and effectiveness of such policies, reviewing reports on risk exposure and risk portfolio composition, and ensuring that infrastructure, resources and systems are in place for risk management activities.

3. Dedicated committees are set up to assist the Risk Management Committee to oversee specific areas of risk. These are the Credit Risk Management Committee (“CRMC”) for credit risk, the Operational Risk Management Committee (“ORMC”) for operational risk and the Assets & Liabilities Management Committee (“ALCO”) for market and liquidity risks.

The CRMC is responsible for overseeing the development of credit policies, assessing credit risk portfolio composition and assessing risk-return of credit products. The ORMC is responsible for overseeing the development of operational policies and reviewing the adequacy of controls to manage overall operational risks. The ALCO is responsible for overseeing and providing strategic direction for the management of market risk and liquidity risk, and approving policies and strategies on the balance sheet structure.

4. The dedicated independent risk management and control functions, namely, Risk Management Division (“RMD”), Credit Administration & Supervision Division (“CASD”), Branch Operations Control Department (“BOCD”) and Internal Audit Division (“IAD”) are responsible for the implementation of risk policies and monitoring of compliance with the risk policies. They are also responsible for the identification, measurement and monitoring of risks.

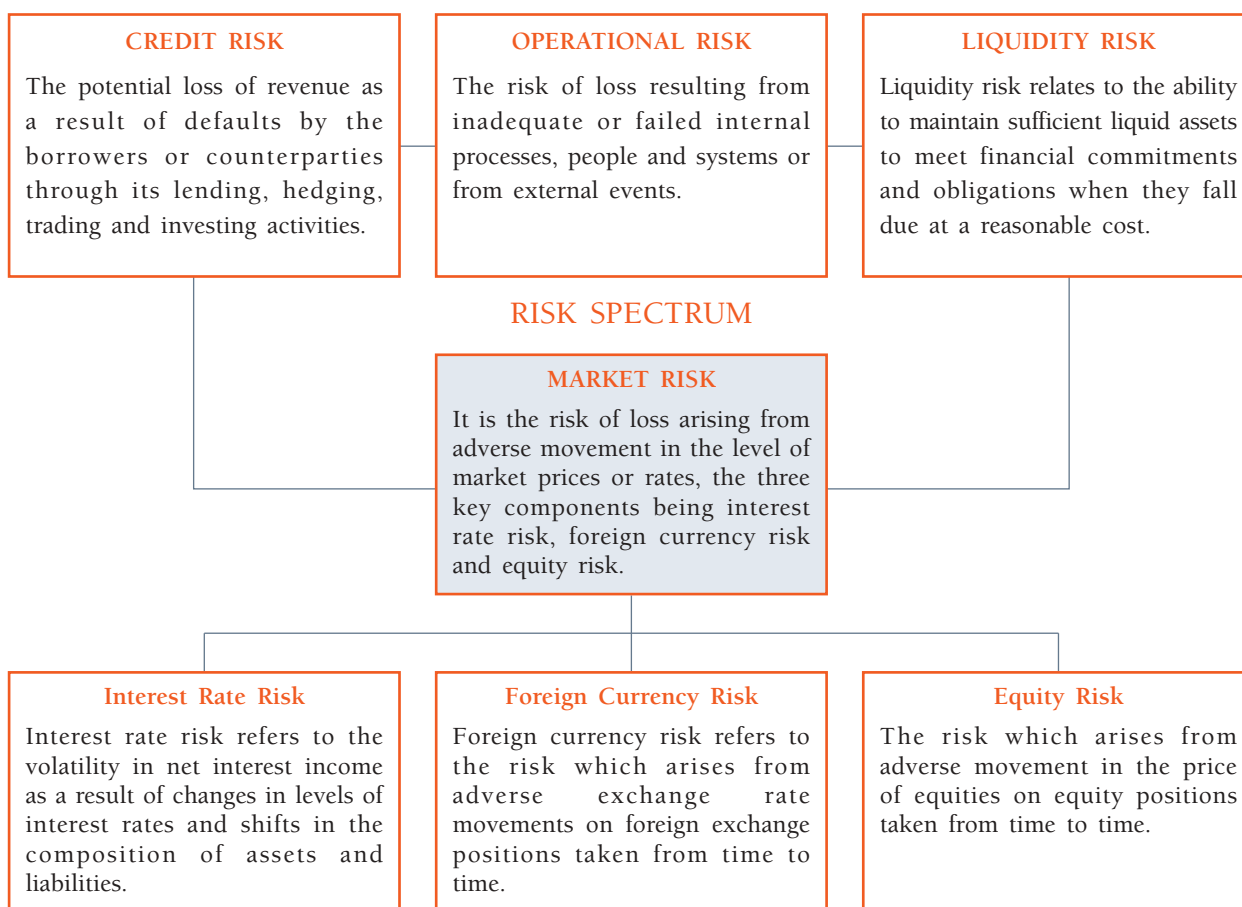
ESTABLISH RISK POLICY	Board of Directors	Audit Committee
	Risk Management Committees	
ENSURE IMPLEMENTATION OF RISK POLICY AND MONITOR COMPLIANCE	Risk Management Committee	
	Credit Risk Management Committee	
	Operational Risk Management Committee	
	Assets & Liabilities Management Committee	
IMPLEMENT AND COMPLY WITH RISK POLICY	Independent Risk Management and Control Functions	
	Risk Management Division	
	Credit Administration & Supervision Division	
	Branch Operations Control Department	
	Internal Audit Division	
	Business Risk Units	
	Retail Operations	
	Treasury and Capital Market Operations	
	Corporate Lending	
	Investment Banking	
	Share Broking and Fund Management	
	Islamic Banking	

RMD provides the main support to the risk management committees and develops and maintains sound risk management policies and procedures for the major areas of risk. CASD performs credit reviews, rehabilitates and restructures non-performing accounts and ensures that loans are granted according to credit policies. BOCD carries out pre-emptive measures and control programmes to prevent operational control lapses by monitoring branch operational activities. IAD conducts assurance audits of all units and operations to ensure compliance.

5. The Business Risk Units are to ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits.
6. The Audit Committee's role, supported by Internal Audit Division, is to provide an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls and compliance with risk policies, laws, internal and regulatory guidelines.

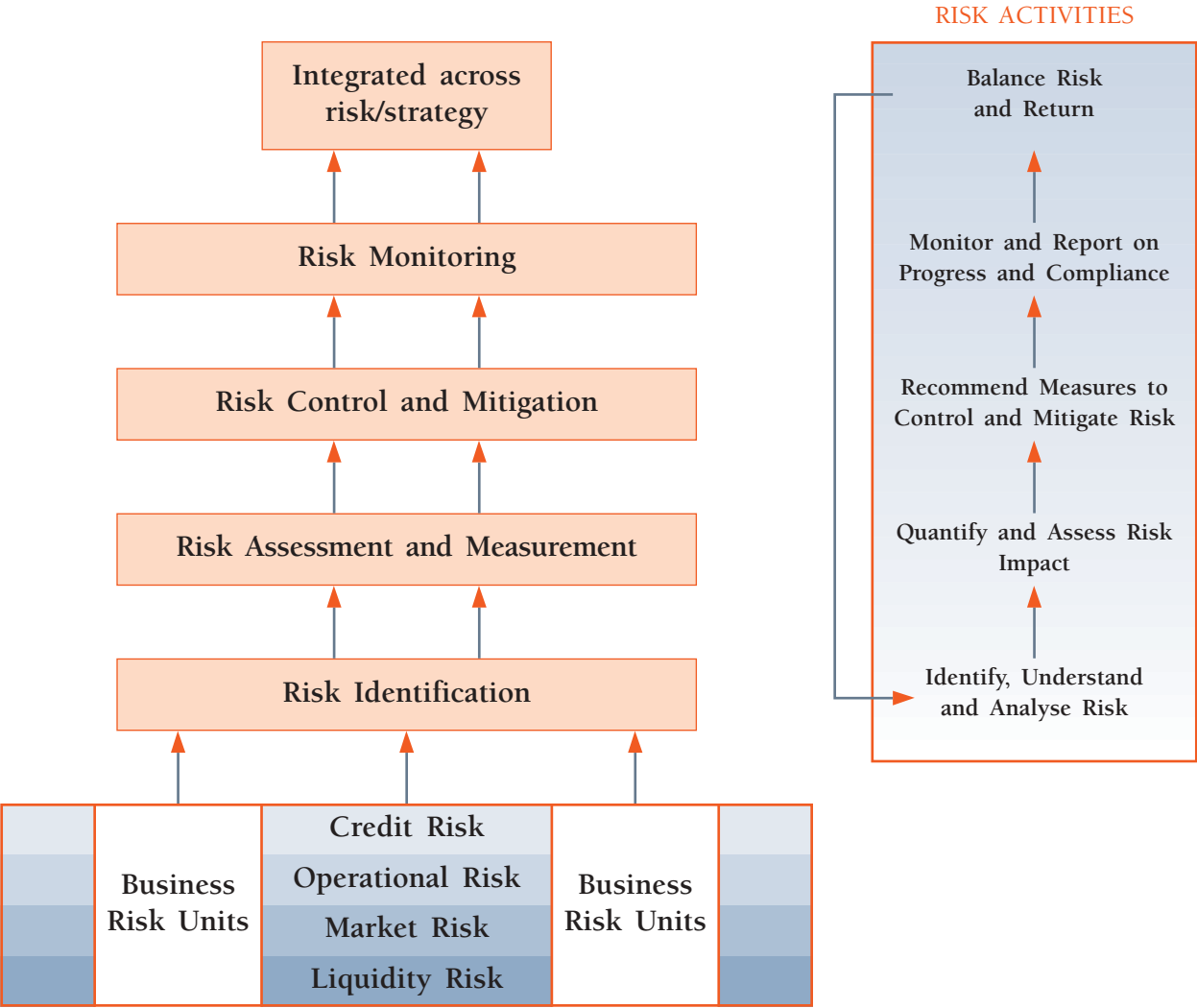
AREAS OF RISK

The major areas of risk which the activities of the Business Risk Units are exposed to are as follows:



RISK MANAGEMENT PROCESS

Public Bank has established, within its risk management framework, a structured approach to enterprise-wide risk management which balances risks and returns, and integrated risk management processes for market risk, credit risk, operational risk and liquidity risk for more effective risk management. The risk management processes are categorised into 4 broad processes: risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring as depicted in the following chart.



The key risk management processes for each type of risk are as follows:

TYPE OF RISK	CREDIT RISK
Risk Identification & Measurement	<ul style="list-style-type: none"> • Stress testing of loans portfolio asset quality. • Benchmarking of asset quality against industry. • Use of credit risk rating system to grade the quality of loans and track shifts in credit risk profile. • Post-mortem reviews of weak credit and delinquent accounts for identification of weaknesses in the credit approval and review processes.
Risk Control & Monitoring	<ul style="list-style-type: none"> • Credit Policy which documents the credit risk rating, collateral policy and policies on rehabilitation and restructuring of problematic and delinquent loans. • Extensive reporting and analysis to Management and the Board on loans exposure, quality of loans portfolio, movements of non-performing loans ("NPLs") and adequacy of specific provisions for NPLs. • Review and evaluation of risk-return of products and services. • Independent review of credits to monitor quality of credit appraisals and consistency in risk grading.

TYPE OF RISK	OPERATIONAL RISK
Risk Identification & Measurement	<ul style="list-style-type: none"> • Use of key risk indicators and threshold/limits. The risks are identified with reference to the relevant risk management policy manuals, processes, procedures and practices. • Benchmarking of customer service and operational efficiency against industry. • Incident reporting and analysis of causes and actions taken on losses from fraud and control lapses. • Regular review of the adequacy of premises controls and safety. • Regular review of system and network availability.
Risk Control & Monitoring	<ul style="list-style-type: none"> • Self-Compliance Audit Programmes of business risk units. • Independent tracking of risks to ensure business risk units operate within the established policies, procedures, limits and thresholds set for key risk indicators. • Comprehensive system of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes. • Documented and regularly tested key back-up procedures and contingency plans, including disaster recovery and business resumption plans. • Overall assurance on the adequacy and reliability of the operational risk management systems by Internal Audit Division.

TYPE OF RISK	MARKET RISK
Risk Identification & Measurement	<ul style="list-style-type: none"> Review of trends and analysis of market movements. Mark-to-market technique is used to revalue marketable securities, equities and foreign currency positions.
Risk Control & Monitoring	<ul style="list-style-type: none"> Mark-to-market of trading positions are compared against pre-determined market risk limits. The market risk limits are set after taking into consideration the risk appetite and the risk-return relationship. Trading positions and limits are regularly reviewed and reported.

TYPE OF RISK	FOREIGN CURRENCY RISK
Risk Identification & Measurement	<ul style="list-style-type: none"> Review of foreign currency movements. Mark-to-market of foreign currency positions. Review of foreign exchange exposure for overseas operations.
Risk Control & Monitoring	<ul style="list-style-type: none"> Foreign exchange open positions are monitored against pre-determined position limits. Mark-to-market valuations are monitored against pre-determined cut-loss limits and regularly reported.

TYPE OF RISK	INTEREST RATE RISK
Risk Identification & Measurement	<ul style="list-style-type: none"> Simulations under different interest rate environments and estimation of impact on net interest income. Review of inflation risk. Impact on economic value of changes in interest rates measured by duration-weighted methodology. Interest rate risk measured through the interest rate sensitivity gap analysis by currency. Mark-to-market valuations of investment and dealing securities.
Risk Control & Monitoring	<ul style="list-style-type: none"> Regular reviews of the interest rate outlook, vulnerability of net interest income to movements in interest rates and development of strategies to mitigate interest rate risk. Changes in market value of investment and dealing securities due to interest rate movements are monitored and regularly reported. Impact on net interest income from unfavorable interest rate movements are monitored against risk tolerance limits.

TYPE OF RISK	EQUITY RISK
Risk Identification & Measurement	<ul style="list-style-type: none"> • Review of broad market and economic outlook of sectors. • Daily mark-to-market valuations of the share investment portfolio.
Risk Control & Monitoring	<ul style="list-style-type: none"> • Mark-to-market valuations are monitored against pre-determined cut-loss limit and reported to the Share Investment Committee.

TYPE OF RISK	LIQUIDITY RISK
Risk Identification & Measurement	<ul style="list-style-type: none"> • Analysis of largest changes in deposit accounts under the behavioural maturity process. • Analysis of abnormal deposits/withdrawals. • Review of composition of large depositors. • Application of BNM's New Liquidity Framework.
Risk Control & Monitoring	<ul style="list-style-type: none"> • Setting of internal liquidity risk management limits. • Compliance with BNM's New Liquidity Framework and internal liquidity risk management policy are monitored and regularly reported. • Liquidity contingency funding plans put in place and documented. • Monitoring of funding structure.

MAJOR INITIATIVES AND ENHANCEMENTS

The major initiatives undertaken or being undertaken to enhance the Public Bank Group's integrated risk management infrastructure and capabilities include:

1. Basel II Capital Accord and Best Risk Management Practices

A gap and impact analysis has been conducted on the current systems and operations of the Group against the Basel II Capital Accord requirements as a submission requirement by Bank Negara Malaysia ("BNM"). An action plan has been developed with clear indication of the work priorities and sequencing. The required enhancements which include resource and budgetary requirements as well as potential challenges have been duly deliberated.

As the emphasis is on having sound and robust risk management practices that are benchmarked against best industry practices, the Group will continue to initiate risk management measures which include enhancement to the credit risk management information system to facilitate more efficient and effective review of the credit quality of loans, assist in rating of credits, assess risk-return of credits in respect of pricing and default risk involved, and simulate potential losses from deteriorating credits due to adverse changes in the economy and under stressed conditions.

2. Independent Credit Review

A separate credit review function has been established within Risk Management Division to perform reviews of credits which have been approved, and to provide an independent assessment of the quality of credit appraisals, compliance with credit policies, fair valuation of collateral, competency level of credit evaluation personnel and the quality of the credit portfolio.

3. Market Risk Capital Adequacy Framework

BNM's Market Risk Capital Adequacy Framework was implemented on a trial basis in September 2004 with full implementation beginning from 1 April 2005 when the capital adequacy computation will fully incorporate market risk positions. The trading book policy statement, policies on hedge transactions and policies and procedures on the valuation of trading book positions have been put in place.

4. Bloomberg Trade Order Management System ("TOMS")

Public Bank implemented the Bloomberg TOMS for the Treasury Dealing Room in 2004. The Bloomberg TOMS provides an integrated enterprise-wide risk management system which would enhance management of Treasury Dealing Room's activities and risks. The Bloomberg TOMS also enhances the Treasury Dealing Room's performance with the availability of online real-time information for better decision making and improve operational efficiency via an integrated and straight-through processing system.

Other initiatives undertaken include aligning all IT applications for compliance with BNM's Guidelines on Management of IT Environment; taking steps to ensure compliance with BNM's Revised Guidelines on Financial Reporting for Licensed Institutions with effect from 1 January 2005; reviewing and refining the internal credit risk rating system used for consumer, retail commercial loans and corporate loans to prepare for the impending implementation of the Basel II Capital Accord; enhancing the security features on all computer platforms and network infrastructure to ensure secure data protection and transmission; and enhancing Public Bank's Self-Compliance Audit System which was automated and put on an online platform.

CODE OF ETHICS, INTEGRITY AND TRUST

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Corporate Governance Code of Ethics, Integrity and Trust

The Public Bank Group is in an industry where trust is of paramount importance given that a financial institution is a custodian of public funds. The trust and confidence that customers and the public have in the Group are vital to the continued growth and success of the Group. The Group actively seeks to conduct itself with integrity and trustworthiness to engender such trust and confidence in the Group.

A key determinant in building a trusted financial institution of high repute is the way its employees conduct themselves in their work and in the delivery of services to customers and the public. The Public Bank Group has taken, and continues to take, proactive initiatives to ensure that employees have values and principles, and conduct themselves, to standards that are consistent with the expectations of customers and the public of a trusted financial institution.

The formalisation of what constitutes acceptable conduct expected of employees of the Public Bank Group in the form of clear and documented codes and policies is a critical step in building trust and integrity in employee conduct and behaviour. Such codes and policies include a Code of Ethics, an Anti-Fraud Policy and an Anti-Money Laundering Policy.

CODE OF ETHICS

Bank Negara Malaysia (“BNM”) issues guidelines to financial institutions, amongst which is BNM/GP7 Code of Ethics. Part 1 of BNM/GP7 sets out the minimum standards of conduct expected of directors, officers and employees in the banking industry. In implementing the BNM/GP7 Code of Ethics, the Public Bank Group issued staff circulars to guide employees’ conduct based on 6 key principles:

- Avoid conflict of interest
- Avoid misuse of position
- Prevent misuse of information for personal gain or any purpose other than its intended purpose
- Ensure integrity and completeness of records
- Ensure confidentiality of communications and transactions with customers
- Fair and equitable treatment of customers

ANTI-FRAUD POLICY

Fraud undermines the integrity and erodes the confidence and trust in a financial institution and the banking system in general. In addition to the extensive infrastructure established to prevent and detect fraud and fraudulent activities, the Public Bank Group also has a formalised anti-fraud policy.

The purpose of the anti-fraud policy is to:

- Ensure the Group's business is conducted in accordance with the law
- Promote an environment of honesty and integrity
- Enhance awareness of the Group's stand on improper, illegal and dishonest acts and the consequences of such acts
- Create staff awareness of their roles, rights and responsibilities in relation to improper, illegal and dishonest acts

The anti-fraud policy sets out the responsibility of employees of the Group in preventing and detecting defalcations, misappropriations and other irregularities, the specific roles of employees in the prevention and detection of fraud and fraud discovery reporting as well as the steps the Group will take in respect of employees involved in fraudulent acts.

ANTI-MONEY LAUNDERING POLICY

The use of the global linkages of the banking and financial systems to transfer and launder illicit money by criminals and terrorists is a major concern of the Government and BNM. The Anti-Money Laundering Act, 2001 provides the legal framework to counter money laundering and terrorist financing.

The Public Bank Group, as the 3rd largest Malaysian banking group, is at the forefront of the Government's and BNM's initiatives and efforts in the prevention of the use of the banking system for illicit and laundering activities. Central to the Group's established infrastructure for the prevention and detection of illicit and money laundering activities is the Group's anti-money laundering policy.

The Group's anti-money laundering policy sets out the following:

- The purpose of the anti-money laundering policy
- Expectations of employees in effecting the anti-money laundering policy
- Accountability of each level of employee for anti-money laundering detection and prevention
- Education and training in preventing and detecting money laundering
- Extensive procedures covering customer identification, account opening, record keeping and recognition and reporting of suspicious transactions

The exacting standards set for the behaviour of the Public Bank Group's staff is reinforced with on-going training courses on internal controls, anti-money laundering and anti-fraud, whilst conduct of staff in the Group's day-to-day business is also subject to managers' and officers' supervisory controls and procedures. The regularity of such training courses and the availability of such courses on the e-learning platform of the Group ensures that the commitment of the Group to building trust and integrity in employee conduct reaches as wide an audience as possible.

The Public Bank Group's zero tolerance of the lack of integrity in staff behaviour is supported by established disciplinary procedures which, after due process, would result in various forms of action being taken against staff who lack integrity or who are dishonest.

Audit Committee Report



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Audit Committee

Chairman

- 1 TAN SRI DATO' THONG YAW HONG
Chairman/Independent Non-Executive Director

Member

- 2 DATO' YEOH CHIN KEE
Member/Independent Non-Executive Director
- 3 Y.A.M. TENGKU ABDUL RAHMAN IBNI SULTAN
HAJI AHMAD SHAH AL-MUSTAIN BILLAH
Member/Independent Non-Executive Director
- 4 HAJI ABDUL AZIZ BIN OMAR
Member/Independent Non-Executive Director
- 5 DATO' DR. HAJI MOHAMED ISHAK BIN
HAJI MOHAMED ARIFF
Member/Independent Non-Executive Director
- 6 LEE CHIN GUAN
Member/Independent Non-Executive Director

Secretary

- 7 SOONG HOE SENG
Group Chief Internal Auditor

1. MEMBERSHIP AND ATTENDANCE

The Audit Committee (“Committee”) comprises the following members and details of attendance of each member at Committee meetings held during 2004 are as follows:

Composition of Audit Committee	Number of	
	Held	Attended
Tan Sri Dato’ Thong Yaw Hong Chairman/Independent Non-Executive Director	16	16
Dato’ Yeoh Chin Kee Member/Independent Non-Executive Director	16	16
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah Member/Independent Non-Executive Director	16	14
Haji Abdul Aziz bin Omar Member/Independent Non-Executive Director	16	16
Dato’ Dr. Haji Mohamed Ishak bin Hj Mohamed Ariff Member/Independent Non-Executive Director	16	16
Lee Chin Guan Member/Independent Non-Executive Director	16	16



2. COMPOSITION AND TERMS OF REFERENCE

2.1 Members

- a. The Committee shall be appointed by the Board of Directors and shall consist of not less than three (3) members, all of whom shall be non-executive directors. The majority of the Committee members shall be independent directors.
- b. At least one (1) member of the Committee:
 - i. must be a member of the Malaysian Institute of Accountants (MIA); or
 - ii. if he is not a member of MIA, he must have at least three (3) years working experience and:
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.
- c. Quorum
A quorum shall consists of two members and shall comprise of independent directors.

2.2 Chairman

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

2.3 Secretary

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

2.4 Meetings

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

2.5 Authority

The Committee shall have the authority to:

- a. seek any information relevant to its activities from employees of Public Bank and the Public Bank Group.
- b. obtain such independent professional advice as it considers necessary.
- c. have full and unrestricted access to any information and documents pertaining to Public Bank and the Public Bank Group.

2.6 Responsibilities and Duties

The Committee shall review and, where appropriate, report to the Board of Directors on the following:

a. Risk Management

The adequacy and effectiveness of risk management, internal control and governance systems instituted in Public Bank and the Public Bank Group.

b. Internal Audit

- The adequacy of the scope of audits conducted by Internal Audit Division, functions and resources of Internal Audit Division and that it has the necessary authority to carry out its work.
- The performance of Internal Audit Division.

c. External Audit

- The external auditors' audit plan, scope of their audits and their audit reports.
- The performance of the external auditors and make recommendations to the Board of Directors on their appointment and remuneration.

d. Audit Reports

- Internal and external audit reports to ensure that appropriate and adequate remedial actions are taken by management on significant lapses in controls and procedures that are identified.
- Significant internal and external audit findings and management's responses.

e. Financial Reporting

The quarterly and annual financial statements of Public Bank and the Public Bank Group for recommendation to the Board of Directors for approval, focusing particularly on:

- changes in or implementation of new accounting policies and practices;
- significant and unusual events; and
- compliance with the applicable approved accounting standards and other legal and regulatory requirements.

f. Related Party Transactions

Any related party transactions that may arise within Public Bank and the Public Bank Group.

g. Other Matters

Such other matters as the Committee considers appropriate or as authorised by the Board of Directors.

3. SUMMARY OF ACTIVITIES

During the year, the Committee carried out the following activities:

3.1 Financial Results

- a. Reviewed the quarterly and half-yearly unaudited financial results of Public Bank and the Public Bank Group before recommending them for approval of the Board of Directors.
- b. Reviewed the annual audited financial statements of Public Bank and the Public Bank Group with the external auditors prior to submission to the Board of Directors for their approval. The review was, inter-alia, to ensure compliance with:
 - Provisions of the Companies Act, 1965 and the Banking and Financial Institutions Act, 1989;
 - Listing Requirements of Bursa Malaysia Securities Berhad;
 - Applicable approved accounting standards in Malaysia, and
 - Other legal and regulatory requirements.

3.2 Internal Audit

- a. Reviewed the annual audit plan to ensure adequate scope and comprehensive coverage on the audit activities of Public Bank and the Public Bank Group.
- b. Reviewed the effectiveness of the audit process, resource requirements for the year and assessed the performance of Internal Audit Division.
- c. Reviewed the internal audit reports, audit recommendations made and management's response to these recommendations. Where appropriate, the Committee has directed action to be taken by management to rectify and improve the system of internal controls and procedures based on the internal auditors' recommendations and suggestions for improvements.

The number of internal audit reports tabled to the Committee during the year was as follows:

Type of Audits	No. of Reports
• Information Systems	19
• Head Office Departments/ Divisions	27
• Branches	167
Total	213

- d. Monitored the implementation of the audit recommendations to ensure that all the key risks and controls have been addressed.

- e. Reviewed the Internal Audit Division's audit methodology in assessing and rating risks of auditable areas and ensure that all high and critical risk areas are audited annually.
- f. Reviewed the staffing requirements of Internal Audit Division and the competencies of the internal auditors to ensure that the internal audit functions can be carried out effectively and efficiently.

3.3 External Audit

- a. Reviewed with the external auditors:
 - their audit plan, audit strategy and scope of work for the year.
 - the results of the annual audit, their audit report and management letter together with management's responses to the findings of the external auditors.
- b. Reviewed the independence and effectiveness of the external auditors and made recommendations to the Board of Directors on their appointment and remuneration.
- c. Reviewed the inspection and examination reports issued by Bank Negara Malaysia and other regulatory authorities and the remedial actions taken in respect of the issues raised by them.

3.4 Related Party Transactions

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

3.5 Public Bank Group Employees' Share Option Scheme (PBB ESOS)

Reviewed the allocation of options during the year under the PBB ESOS to ensure that this was in compliance with the the allocation criteria determined by the PBB ESOS Committee and in accordance with the Bye-Laws of the PBB ESOS.

4. INTERNAL AUDIT FUNCTION

Internal Audit Division assists the Committee in the discharge of its duties and responsibilities. Its role is to provide independent and reasonable assurance that the systems of internal controls are adequate and effective.

A risk based approach is used to ensure that the higher risk activities in each auditable area are audited annually.

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

Prior to implementation of new business products and projects, the Internal Audit Division assists in the evaluation of risk exposures and ensures that control procedures are in place to mitigate the risks identified.

Internal Audit Division also works collaboratively with the Risk Management Division of Public Bank to monitor the risk governance framework and the risk management processes of Public Bank and the Public Bank Group to ensure their effectiveness.

Further details of the activities of the Internal Audit Division are set out in the Statement on Internal Control.

STATEMENT ON INTERNAL CONTROL

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Statement on Internal Control

RESPONSIBILITY

The Board of Directors (“Board”) is responsible for the Public Bank Group’s (the “Group”) system of internal controls and its effectiveness. However, such a system is designed to manage the Group’s risks within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the guidelines for directors on internal control, the *Statement on Internal Control: Guidance for Directors of Public Listed Companies*.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and sufficient to safeguard the shareholders’ investment, the interests of customers, regulators and employees, and the Group’s assets.

The management assists the Board in the implementation of the Board’s policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

KEY INTERNAL CONTROL PROCESSES

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The Board Executive Committee is established by the Board to assist the Board in ensuring the effectiveness of Public Bank's (the "Bank") daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved. The Board Executive Committee also formulates strategies on an on-going basis and addresses issues arising from changes in both the external business environment and internal operating conditions. Management committees are established by the respective Boards of major operating subsidiaries in the Group to assume the functions as stated above in these subsidiaries.
- The Audit Committee reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems. It also conducts a review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of the Internal Audit Division of the Group. The minutes of the Audit Committee meetings are tabled to the Boards of the Bank and its major subsidiaries on a monthly or periodic basis. Further details of the activities undertaken by the Audit Committee are set out in the Audit Committee Report.
- The Internal Audit Division of the Bank and its major subsidiaries monitor compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all units or branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units or branches. The annual audit plan is reviewed and approved by the respective subsidiaries' Audit Committees and the findings of the audits are submitted to the said subsidiaries' Audit Committees for review at their monthly or periodic meetings.
- The Risk Management Committee was established by the Board to assist the Board to oversee the overall management of principal areas of risk. The other committees set up to manage specific areas of risk for the Group are the Assets & Liabilities Management Committee which manages market and liquidity risks; the Credit Risk Management Committee which manages credit risk and the Operational Risk Management Committee which manages operational risk.
- Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Group's core areas of business operations. These committees include the Human Resource Committee, the Loans Committee, the Share Investment Committee and the Information Technology Steering Committee.
- Annual business plans are prepared by the Bank's business units and all operating subsidiaries and are reviewed and approved by their respective Boards. Annual budgets are also approved by the respective Boards and the business units' and operating subsidiaries' performance are assessed against the approved budgets and explanations are provided for significant variances on a monthly basis to the respective Boards.

- There are proper guidelines within the Group for hiring and termination of staff, formal training programmes for staff, annual/semi-annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities.
- The Board of the Bank and the respective Boards of subsidiaries in the Group receive and review reports from management on a regular basis. In addition to the monthly accounts and financial information reports and reports on monitoring of compliance with banking laws and Bank Negara Malaysia's and other central banks' guidelines on lending, capital adequacy and other regulatory requirements, monthly progress reports on business operations are tabled to the respective Boards at their monthly or periodic meetings.
- There are policy guidelines and authority limits imposed on executive directors and management within the Group in respect of the day-to-day banking and financing operations, extension of credits, investments, acquisitions and disposals of assets.
- Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and directives issued by the Bank and subsidiaries in the Group which are updated from time to time.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Internal Control for the inclusion in the annual report of the Bank for the year ended 31 December 2004 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of the system of internal controls.

From Left to Right:

**Tan Sri Dato' Sri
Dr. Teh Hong Piow**
Chairman

Datuk Tay Ah Lek
Managing Director

Dato' Lee Kong Lam
Executive Director



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Board Executive Committee

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

A respected banking entrepreneur in the financial services industry, with a banking career which began in Singapore and spanned more than 53 years. He founded Public Bank in 1965 after spending 6 years in a senior management position in another prominent local bank. Tan Sri Teh has been at the helm of Public Bank since its inception and personally steered its growth till today.

Datuk Tay Ah Lek
Managing Director

Holder of Masters in Business Administration degree. A veteran in the financial services industry for the past 44 years. Joined the Public Bank Group in 1966 and held several portfolios over the years including the Executive Vice President position in Public Finance and Public Bank. Was appointed Executive Director of Public Bank in 1997 and Managing Director in 2002. Sits on the Board of Directors of several subsidiary companies in the Public Bank Group.

Dato' Lee Kong Lam
Executive Director

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

Heads of Divisions

Chang Kat Kiam

Senior General Manager, Retail Banking

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

Leong Kwok Nyem

Senior General Manager, Treasury & Corporate Operations

An accountant by profession. Mr. Leong was attached to the accounting and auditing industry for 8 years before joining the Public Bank Group in 1988. Attached initially to the Finance Division in Head Office, he was transferred to JCG Finance in Hong Kong in 1990. He returned to Head Office in 1994 and has been Head of Treasury since then.

Soong Hoe Seng

Group Chief Internal Auditor, Internal Audit Division

An accountant by profession. He has a total of 30 years of audit experience. He was attached to an audit firm prior to joining Public Bank in 1991 as Head of Internal Audit Division.



From Left to Right:

Leong Kwok Nyem
Senior General Manager,
Treasury & Corporate Operations

Soong Hoe Seng
Group Chief Internal Auditor,
Internal Audit Division

Chang Kat Kiam
Senior General Manager,
Retail Banking

From Left to Right:

Jenny Cheng Siew Ngoh
General Manager,
Human Resource Division

Chong You Lin
General Manager,
PB Card Services & Support

Chia Lee Kee
General Manager,
Secretariat Division



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H e a d s o f D i v i s i o n s

Jenny Cheng Siew Ngoh

General Manager, Human Resource Division

Holder of Bachelor of Economics (Public Administration) degree. A HR Practitioner with more than 28 years of experience in the banking industry. She has been with Public Bank since 1976 and was appointed Head of HR Division in 1991. She is in charge of all HR matters pertaining to the Bank.

Chia Lee Kee

General Manager, Secretariat Division

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

Chong You Lin

General Manager, PB Card Services & Support

Holder of Bachelor of Arts (Economics) degree. Ms Chong has been with the credit card industry for 11 years before joining Public Bank in 1991 as Manager, PB Card Services. She was promoted to Director in 1996, appointed Head of Division in 2000 and promoted to General Manager in 2004.

Ismail bin Ibrahim

General Manager, Credit Control & Islamic Banking

En. Ismail holds a Diploma in Business Studies and has been working in the banking industry since 1973. For the last 32 years, he has gained wide banking experience having served in a few financial institutions. Joined Public Bank in 1992 as Director of Credit Operations. He is now the General Manager overseeing the Credit Administration & Supervision and Islamic Banking operations of the Bank.

Sulaiman bin Abd Manap

General Manager, Credit Operations Division

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

Wong Jee Seng

General Manager, Finance & Risk Management

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

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Heads of Divisions

From Left to Right:

Ismail bin Ibrahim
General Manager,
Credit Control & Islamic Banking

Sulaiman bin Abd Manap
General Manager,
Credit Operations Division

Wong Jee Seng
General Manager,
Finance & Risk Management



From Left to Right:

Nasaruddin bin Arshad
Group Economist,
Economics and Corporate
Planning Division

Chang Chee Kong
General Manager,
HP Credit Control

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



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H e a d s o f D i v i s i o n s

Nasaruddin bin Arshad

Group Economist, Economics and Corporate Planning Division

Holder of Masters in Agriculture Economics degree. En. Nasaruddin was in the academic field for 17 years. The last position he held was as the Dean of School of Economics & Public Administration, UUM. He was with the Malaysian Institute of Economic Research for 2 years before joining the Public Bank Group in 1995. He has been the Director of Economics Division since 1995 and subsequently appointed Group Economist in 1999.

A. Razak bin Md. Dali

General Manager, Public Affairs Division

Holder of Bachelor of Mass Communication & Masters of Science (Corporate Communication) degrees. He has a total of 28 years of service with the Bank, having served as a Branch Manager prior to his present appointment. He has been heading the Public Affairs Division since 1994 and is responsible for the Bank's PR, corporate communication, advertising and sports matters.

Chang Chee Kong

General Manager, HP Credit Control

Holder of a Diploma in Management. Mr Chang has been in the financial services industry for more than 30 years. He was attached to a commercial bank for 9 years before joining Public Finance in 1979. Is experienced in all aspects of the finance operations at Head Office having managed several portfolios at Director and General Manager level. He is responsible for the Bank's HP Credit Control portfolio.



From Left to Right:

Chew Han Kang
Director,
HP Financing

Chan Chew Fung
Director,
Corporate Banking &
Trade Finance Division

Eddie Chan Kok Kwai
Director,
Credit Administration &
Supervision Division

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H e a d s o f D i v i s i o n s

Chan Chew Fung

Director, Corporate Banking & Trade Finance Division

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

Eddie Chan Kok Kwai

Director, Credit Administration & Supervision Division

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

Chew Han Kang

Director, HP Financing

Holder of Diploma in Management. Mr Chew joined Public Finance in 1976. He had a total of 28 years service with Public Finance, of which 9 years were as the Manager of several branches before his appointment as Director of HP Financing in 1997. He is now responsible for the Bank's HP Financing portfolio.

From Left to Right:

Tan Teck Kong
Director,
Information Technology Division

Nizam bin Hj Zainal Abidin
Director,
Security Division

Mohd Najeeb bin Abdullah
Director,
Islamic Banking Division



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H e a d s o f D i v i s i o n s

Tan Teck Kong

Director, Information Technology Division

An IT specialist with a Bachelor of Science/Mathematics degree. Mr Tan has been attached to IT Division for 22 years. He joined Public Bank in 1983 as a Trainee Computer Programmer. Experienced in all aspects within the IT sector in Public Bank. Mr Tan was appointed Director in 2000 to head the IT Division of the Bank.

Mohd Najeeb bin Abdullah

Director, Islamic Banking Division

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

Nizam bin Hj Zainal Abidin

Director, Security Division

En. Nizam was attached to the Royal Malaysia Police for 13 years. He joined Public Bank in 1993 as Head of Security Division. Initially he held the position of Manager and was appointed Director in 2003.

Tang Kam Hoe

Director, Banking Operations Division

Holder of Bachelor of Economics degree. Has been in the financial services industry for the last 23 years. Is experienced in all aspects of finance company operations having managed branches and several business portfolios in Head Office. Mr Tang was appointed Senior Manager of Branch Administration Division of Public Finance in 2000. He is now the Head of Banking Operations Division of the Bank.

Sim Goay Chye

Deputy Director, Property Division

Holder of Masters in Business Management degree. Mr Sim joined Public Finance in 1983. He held several managerial portfolios in the Head Office of both Public Finance and Public Bank in the past 21 years. He held the position of Senior Manager of Business Development in Public Finance since 2000, before his current appointment as the Head of the Bank's Property Division.

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H e a d s o f D i v i s i o n s



From Left to Right:

Sim Goay Chye
Deputy Director,
Property Division

Tang Kam Hoe
Director,
Banking Operations Division

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CHAIRMAN'S

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Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman



OVERVIEW

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Chairman's Review Overview

Overall Business Environment

After a strong showing in the second half of 2003, the Malaysian economy picked up the pace of economic growth in the first half of 2004 with second quarter growth reaching a high of 8.2%. Despite a slowing rate of growth of exports in the last few months of 2004, healthy domestic demand and growth in domestic-oriented industries helped maintain the growth momentum with the Malaysian economy expected to grow in excess of 7% in 2004.

The Malaysian banking and financing industry continued to perform well in 2004, in line with the robust rate of economic growth. Competitiveness amongst the ten domestic banking groups as well as foreign-controlled domestic banks intensified further in 2004, particularly in lending to consumers and small- and medium-sized enterprises ("SMEs"). Strong consumer confidence had driven both demand for residential mortgages and passenger vehicle financing by consumers whilst SMEs continued to be the backbone of an expanding domestic economy, resulting in consumers and SMEs continuing to be the focus of



attention of Malaysian banks and banking groups. Increasing customer awareness and product transparency have led to further commoditisation of banking and financing products and services and added further to the competitiveness of the banking and financing industry.

The Public Bank Group, with its focus on the banking and financing needs of the retail consumer and middle market commercial enterprises, particularly SMEs, have risen to the challenge of intense competition in the core market segments of the Group's business and continued to grow its market share. Given the Group's strong branding and its wide range of innovative and competitively priced products and services, supported by the extensive reach of its branch network and its dedicated and loyal staff force, the Group withstood the intense competitiveness of the banking and financing industry and delivered another record profitability performance in 2004.

Summary of Group Financial Performance

PROFITABILITY

The Public Bank Group charted yet another year of improved performance, turning in a record pre-tax profit of RM1.85 billion in 2004, up from RM1.42 billion in the previous financial year. The Group's net profit attributable to shareholders improved by 30% to RM1.27 billion, driven by better operating profits of Public Bank and all the major subsidiaries of the Group. As a result, the Group's return on equity improved to 18.3% against 14.4% in 2003, and earnings per share increased by 23% to 39.4 sen per share compared to 32.0 sen per share previously.

The Public Bank Group's operations comprised five core areas – Retail Operations, Corporate Lending, Treasury and Capital Market Operations, Investment Banking and Share Broking and Fund Management.

Group Profit Before Tax		
	2004 RM'Million	2003 RM'Million
Retail Operations	1,549	1,135
Treasury and Capital Market Operations	244	185
Corporate Lending	108	99
Share Broking and Fund Management	98	82
Investment Banking	17	16
Others	9	2
	2,025	1,519
Unallocated expenses and amortisation of goodwill	(177)	(104)
Profit before tax	1,848	1,415

Profit Before Tax of Major Companies in the Group

	2004 RM'Million	2003 RM'Million
Public Bank Berhad	1,512	1,111
JCG Holdings Group	241	127
Public Mutual Berhad	65	55
PB Securities Sdn Bhd	32	26
Public Merchant Bank Berhad	15	14

Retail Operations: The retail banking and financing operations of the Public Bank Group provide a wide range of financial products and services catering to the banking and financing needs of individuals and SMEs. This is the core business of the Group, accounting for 75% of the Group's total operating revenue and 76% of the Group's profit before tax in 2004. The improvement in profit performance of the Group's retail operations by 36% was the result of strong growth in the domestic retail lending business, lower cost of deposit funding as well as higher commission and fee income which partially mitigated the effects of lower lending margins

in 2004. Domestic retail lending expanded by 22% in 2004 whilst the Group's overseas operations recorded a 6% increase in retail loans. Islamic banking operations charted steady growth in 2004 and accounted for 18% of retail operations profitability.

Pre-tax profit of the JCG Holdings Group nearly doubled to HKD493 million in 2004 from HKD260 million in 2003. This was achieved on the back of lower charges for specific allowance net of recoveries due to the declining number of delinquent accounts and bankruptcies, higher write-back of general allowance and higher fee income.

JCG HOLDINGS GROUP

	2004 HKD'Million	2003 HKD'Million
Income Statement		
Net interest income	699	691
Non-interest income	200	170
	899	861
Overhead expenses	(233)	(186)
Operating profit	666	675
Allowance for losses on loans, advances and financing	(173)	(415)
Profit before tax	493	260
Key Balance Sheet Items		
Total assets	4,288	4,853
Gross loans, advances and financing	3,295	3,191
Deposits from customers	1,720	1,309
Shareholders' funds	2,163	3,304
Financial Ratios		
Net NPL ratio	1.8%	4.7%
Risk-weighted capital ratio (JCG Finance Company, Ltd)	38.7%	43.2%

Corporate Lending: Corporate lending of the Public Bank Group comprised mainly the provision of short- and medium-term financing to large corporate customers. Pre-tax profit for corporate lending operations increased by 9% from RM99 million in 2003 to RM108 million in 2004 due to a growing corporate loan portfolio and recoveries arising from the completion of debt restructuring of a few corporate accounts. Corporate lending grew by 38% in 2004 and accounted for 8% of the Group's total loans at the end of 2004.

Treasury and Capital Market Operations: Treasury and capital market operations reported a pre-tax profit of RM244 million in 2004 as compared to RM185 million for 2003 on account of higher gains derived from sale of investment and dealing securities of RM42 million, higher dividend income of RM41 million and higher foreign exchange income of RM79 million. Net interest income from this business also improved due to higher average holding of money market instruments.

Investment Banking: The investment banking operations of the Public Bank Group cater mainly to the business and capital markets needs of corporate customers through the provision of financial solutions and funding support. The investment banking operations of the Group is undertaken by Public Merchant Bank which offers structured financing, corporate advisory services, mergers and acquisitions and debt restructuring advisory services. Public Merchant Bank's pre-tax profit in 2004 was RM15 million.

PUBLIC MERCHANT BANK BERHAD

	2004 RM'Million	2003 RM'Million
Income Statement		
Net interest income	10	12
Non-interest income	12	10
	22	22
Overhead expenses	(8)	(8)
Operating profit	14	14
Allowance for losses on loans, advances and financing	1	—
Profit before tax	15	14
Key Balance Sheet Items		
Total assets	2,921	1,923
Gross loans, advances and financing	139	92
Deposits from customers	1,000	130
Shareholders' funds	178	163
Financial Ratios		
Net NPL ratio	0%	0%
Risk-weighted capital ratio	45.4%	44.6%

Share Broking and Fund Management: The Public Bank Group's share broking and fund management operations are undertaken by PB Securities and Public Mutual respectively.

Despite the competitive operating conditions in the share broking industry as a result of further liberalisation of the industry, PB Securities managed to achieve a 23% increase in pre-tax profit to RM32 million for 2004 as a result of higher brokerage and commission income arising from more active trading and higher volumes on Bursa Malaysia Securities Berhad ("Bursa Securities").

With its market leadership position in the private sector fund management industry, Public Mutual chalked up another record year of gross sales of trust units in 2004. The total net asset value of unit trust funds under management increased by 20% in the year to stand at RM9.88 billion as at the end of 2004. As a result of its strong sales of trust units and growing net asset value under management, Public Mutual achieved a 18% improvement in profit before tax to RM65 million. The improved revenue was partially offset by increased overheads due to higher sales commissions paid to agents arising from increased sales of trust units.

PUBLIC MUTUAL BERHAD

	2004 RM'Million	2003 RM'Million
Income Statement		
Revenue	204	151
Other operating income	8	7
	212	158
Overhead expenses	(147)	(103)
Profit before tax	65	55
Key Balance Sheet Items		
Total assets	373	296
Shareholders' funds	244	199
Net asset value of unit trust funds under management	9,884	8,232

PB SECURITIES SDN BHD

	2004 RM'Million	2003 RM'Million
Income Statement		
Revenue	23	19
Other operating income	25	22
	48	41
Overhead expenses	(16)	(15)
Profit before tax	32	26
Key Balance Sheet Items		
Total assets	557	520
Shareholders' funds	317	310

LENDING

Loans, Advances and Financing

	Public Bank Group				Banking System
	Outstanding (Gross)		Growth Rate		Growth Rate
	2004 RM'Million	2003 RM'Million	2004 %	2003 %	2004 %
Group	57,034	46,928	22	20	8.5
Public Bank	55,018	*44,965	22	22	9.0
JCG Holdings Group	1,610	1,562	3	(10)	Na

* Combined Public Bank and Public Finance

The Public Bank Group achieved strong loan growth of 22% with gross loans of the Group increasing by RM10.11 billion in 2004. This is the fourth consecutive year of annual loan growth in excess of 20% achieved by the Group. The growth rate of Public Bank's domestic lending was also at 22% and was more than two times the 8.5% increase in loans of the domestic banking system in 2004. Consequently the Group's market share for loans rose to 11.1% in December 2004 from 9.6% a year ago.

Lending activities of the Group remained focused on retail financing such as residential mortgage loans and financing of passenger vehicles as well as lending to SMEs. Loans to these key segments accounted for 72% of the Group's total loans outstanding and 73% of new loans approved of RM24.92 billion in 2004.

JCG Holdings Group also recorded a positive 3% growth in loans compared to a 10% contraction in 2003.



ASSET QUALITY

Group Asset Quality				
	2004		2003	
	Group	Public Bank	Group	Public Bank*
NPL – RM'Million	1,632	1,526	1,966	1,779
Net NPL Ratio	2.1%	2.2%	3.0%	3.0%
Net NPL Ratio – Banking System	7.6%	7.4%	8.9%	8.6%

* Combined Public Bank and Public Finance

Notwithstanding the strong loan growth in the past five years, the Public Bank Group's asset quality continued to improve in 2004 reflecting the Group's prudent credit culture, policies and practices. In keeping with international best practice, the Group adopted the 3-month classification policy for its non-performing loans ("NPL") in 2004. The Group's total gross NPLs decreased by RM334 million or 17% to RM1,632 million as at 31 December 2004 while the net NPL ratio stood

at 2.1% compared to 3.0% at the end of 2003. The net NPL ratio of 2.1% of the Group was about one quarter of the banking system's average net NPL ratio of 7.6% in December 2004. Apart from the healthy net NPL ratio, the Group also maintained a comfortable level of provisioning with its ratio of general allowance to net NPLs standing at 74% and its loan loss coverage ratio at 81%.

FUNDING

Group Customer Deposits					
	Outstanding		Growth Rate		Mix
	2004 RM'Million	2003 RM'Million	2004 %	2004 %	2003 %
Demand	8,683	7,358	18	12	15
Savings	11,498	9,688	19	16	19
Fixed	39,315	32,373	21	54	64
NIDs	12,482	530	> 100	17	1
Others	268	268	—	1	1
	72,246	50,217	44	100	100

The Public Bank Group's total customer deposits of RM72.25 billion as at end of 2004 represented a 44% increase from RM50.22 billion recorded at the end of 2003.

The Public Bank Group has taken proactive steps to reduce its cost of deposit funding in order to mitigate the impact of the squeeze in interest margins arising from declining lending spreads due to competitive pressures. The Group's savings deposits increased by 19% to RM11.50 billion, while non-interest bearing demand deposits expanded by 18% to RM8.68 billion, outpacing the industry's growth rate of 10% and 12% respectively in 2004.

Fixed deposits and negotiable instruments of deposit ("NIDs") recorded significant increases during 2004 to fund the strong lending activities of the Group.

Deposits from individuals continued to be the Public Bank Group's main source of deposit funding, accounting for more than 70% of the Group's core demand, savings and fixed deposits, and represented a 15% market share of deposits by individuals. This has provided the Group with a stable deposit base and has enhanced its low-cost deposit funding structure.



CAPITAL

	Group		Public Bank		Banking System
	2004	2003	2004	2003	2004
Shareholders' funds (RM'Million)	8,571	8,618	8,407	7,483	na
Core capital ratio (%)	13.9	17.5	13.8	15.0	10.7
Risk-weighted capital ratio (%)	17.9	19.3	15.3	15.0	13.7

The Public Bank Group's shareholders funds amounting to RM8.57 billion at the end of 2004 remained the second largest amongst banking groups in Malaysia. The marginal decline of the Group's shareholders funds of RM47 million was due to the higher dividend payout ratio in 2004 and further buy-back of its own shares by Public Bank amounting to RM431 million, which offset the Group's current year's earnings and fresh equity funds from the exercise of options under the Public Bank Employees' Share Option Scheme during the year. At Public Bank level, shareholders' funds increased by RM924 million due to dividends received from subsidiary companies.

As at 31 December 2004, the Group's risk-weighted capital ratio of 17.9% was more than twice the minimum requirement of 8% and well above the banking system's risk-weighted capital ratio of 13.7% at the end of 2004.

The core capital ratio and risk-weighted capital ratio of the Bank continued to be strong at 13.8% and 15.3% respectively.

Capital Management

The Public Bank Group was active in managing both the Group's and the Bank's capital in 2004. A number of initiatives were pursued with a view to improving the efficiency of the Group's capital.

The capital structure of the Public Bank Group was enhanced with the gearing up of Public Bank's core capital with the issue of USD350 million Subordinated Notes in June 2004. The increase in the equivalent of RM1.32 billion of Tier 2 capital resulted in the Group's and the Bank's risk-weighted capital ratios rising by 2.3% and 2.4% respectively. The gearing up of its core capital with debt capital allows the Bank and the Group to pursue business and balance sheet expansion without burdening shareholders for more equity capital. The gearing up of the Group's core capital also enables the Group to improve its return on equity whilst continuing to maintain a strong risk-weighted capital ratio.

The Public Bank Group also took steps to narrow the gap between the capital adequacy ratios of the Group and the Bank by the payment of dividends by the Bank's subsidiaries. The payment of the special dividend of HKD1.75 per share by JCG Holdings Ltd, whilst reducing the Group's risk-weighted capital ratio marginally by 0.4%, increased the Bank's risk-weighted capital ratio by 0.7% and reduced the gap between the Bank's and the Group's risk-weighted capital ratio from 3.7% to 2.6%.

Public Bank bought back 69.1 million of its own shares in 2004. Together with the 31.1 million shares bought back in 2003, Public Bank has bought back a total of 100.2 million of its own shares, representing 3.0% of the issued and paid-up share capital of Public Bank.

In line with its policy of creating shareholders' value and to reward shareholders, Public Bank maintained its high dividend pay out ratio in 2004 with the special dividend paid during 2004 of 40 sen less 28% taxation and the proposal to pay a special and a final dividend of 15 sen less 28% taxation and 35 sen less 28% taxation respectively, totalling 50 sen less 28% taxation per Public Bank share. The total net dividend paid and payable of RM2.11 billion amounted to 126% of the profits after taxation and after transfer to statutory reserves of Public Bank for 2004.

The active management of the capital of the Public Bank Group and the improvement in the efficiency of the Group's capital structure result in significant benefits to the Group and its shareholders. The capital management initiatives enhance shareholders' value through improved return on equity and higher share price valuation multiples, whilst positioning the Group for strong balance sheet growth without burdening shareholders for injection of more equity capital. With a more efficient capital structure, the Group is better placed to compete in an intense and increasingly competitive banking and financing industry. The focus on effective and efficient capital management also entails the continuous balancing of the need for a level of capital that will maximise returns to shareholders whilst ensuring that the level of capital can support the Group's long-term growth and cushion the impact of any unforeseen demand on the capital of the Group.

Ratings

Public Bank	Long Term	Short Term
RAM	AAA	P1
Moody's	A3	Prime-1
Standard & Poor's	A-	A-2

Public Bank enjoys the highest bank financial strength ratings in Malaysia.

In June 2004, Public Bank was assigned a long-term credit rating of A- by Standard & Poor's Rating Services. The A- credit rating by Standard & Poor's makes Public Bank the only single 'A' rated bank in Malaysia by Standard & Poor's. Standard & Poor's rating rationale included Public Bank having a sizeable market share in its core business segments of retail banking, and its strong financial profile that is underpinned by its improving asset quality over the past four years.

In assigning its initial long-term credit rating of Baa1 to Public Bank, Moody's Investors Service noted that the key factors that distinguish Public Bank's creditworthiness from that of its peers are its solid financial fundamentals and conservatism. In December 2004, Moody's Investors Service upgraded Public Bank's long-term deposit rating from Baa1 to A3 and short-term deposit rating from Prime-2 to Prime-1. Moody's Investors Service also assigned Public Bank with a Bank Financial Strength Rating ("BFSR") of C, making Public Bank one of only two Malaysian banks with a BFSR of C.

In July 2004, Rating Agency Malaysia Berhad ("RAM") reaffirmed Public Bank's long-term and short-term credit ratings at AAA and P1 respectively, with a stable outlook. The AAA rating is the highest credit rating accorded by RAM and is given only to financial institutions which are financially strong and offer the highest safety for timely payment of financial obligations.



RAM attributed Public Bank's high credit ratings to its strong fundamentals, superior asset quality, sound credit culture, sturdy capitalisation and excellent funding and liquidity positions. Public Bank's proactive measure to continuously provide excellent service to customers and group-wide risk management framework and policies were viewed positively by RAM. Despite the change to the non-performing loans classification policy from 6 months to 3 months, RAM also noted that Public Bank's asset quality indicators remained superior. With the completion of the rationalisation of the branch networks of Public Bank and Public Finance and the merger of the finance company business of Public Finance with the banking business of Public Bank, RAM viewed positively the profit performance of the merged entity as the Group would have access to an enlarged pool of customers thus creating potential cross-selling opportunities to generate new business among these customers. The AAA rating has further enhanced the public's confidence in Public Bank as a custodian of public funds as can be seen by the 49% growth of Public Bank's customer deposits in the last 2 years compared to the banking industry growth rate of 25% over the same period.

BUSINESS OPERATIONS REVIEW

Review of Group Operations

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Chairman's Review Business Operations Review



Retail Banking and Financing Operations

The Public Bank Group remained focused on the Group's retail banking and financing business in 2004 with robust growth in lending to retail consumers and mid-market SMEs leading the way. Growth in both retail core customer deposits and wholesale corporate and financial institutions deposits and the strong loan growth led to a significant expansion of the Group's balance sheet by RM27.51 billion in 2004, with the Group's total assets reaching RM92.09 billion at the end of 2004, making Public Bank Group the 3rd largest banking group in Malaysia.

Public Bank Group's retail loans grew by 22% to RM52.34 billion in 2004. Outstanding consumer loans of RM38.76 billion and loans to SMEs of RM12.95 billion constituted 74% and 25% respectively of the Group's total retail loans portfolio at the end of 2004. The strong retail lending growth was achieved on the back of encouraging economic growth with strong demand for loans from consumers and business enterprises.

CONSUMER CREDIT

Residential Property Financing

Lending to the residential property sector remained one of the Public Bank Group's core business activities in 2004. Residential mortgage loans totalling RM5.56 billion were approved in 2004 as compared to RM3.14 billion in 2003. The Group's residential mortgage loan portfolio grew by 34% or RM3.58 billion to RM14.06 billion, outstripping the industry's growth rate of 14%. The Group's robust growth in residential mortgage loans was spearheaded by the Group's flagship residential mortgage loan packages – the 5HOME (“Home Ownership Made Easy”) Plan and MORE (“Mortgage Refinancing”) Plan.

The 5HOME Plan and MORE Plan are amongst the most competitive residential mortgage loan packages in the industry with pricing and benefits being continuously evaluated and regularly revised in response to changing market demand and customer needs. In 2004, following customers' feedback, enhancements of terms and benefits were carried out which included daily rest interest calculations and redraw facilities for residential mortgage loan products to meet customers' need for financing flexibility.

With daily rest interest calculations, customers enjoy greater interest savings as advance payment of residential mortgage loan installments reduces the outstanding residential mortgage loan amount immediately. The redraw facilities allow residential mortgage loan borrowers to make prepayments of any amount and the excess of such prepayments over the fixed monthly installments can be subsequently redrawn by customers.

The Public Bank Group continued with its active participation in property roadshows and exhibitions held nationwide to maximise business development and marketing opportunities. The Group's branches also continued to maintain strong business relationships with developers, real estate agents and solicitors for potential customer referrals. End-financing packages with extremely attractive pricing and financing terms continued to be offered for developers' launches to provide consumers with convenient and competitive financing of their property purchases.

In its effort to support the Government's initiatives to assist low income earners become house owners, the Public Bank Group had committed to providing financing for 28,104 units of residential properties costing RM180,000 and below in the 18 months from 1 July 2003 to 31 December 2004.



Passenger Vehicle Financing

Following the rationalisation of the finance company and banking businesses of the Public Bank Group, passenger vehicle hire purchase financing, which was traditionally the main business of Public Finance is now one of the core products of Public Bank. This will be a significant component in the retail banking business portfolio of Public Bank.

Based on a report by the Malaysian Automotive Association, the sales of new motor vehicles in Malaysia was 19% higher at 481,154 units in 2004 against 405,010 units in 2003. The higher sales of new motor vehicles was buoyed by attractive financing packages and wider choices from launches of both new models and new makes of motor vehicles.

Riding on the strong sales of new motor vehicles, the Public Bank Group continued to post strong volume growth in its passenger vehicle hire purchase financing business. The Group's passenger vehicle hire purchase loan portfolio registered a growth of 16% or RM1.96 billion in 2004 to stand at RM14.19 billion at the end of 2004, outperforming the industry growth rate of 15%. In 2004, financing of new vehicles accounted for 81% of the Group's passenger vehicle hire purchase financing business.

The Public Bank Group continued to strengthen its relationship with car dealers by actively participating in joint sales promotions, carnivals and road shows as well as offering interest subsidy schemes to car distributors and dealers throughout the country. In 2004, the Group participated in over 90 joint sales promotions and carnivals with car dealers. The Group's network of car dealers was further expanded to a total of 4,800 dealers nationwide, an increase of 12% over 2003.

The passenger vehicle hire purchase financing packages offered by the Public Bank Group remain amongst the most competitive in the market. With the fast turnaround time for approval and disbursement of loans as a result of an effective Electronic Loans Delivery System, the passenger vehicle hire purchase financing business of the Group is set to grow further with expectations of buoyant growth in sales of new motor vehicles.

Cards

The credit card business of the Public Bank Group recorded another strong year, with performance exceeding expectations in most areas of the business. The number of credit cards issued grew by a strong 51% over the previous year, reflecting increasing consumer preference for credit cards as an alternative to cash and the success of the Group's credit card cross-selling and promotional activities. The Group's card base increased by 35% in 2004 to stand at over 300,000 cards, whilst card sales also improved by 28% to RM1.58 billion in 2004.

The merchant acquiring business registered a 32% growth despite an extremely competitive market environment, where margins were squeezed continuously due to merchant discount rate sensitivity. Card receivables expanded by 19% to stand at RM480 million at the end of 2004.

As in all other businesses of the Public Bank Group, where growth is balanced by proactive risk management, particularly credit risk, the asset quality of the Group's credit card receivables is proactively managed, resulting in a delinquency rate of 7.3% against the credit card industry's delinquency rate of 13%, and a gross NPL ratio of the Group's credit card receivables of 2.5% at the end of 2004, compared to the credit card industry's average NPL ratio of 4.2%.

The Public Bank Group continued to pursue card issuance programmes to enhance customer benefits. Combining the strong branding of Public Bank and the Manchester United Football Club, the Group, in collaboration with Manchester United Football Club and Barclays Bank Plc, launched the PB Manchester United MasterCard in August 2004. This is the first co-branded Manchester United MasterCard and the first sports related MasterCard in Malaysia, and Public Bank is the exclusive issuer of this credit card in Malaysia. The special benefits of the PB Manchester United MasterCard are designed for football fans in general and the fans of Manchester United, and have been accorded the recognition of 'The Official Credit Card Partner Of Manchester United Football Club' in Malaysia.

Share Margin Financing

With the improvement in the performance of the Malaysian stock market, PB Sharelink, the share trading and share margin offering of the Public Bank Group continued to grow healthily in spite of stiff competition in the share financing business. In 2004, the number of accounts grew by 24%, approved limits grew by 52%, whilst business transactions volume registered a 28% growth, which translated to an overall increase of 28% in gross brokerage and interest income generated from the Group's share trading and share margin financing business.

In 2004, the Public Bank Group added another 3 share trading and share margin financing outlets, making a total of 31 share trading and share margin financing centres to serve the Group's customers. The Group will continue to identify suitable branches of Public Bank for extension of the PB Sharelink services to expand the Group's share margin financing business and offer greater convenience to share trading and share margin financing customers. The Group continues to proactively review and enhance the features of PB Sharelink to remain competitive. Internet share trading for the Group's share trading and share margin financing customers is planned for implementation in 2005 to enable the Group's customers to conduct their share trading activities from the convenience and comfort of their home or office.

Personal Consumer Loans

The personal consumer loans business of the Public Bank Group is carried out primarily by JCG Finance in Hong Kong through a network of 40 branches. Despite the challenging and competitive operating environment in 2004, personal consumer loans of JCG Finance increased by 11% in 2004, as a result of active promotion of its personal consumer loans as the Hong Kong economy continued to recover.

In Malaysia, personal loans under the Islamic Bai Al-Einah ("BAE") financing principle continued to be actively promoted by the Public Bank Group. At the end of 2004, the Group was offering BAE personal financing to the staff of 93 government agencies and quasi government corporations whilst BAE Plus financing continued to be made available to the Group's residential mortgage loan customers. Resources continued to be channelled to promoting and marketing BAE personal financing loans with the setting up of a dedicated marketing team to conduct direct marketing calls on government agencies and corporations. The aggressive marketing approach adopted by the Group yielded a strong 21% growth in BAE personal financing in 2004.



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SME LENDING

The Public Bank Group's commercial lending activities remain focused on SMEs. A total of RM5.97 billion in new loans was approved to SMEs in 2004, an increase of RM2.54 billion over loans approved to SMEs in 2003, and accounted for more than 33% of the Group's total retail loans approved in 2004. In line with the higher volume of SME loans approved, the Group's SME loan portfolio expanded by 23% to stand at RM12.95 billion, representing 25% of the Group's total outstanding retail loans as at the end of 2004.

The Public Bank Group's flagship commercial lending products, the SWIFT (“Shophouse, Warehouse, Industrial Factory and Trade financing”) Plan and SMILAX (“Small, Medium Industries – Loan Assistance for eXpansion”) Plan continued to be the main drivers of the growth in SME lending. Regular enhancements of these commercial lending products, with improved pricing and benefits, were made to remain competitive. Apart from regular interest rate reductions, the Group also introduced a Free Legal Documentation option for the SWIFT Plan. All legal expenses are absorbed by the Group when customers refinance their credit facilities with other financial institutions with credit facilities from the Group.



The Public Bank Group continued to play an active role as an intermediary for funds under various Government promoted loan schemes geared towards financing SMEs. These include the Fund for Small and Medium Industries 2 (“FSMI2”) and the New Entrepreneurs Fund 2 (“NEF2”) as well as Credit Guarantee Corporation schemes such as the New Principal Guarantee Scheme (“NPGS”), the Flexi Guarantee Scheme (“FGS”) and the Small Entrepreneur Guarantee Scheme (“SEGS”). These loan schemes provide SMEs with access to low interest rate loan facilities designed to assist SMEs expand their capacity and enhance competitiveness. In support of these Government promoted loan schemes, the Group launched a very competitive special loan package for SMEs in 2004. This special loan package is an extension of the FSMI2 and provides SMEs with the option of longer loan tenure at competitive rates in order to ease cashflows and enhance working capital.

The SME Development Unit established by the Public Bank Group works closely with the relevant trade associations and chambers of commerce to meet the financing needs of SMEs and to serve their business requirements more effectively. The Group is also an active participant in major trade exhibitions and sponsorships of business events related to the promotion and development of SMEs, as well as seminars and dialogue sessions to obtain market feedback in order to respond effectively to the needs and challenges faced by SMEs.

In order to further improve SMEs' knowledge of banking products and services, a dedicated section for SMEs has been developed on the Public Bank's e-banking website, www.pbebank.com, to provide information on financing options, loan packages and other banking services provided by the Public Bank Group for SMEs. Through the website, SMEs can submit their enquiries on financing and banking related matters or seek an appointment with sales and marketing personnel for further discussions and advice.

The merger and integration of the finance company business of Public Finance with the banking business of Public Bank have opened up new business opportunities for the Public Bank Group. Several new products and services were introduced to cater to the banking and financing needs of a broader spectrum of customers. Two new products, the Special Working Capital Package and the Local Cheque Purchase Facility for Car Dealers were launched to provide flexible financing for car distributors and dealers. The Special Working Capital Package provides short-term financing for the purchase and importation of cars, whilst the Local Cheque Purchase Facility for Car Dealers facilitates quick short-term working capital financing for car dealers.

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CUSTOMER DEPOSITS

In 2004, the Public Bank Group's strategy remained focused on attracting lower cost savings and current account funds by capitalising on the Group's superior service delivery at the front office of branches nationwide. The Group's 2-minute Standard Waiting Time and widening of delivery channels proved successful as evident by the strong growth in savings and current account deposits. The Group's savings deposits continued its growth trend with a 19% increase in 2004 whilst the Group's demand deposits increased by 18% as compared to the industry's growth rate of 10% and 12% respectively. For the year, more than 405,000 savings accounts and 84,000 current accounts were opened, registering growth rates of 16% and 20% respectively in the number of such account holders.

In support of the Public Bank Group's strategy to reduce high-cost fixed deposits funding and to generate fee income, the Group launched a single premium endowment plan known as the Guaranteed CashBack Plan ("GCP"). The GCP was underwritten by Great Eastern Life Assurance (M) Berhad. The GCP is a five-year single premium endowment plan specifically designed to provide investment and insurance protection to the Group's customers aged between 19 and 65 years. The GCP customers are guaranteed a fixed return of 4% per annum plus insurance protection of up to 125% of the single premium at no extra cost. In addition, the GCP also guaranteed an annual cash payout of 10% of the single premium.

The Public Bank Group increased the issuance of NIDs in 2004 as an additional funding source and provides depositors, particularly large corporate depositors, with greater flexibility in their short-term investment decisions. The increase in the issuance of NIDs also provides the Group with the opportunity to tap into the corporate deposit market to fund its rapidly expanding loan portfolio. At the end of 2004, the Group's gross loan to deposit ratio fell to 79% from 94% at the end of 2003, despite the Group's strong loan growth of 22%, as a result of healthy growth in core customer deposits as well as the sharp increase in the issuance of NIDs.

CASH MANAGEMENT SERVICES

The Public Bank Group's Cash Management Services ("CMS") continued to be enhanced in 2004 to provide value added and user friendly services to corporates as well as individual customers. The year 2004 saw a move towards the implementation of more e-channel collection services with the introduction of 30 new payee corporations on the Group's Internet banking channel. PBeBank.com users are now able to make payments to a large number of payee corporations ranging from government departments, colleges, direct selling, insurance, telecommunication and utility companies. As a result, the Group achieved a 117% rise in transactions performed through its Internet banking channel in 2004, with a corresponding 236% increase in transaction value compared to 2003.

Strong income growth was also registered from corporate customers with the Public Bank Group's expansion of its online payment services to provide for effective data and payments processing where administrative work has now been e-enabled, thereby reducing manpower requirements of these corporate customers. The Group is equipped with the necessary ICT infrastructure to complement business activities of these corporate customers through customised solutions resulting in significant cost savings and delivery turnaround time for these corporate customers.

The Public Bank Group's extensive branch network and electronic banking channels such as PB Telebanking, PBeBank.com and ATMs have provided both consumers and corporations with the convenience of using a wide range of services such as bill payments, fund transfers and interbank giro facilities at their convenience. In 2004, the Group posted a 36% increase in fee-based and float income compared to 2003. The Group will continue to innovate to meet the new CMS needs of the market and to seek out value for business enterprises, government departments and other organisations and their customers.

Capital Market Operations

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The Public Bank Group participates in the domestic capital market principally through the activities of Public Bank's Treasury and Corporate Banking Divisions, the business of Public Merchant Bank, the fund management business of Public Mutual and the share broking business of PB Securities.

TREASURY

The Public Bank Group's treasury business focuses on serving the foreign exchange and wholesale funding needs of the Public Bank Group's retail and corporate customers, the execution of strategies approved by the Assets and Liabilities Management Committee for effective management of the Bank's balance sheet and to a limited extent, engages in proprietary trading activities.

A core business of Public Bank's Treasury Division is the sale and distribution of foreign exchange related products to customers. Income derived from foreign exchange services for customers continued to improve in 2004, totalling RM79 million compared to RM69 million in 2003. The Public Bank Group also accepts short-term deposits in the form of



The screenshot shows a financial terminal window titled "KEY CROSS CURRENCY RATES". It displays a table of exchange rates for various currencies including USD, EUR, JPY, GBP, CHF, CAD, AUD, NZD, HKD, SGD, and MYR. The table lists rates for different currency pairs and includes a section for "Enter 1M, 3M etc. for forward rates". Below the table, there are sections for "monitoring enabled" and "BLOOMBERG Composite" data.

	USD	EUR	JPY	GBP	CHF	CAD	AUD	NZD	HKD	SGD	MYR
SEK	8.8046	8.8561	8.7512	12.927	5.8494	5.6735	5.7582	4.111	88.83	1.1785	1.1785
NOK	8.7475	8.1942	8.1178	11.597	5.2937	5.1354	5.2510	4.2248	88.83	1.1785	1.1785
DKK	7.4657	19.325	7.6339	14.596	6.8843	6.4088	6.8286	5.4577	88.83	1.1785	1.1785
NZD	4.885	1.8736	1.3985	2.6745	1.1102	1.1140	1.1140	1.1140	88.83	1.1785	1.1785
AUD	1.3148	1.7246	1.2970	2.4615	1.1139	1.1000	1.1000	1.1000	88.83	1.1785	1.1785
CAD	1.1218	1.5556	1.1913	2.2776	1.0305	1.0305	1.0305	1.0305	88.83	1.1785	1.1785
CHF	1.1004	1.5482	1.1055	2.2099	1.0305	1.0305	1.0305	1.0305	88.83	1.1785	1.1785
GBP	0.53413	0.70057	0.73904	1.0000	0.5250	0.5250	0.5250	0.5250	88.83	1.1785	1.1785
JPY	102.12	133.94	100.00	191.19	85.513	83.940	77.667	71.487	13.100	15.346	14.790
EUR	0.76243	1.0000	1.4274	0.6591	0.62671	0.57886	0.53372	0.47780	12.804	11.042	11.042
USD	1.3116	0.7024	1.0722	0.4717	0.82200	0.75455	0.70603	0.62629	1.6806	1.4482	1.4482

repurchase agreements from corporate and institutional customers, which funds part of the Group's holding of medium-term interbank assets. Although both global and domestic interest rates continued to remain low in 2004, the Group is vigilant of the risk inherent in investing in the capital markets particularly with the rises in US interest rates in 2004, and continued to invest mainly in securities of short and medium tenures.

Public Bank is an active participant in the domestic capital market, both as principal and as an intermediary for its customers. In 2004, the Bank was re-appointed a Principal Dealer by Bank Negara Malaysia, with responsibility to provide market liquidity for specified securities and to act as a conduit for Bank Negara Malaysia to conduct its money market operations.

CORPORATE LENDING

As at 31 December 2004, the Public Bank Group's corporate lending rose to RM4.69 billion from RM3.40 billion a year ago. The robust growth in the corporate lending portfolio was primarily attributed to the Group's active participation in the corporate lending business through flexibility in meeting customers' needs and competitive pricing. For 2004, corporate lending was substantially in the form of conventional loans and trade financing lines to business enterprises in financial services, property development, manufacturing, wholesale trade and construction activities.

The Public Bank Group maintains its supportive role in the debt capital market at both primary and secondary levels to cater for the funding preferences of large corporate customers. This, coupled with the Group's focus on non-funded activities, contributed positively to the Group's fee-based income.

While more resources were channelled towards aggressive marketing for new customers and meeting existing customers' funding requirements, the Public Bank Group did not compromise on its stringent credit risk management policies.

The Public Bank Group continued to leverage and tap on the business synergy of its corporate lending and investment banking activities to expand its existing corporate customer base. These ongoing cross-selling initiatives are part of the Group's efforts to gear towards customers' demand for "one-stop" financial services providers in today's globalised market place.

INVESTMENT BANKING

The participation of the Public Bank Group in the Malaysian investment banking business is through Public Merchant Bank, a wholly-owned subsidiary of Public Bank. In 2004, Public Merchant Bank turned in pre-tax profit of RM15 million, similar to that achieved in 2003.

Despite the very challenging Malaysian investment banking environment, particularly the increased competition from the entry of universal brokers, the continued strengthening of the Malaysian capital market helped Public Merchant Bank maintain its fee-based income. In 2004, Public Merchant Bank acted as adviser in respect of a number of corporate restructuring mandates, of which eight were successfully implemented during the year, and the listing of five companies on the Malaysian Exchange for Securities Dealing and Automated Quotation ("MESDAQ") market.

In 2004, there was also an increase in the number of mandates secured for other corporate advisory activities such as mergers and acquisitions and capital raising exercises. The number of completed mandates and new mandates secured by Public Merchant Bank during the year is testimony to the growing market presence of the Public Bank Group's domestic investment banking business.

In the current competitive investment banking environment, Public Merchant Bank will continue to expand its clientele base and intensify its efforts to assist its customers access the capital market. Public Merchant Bank will continue to tap into the extensive customer base of the Public Bank Group, particularly the Group's existing and well established middle market business enterprise customers which have the capacity and desire to access the domestic capital market.

FUND MANAGEMENT

The growth of the private unit trust industry outpaced the country's sturdy economic growth and robust stock market performance in 2004. It expanded by over 24% to raise the private unit trust industry's total assets under management from RM28.52 billion at the end of 2003 to RM35.56 billion at the end of 2004, increasing the ratio of total assets under management of the private unit trust industry to the total market capitalisation of Bursa Securities to 5.2% at the end of 2004 from 4.5% at the end of 2003.

Public Mutual increased the net asset value ("NAV") of funds under its management by RM1.65 billion in 2004, from RM8.23 billion as at the end of 2003 to RM9.88 billion as at 31 December 2004. Public Mutual secured the highest share of the increase in net assets of the private unit trust industry in 2004, and maintained its leading market share of private unit trust assets in the country.

Number of Funds, NAV and Units in Circulation					
Year	2000	2001	2002	2003	2004
Number of Funds	11	13	15	18	19
Net Asset Value (RM'Billion)	4.11	5.03	5.80	8.23	9.88
Units in Circulation (Billion)	7.02	9.10	11.32	14.77	16.91

Anchored by the strong performances of its funds and its strong branding and reputation in unit trust fund management, Public Mutual continued to achieve high sales of its existing unit trust funds. Both total gross sales of unit trust funds as well as sales under the EPF Members Investment Scheme achieved new record levels in 2004, boosting total units in circulation to 16.91 billion units. Public Mutual's approved size of funds increased further in 2004 by 26% to 34.75 billion units.

Public Mutual launched a new fund, the Public Focus Select Fund in November 2004 with an initial fund size of 500 million units. The Public Focus Select Fund was oversubscribed by 200% on the first day of its launch. Public Mutual applied for, and was granted approval for an additional 750 million units of the Public Focus Select Fund to meet the overwhelming response to the new fund.

Despite intermittent periods of volatile stock market performance in 2004, the equity funds of Public Mutual displayed resilience in keeping pace with market performance to achieve returns well above the average

performance of peer funds, with the equity funds achieving total returns ranging between 13% and 25% during the year. Public Mutual's balanced funds, Public Balanced Fund and PB Balanced Fund, outperformed the benchmark Public Balanced Equity Index ("PBEIX") with returns of 12% and 20% respectively against the PBEIX returns of 10% in 2004. Its retail bond funds provided a return of 9% whilst its Public Money Market Fund, launched in 2003, achieved better returns than the 3-month Kuala Lumpur Interbank Offer Rate.

In 2004, Public Mutual received the highest number of fund performance awards amongst private unit trust management companies in Malaysia. Public Mutual won 6 Lipper Fund Awards and 4 Standard & Poor's Fund Awards making a total of 10 awards. The fund performance awards bestowed on Public Mutual in 2004 encompassed a wide range of fund categories, attesting to the broadening of Public Mutual's fund management performance and expertise under different market conditions.



PUBLIC MUTUAL BERHAD
AWARD WINNING FUNDS IN 2004

			Total Awards
Lipper Fund Awards	Special Award	Fund Management Company Special Award – Highest Number of Best Performing Funds	6
	1 Year Category	1) Bond Islamic/Syariah – Public Islamic Bond Fund	
	3 Year Category	1) Equity Islamic/Syariah – Public Ittikal Fund 2) Bond General – Public Bond Fund	
	5 Year Category	1) Equity Index Tracking – Public Index Fund 2) Bond General – Public Bond Fund	
S & P Fund Awards	1 Year Category	1) Fixed Income Islamic – Public Islamic Bond Fund	4
	3 Year Category	1) Equity Islamic Syariah – Public Ittikal Fund 2) Fixed Income MYR – Public Bond Fund	
	5 Year Category	1) Fixed Income MYR – Public Bond Fund	
Total of Best Performing Funds Awards			10



In 2004, Public Mutual expanded its sales agency force to over 8,800 agents, an increase of 13% in the number of agents. The continued growth in the sales agency force is the result of Public Mutual's proactive agency recruitment programme, the strong performance of its funds, strong branding of Public Mutual and the Public Bank Group and a competitive commission structure.

Public Mutual continued to maintain the largest number of Financial Planning Association of Malaysia registered Certified Financial Planners amongst unit trust companies and institutional unit trust agents. This expanding group of financial planning professionals will help spearhead initiatives by Public Mutual to enlarge its market share and build brand loyalty amongst affluent and sophisticated investors. As part of such initiatives, additional benefits were introduced and exciting lifestyle activities were organised for Public Mutual's high net worth Mutual Gold members to foster customer loyalty and good investor relations. In addition, branch refurbishment and relocation activities continued apace to upgrade and extend Public Mutual's unit trust management services and financial planning facilities to all unitholders and investors around the country.

SHARE BROKING

The performance of Bursa Securities improved markedly in 2004 with the Kuala Lumpur Composite Index ("KLCI") closing at 907.43 points on 31 December 2004, up 113.49 points from 793.94 points on 31 December 2003, a 14% increase. The volume of transactions on Bursa Securities also increased from RM206 billion in 2003 to RM244 billion in 2004. Total market capitalisation also increase from RM640 billion as at the end of 2003 to RM722 billion as at the end of 2004.

The stockbroking industry experienced further consolidation and liberalisation in 2004. To further liberalise the capital market, increase global competitiveness and widen market coverage, the Government announced in the 2005 Budget that it will allow:

- Up to five major foreign stockbrokers to operate in Malaysia to strengthen international distribution capabilities as well as increase liquidity;
- Up to five leading global fund managers to operate in Malaysia, to enhance fund management expertise and improve the quality of services as well as to promote Malaysian investments to the global markets;
- 100% foreign ownership in futures broking companies to increase liquidity and the level of capital market risk management; and
- Local stockbroking companies which have merged with at least one other stockbroking company to open four additional branches.



In compliance with the Securities Commission's Capital Market Masterplan requirements on consolidation and Bank Negara Malaysia's Financial Sector Masterplan in relation to the structure for investment banks, PB Securities completed the acquisition of the stockbroking licence of Thong & Kay Hian Securities Sdn Bhd in October 2004.

Amidst the challenging and competitive business conditions and further liberalisation, PB Securities achieved an improved pre-tax profit of RM32 million for 2004 compared to RM26 million in 2003, a 23% increase. The improved profit was achieved on the back of higher turnover, higher recoveries and recognition of an exceptional gain of RM6 million which arose from the valuation of Bursa Malaysia Berhad shares received as a result of the demutualisation of the Kuala Lumpur Stock Exchange. The shareholders' funds of PB Securities increased to RM317 million as at end of 2004 from RM310 million a year ago arising from the retention of earnings.

It is envisaged that during 2005, more changes in the stock broking industry landscape would occur and the on-going liberalisation and deregulation of the domestic capital market has already resulted in stiffer competition from both local and foreign players. To face the challenges ahead, PB Securities will continue to strategise and to innovate in order to remain competitive. Greater focus will be made on the retail business and expansion of the number of effective producers and remisiers. PB Securities will also continue to leverage on the Public Bank Group's extensive branch network and large retail customer base to increase its market share.

In its pursuit to improve its operational efficiency and further strengthen its service delivery to customers, PB Securities continues to build operational skills and management expertise and tap the latest technological advances through the Group-wide ICT platform. At the same time, PB Securities continues to emphasise on sound risk management practices and strong internal control measures at all levels of operations in the conduct of its stockbroking business.

Islamic Banking

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The Public Bank Group's Islamic banking and financing business continued to expand strongly in 2004. The Group's Islamic banking and financing operations recorded a pre-tax profit of RM285 million in 2004, an increase of 71% from RM167 million in 2003 and accounted for 15% of the Group's pre-tax profit. For the past five years, the Islamic banking and financing business of the Group had grown at an average rate of 35% per year as compared to the Islamic banking industry's average growth rate of 20% over the same period.

The Islamic banking and financing business continued to remain focused on growing the Public Bank Group's retail-based financing. In 2004, the Group's Islamic financing recorded a growth of 7%, supported by ABBA House Financing-i, ABBA Term Financing-i, AITAB Hire Purchase-i and BAE Personal Financing-i. On Islamic deposit-taking, the Group's Islamic banking and financing business focused on growing Wadiah Savings Account-i ("WSA-i") and Wadiah Current Account-i ("WCA-i") deposits as a source of cheaper funds. WSA-i and WCA-i deposits recorded increases of 38% and 27% respectively in 2004 and accounted for 77% of the Group's Islamic deposit base at the end of 2004.



The Public Bank Group's Islamic banking and financing business continued to promote its BAE Personal Financing-i. At the end of 2004, the Group was offering its BAE Personal Financing-i services to staff of 93 Government agencies and quasi government corporations. The Group had set up a dedicated team to conduct direct marketing calls at these government agencies and corporations. The aggressive marketing approach adopted resulted in a strong 21% growth in BAE Personal Financing-i for the year.

In 2004, the Public Bank Group participated in two major Islamic banking and financing exhibitions, namely, the inaugural Malaysian International Halal Showcase 2004 and the Islamic Banking and Takaful Expo 2004. Besides promoting the Group's Islamic banking and financing business, the participation in these exhibitions also supported Bank Negara Malaysia's efforts in promoting greater awareness and knowledge of Islamic banking activities amongst the public.

For its 2004 Islamic banking and financing operations, the Public Bank Group made a zakat payment of RM100,000. A total sum of RM85,000 was paid to five state zakat centers of Wilayah Persekutuan Kuala Lumpur, Selangor, Pulau Pinang, Perak and Johor. The remaining RM15,000 was given to orphanage homes in Kuala Kangsar, Mersing and Kangar.

The Islamic banking and financing business will continue to leverage on the extensive branch network and multiple delivery channels of the Public Bank Group to deliver new and innovative products to customers for Islamic banking and financing services. The Group is fully committed to further developing and promoting Islamic banking and financing to meet the greater acceptance of Islamic banking and financing products by customers. This is also in line with the objective of Bank Negara Malaysia's Financial Sector Masterplan for Islamic banking and financing to achieve a 20% share of the banking system by 2010.

Serving The Customer

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CUSTOMER SERVICE

In a liberalised banking and financing industry and increasing customer knowledge and sophistication, being competitive in product pricing strategies alone is no longer sufficient in capturing a larger market share. The Public Bank Group, in its pursuit of customer service delivery excellence, continues to strive to deliver customer service that sets the Group apart from its competitors.

A multi-phase Customer Care Campaign, which is still on-going, was launched in 1999 with the theme "Doing It Right For You". The emphasis of Phase I of the Customer Care Campaign was the provision of the most courteous and efficient customer service, by extending the special 'GUEST' treatment to every customer. Staff were trained to greet customers by using the proper salutation and their names, with the appropriate eye contact and smile and to be concluded with a sincere thank you.

Phase II of the Customer Care Campaign, "We Listen We Care", focused on obtaining customers' feedback and complaints and turning them into opportunities to serve them. Phase III of the Customer Care Campaign,

"Our Service Commitment Continues", saw the establishment of a customer service focus group in every branch, enabling the Public Bank Group to respond much quicker to the needs and expectations of customers by speedily channelling service improvement suggestions and recommendations to Head Office for prompt action and implementation. Phase IV of the Customer Care Campaign, "First In Quality Service", was highly successful in reducing the Standard Waiting Time for customers to 2 minutes and the Standard Processing Time to 1 minute for core banking transactions.

The current Phase V of the Customer Care Campaign, "Your Needs Our Focus", was launched in May 2004. Customer service delivery went beyond complying with the quantitative standards achieved in Phase IV of the Customer Care Campaign. The aim of the current phase is to instill a positive attitude and cultivate improved behavioural habits in front-line service staff. Feedback from customers on their perception of staff attitude, staff knowledge, staff skill and the overall banking experience was sought and collated. Customers were also asked to indicate their preferences in relation to loan product features.



Phase V of the Customer Care Campaign, “Your Needs Our Focus”, comprised a two-pronged approach. In the first part, customers’ feedback was solicited via a survey questionnaire which was sent to 600,000 customers over a 6-month period. In the second part, the Mystery Customer Project, independent evaluations were carried out on front-line staff at all branches by anonymous evaluators. In 2004, a total of 84,075 survey questionnaires were completed and returned by customers. 96% of the respondents expressed satisfaction with the overall service delivery of the Public Bank Group’s branches. For the Mystery Customer Project, the anonymous evaluators graded the overall service delivery of the Group as desirable in terms of staff attitude, staff knowledge, staff skill and speed of service.

Together with enhancing the Public Bank Group’s culture of excellent customer service delivery through the Customer Care Campaign, the Group continued to deliver quantitative service standards such as its 2-minute Standard Waiting Time and 1-minute Standard Processing Time for core banking transactions consistently. The systems and processes to monitor and record achievement of such quantitative standards, together with delivery of such service standards in branches, form the core infrastructure to maintain the bank-wide ISO 9001:2000 certification of “Provision of Customer Service at the Front Office”.

LOAN SERVICE DELIVERY

Public Bank attained bank-wide ISO 9001:2000 certification for the “Provision Of Customer Service In Loan Delivery” in 2003. In maintaining this ISO certification and to support the Public Bank Group’s strategy to expand its lending business, refinements were implemented on an on-going basis to ensure a high level of conformance with the standard turnaround times.

To facilitate fast loan turnaround time, the bank-wide online Electronic Loan Delivery System (“eLDS”) was implemented for loan processing, loan approval and loan disbursement and included statutory and management reporting. With the eLDS, loan applications are input into the eLDS at branches and routed to Head Office. Key information, including scanned copies of supporting documents and digital images of photographs of properties and business premises are also captured and submitted electronically to Head Office for assessment. Decisions in respect of loan applications are routed electronically back to the respective branches to be conveyed to customers. The eLDS also provide statistics of the level of conformance with standard turnaround times set and has the capacity to prompt users when deadlines for each key step of the processing of loan applications, loan approvals and loan disbursements are due.

The eLDS has resulted in bank-wide achievement of a high conformance level with standard turnaround times in loan service delivery of over 90% as measured by the eLDS, despite a 22% increase in the volume of loan applications in 2004. These turnaround times statistics were further validated by a customer satisfaction survey conducted with loan applicants upon loan approval and loan disbursement, where 81% of loan applicants rated the Public Bank Group’s loan service delivery as excellent or good whilst 19% rated it satisfactory.

CHANNEL MANAGEMENT

The Automated Teller Machine (“ATM”) network of the Public Bank Group remains a primary electronic delivery channel for 2004. With the successful implementation of the smartcard based PB BankCard, the chip-based ATM card which provides a substantially higher degree of security compared to the previous magnetic-stripe ATM card, the Group had further enhanced its range of bill payment services via ATMs as well as enabled the registration for Internet banking services through this channel, besides providing customers with a more secured environment to conduct their ATM transactions.

The Public Bank Group’s self-service delivery channel expanded further with the installation of more cheque deposit machines and cash deposit terminals at high transaction volume branches. These self-service

machines provide greater convenience to customers to deposit cheques or cash into their accounts outside banking hours, in addition to making loan repayments, credit card payments and bill payments at these machines. The use of these machines also contributes to improved efficiency of the branches by freeing up service counters for transactions requiring personal service and automating back-office processing functions.

The Public Bank Group’s Internet banking channel, PBeBank.com, underwent a revamp in 2004 resulting in a more user-friendly website and the expansion of the contents of non-transactional pages to more marketing and sales-oriented information and has led to a wider audience of customers and potential customers accessing the website. The Group’s PBeBank.com Internet banking channel registered a strong growth of 57% in the number of users and a 117% increase in the number of Internet banking transactions in 2004. This indicates a growing level of acceptance by customers of the Internet banking channel for their banking transactions. While efforts to enhance the functionalities of PBeBank.com are on-going, security remains the highest priority for this delivery channel. The Group has implemented an added security feature for third party payments which requires the customer to enter his or her NRIC number for verification purposes when performing certain financial transactions. The Group continues to accord high priority to implementing security mechanisms to counter the increasing threat of e-mails directing customers to fraudulent Internet websites to steal the customers’ Internet banking access codes.

The Financial Process Exchange (“FPX”) interbank online payment gateway was implemented in 2004. This service enables Internet-based payments to be conducted in an online realtime manner to facilitate e-commerce transactions and provides payment solutions for both consumer-to-business as well as business-to-business transactions, with various authorisation mechanisms to cater for the differing security demands of customers. Public Bank is the only bank that has successfully implemented the full range of payment models for the FPX service. This includes both the payment model (electronic payment initiated by the buyer) as well the collection model (electronic payment initiated by the seller).

CUSTOMER LOYALTY PROGRAMMES

As part of the Public Bank Group's strategy to develop a long-term multi-product relationship with its customers, the Group has in place a number of customer loyalty programmes.

Public Bank was the first commercial bank to participate in the BonusLink Reward Programme ("BonusLink"). BonusLink is the largest multi-party customer loyalty reward programme in Asia whereby its members can redeem a wide variety of attractive gifts through the accumulation of points. The Bank's PB SaveLink Account and PB CurrentLink Account reward customers with BonusLink points based on the balances in these accounts. At the end of 2004, there were more than 118,000 such deposit accounts with total deposits exceeding RM595 million which earn BonusLink points for customers.

The PB PREMIUM Club was set up to reward our loyal customers for their continuous support of the Public Bank Group. The Club focuses on providing customers with a sense of belonging to the Group and as a strategy to mitigate customer attrition. Currently, the Club has over 267,000 members. Membership of the PB PREMIUM Club is free. Club members are provided with an array of privileges and benefits such as a free quarterly magazine, special promotions and discounts at participating merchant outlets, waiver of commission for the purchase of traveller's cheques and banker's cheques and a host of contests with attractive prizes to be won.

The Public Bank Group had initiated a number of credit card usage and loyalty programmes in 2004 to remain competitive in the credit card business. The "Catch of the Month" reward programme to encourage card usage frequency rewarded cardholders with high value gifts in a random draw of cardholders that use their cards for specified minimum amounts in a month and the "PB Ringgit Rewards" programme provided random cash rewards of up to the full amount of cardholders' spending during various festive periods. The "PB-4-U" SMS contest also offered attractive prizes to cardmembers based on the level of card usage by customers.

The Public Bank Group's "Zero-Interest-Installment-Plan" provides the Group's credit cardholders the flexibility of buying high value items for a wide range of products and paying for such purchases over an extended period.

In the promotion of the usage of the PB Manchester United MasterCard, an "Experience Old Trafford" contest is being run to reward lucky PB Manchester United MasterCard holders with an all-expense paid trip to watch Manchester United play at Old Trafford when they use their credit cards.



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The Public Bank Group has overseas presence in 5 Asian countries with branches located in Hong Kong, Sri Lanka and Laos, subsidiaries in Hong Kong and Cambodia and a joint venture bank in Vietnam. The Group's international operations contributed RM248 million or 13% of the Group's pre-tax profit for 2004.

The strong economic growth in the People's Republic of China and the buoyant growth in re-exports, increasing mainland China tourist arrivals and improved local spending have resulted in a sharp recovery in Hong Kong's economy in 2004. The stronger economic growth and consumer confidence had fuelled a more robust retail property market with property prices increasing by more than 20% while taxi licence prices also grew by 20%. Banks in Hong Kong continued to compete aggressively for secured residential mortgage loans and taxi loans using aggressive pricing to gain market share. Under such favourable economic

environment, the profit performance of JCG Finance Company, Ltd ("JCG Finance") improved sharply. JCG Finance recorded a profit before tax of HKD426 million, which was more than double the pre-tax profit of HKD203 million achieved in 2003. JCG Finance's loans and advances stood at HKD3.18 billion while deposits stood at HKD2.14 billion as at the end of 2004, registering growth of 11% and 19% respectively over the previous year.

Public Bank's Hong Kong Branch, which obtained full licence bank status in August 2003, registered strong growth in loans of 30% in 2004. The spill-over effects of the strong economic growth in the People's Republic of China is expected to benefit Hong Kong's economy. Public Bank's Hong Kong Branch, JCG Finance and Winton Holdings (Bermuda) Limited are well-positioned to capitalise on the opportunities arising from Hong Kong's growing economic activities. The

Public Bank Group's Hong Kong operations will continue to focus on consumer financing and trading of taxi licences and its related financing activities.

Cambodian Public Bank Limited ("Campu Bank") was voted "The Best Bank in Cambodia" by the Banker Magazine for the fourth consecutive year in 2004. The successful formation of the new government in August 2004 and the continuing financial restructuring of the banking sector in Cambodia have brought about an improved investment climate in the country which has benefited Campu Bank which again recorded strong growth in loans, deposits and profits. For 2004, Campu Bank recorded profit before tax of USD5 million, a growth of 30% over that of 2003, whilst loans and deposits stood at USD36 million and USD110 million, having grown 65% and 12% respectively in 2004.

Despite being affected by the avian flu outbreak and high global oil prices, Vietnam's economy remained healthy. The State Bank of Vietnam ("SBV") had continued its banking reform and modernisation programme. The SBV had gradually eased restrictions on non state-owned commercial banks to demonstrate the SBV's commitment to a market-oriented banking industry and gradual integration into the regional and international financial markets. Recent amendments of the banking laws are expected to create a more favourable environment for the banking industry in Vietnam, which will benefit the Public Bank Group's joint venture bank in Vietnam, VID Public Bank, which currently has five branches, namely in Hanoi, Ho Chi Minh City, Danang, Haiphong and Binh Duong.

Our branches in Sri Lanka and Laos remain profitable despite the difficult operating environment in these countries.

Information and Communications Technology

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The Public Bank Group's Information and Communications Technology ("ICT") initiatives in 2004 continued to emphasize on delivering enhanced banking products and service excellence. Various emerging technologies were deployed and new applications introduced to build on the existing solid ICT foundation of the Group. Together, these provided the basis upon which the entire suite of business applications were integrated to deliver the flexibility and reliability to support the Group's capability to capitalise on market opportunities.

One major activity undertaken in 2004 was the rationalisation of the branch networks of Public Bank and Public Finance and the merger of the finance company business of Public Finance with the banking business of Public Bank. A technology framework was developed to unify the disparate elements smoothly and securely. New high-end PCs, servers and printers replaced aged equipment. In this respect, the Public Bank Group invested a total of RM5.5 million in hardware to upgrade Public Finance branches to Public Bank branches.

The communications network of the Public Bank Group has also undergone a major transformation to a converged networking environment. The core network uses the high performance communications protocol called Asynchronous Transfer Mode. High-end network switches were installed at the core network operations centres, interconnected by high bandwidth links of 34 megabit per second ("Mbps"). The same packet-based architecture that drives data now seamlessly host other applications such as Internet Protocol telephony ("VoIP") and video links. The converged network promotes information management efficiencies, long-term operational cost benefits and increased organisational flexibility in identifying new ways of providing customer service. The Group's communications network is also used to transmit video signals from the CCTV system in branches for branch counter service to be remotely monitored. This has allowed proactive action to be taken by the Customer Service Centre to improve customer service delivery further.



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A number of security measures were also instituted in credit card processing. To prevent incidents of credit card frauds involving skimming of magnetic stripe cards, the Public Bank Group incorporated end-to-end data encryption technology. Public Bank was the first bank in Malaysia to institute track-2 encryption technology in merchant terminals. Since the implementation of end-to-end data encryption, the incidents of fraud attributed to wire tapping uncovered at proprietary merchants was reduced to zero. The Group has also actively embraced technologies that are more resistible to card cloning such as chip based credit cards. The Group has adopted the EMV chip card standard for both Mastercard and Visa.

In 2004, the Public Bank Group implemented several new and updated applications. These were BankTrade, a trade finance system supplied by a major US company; eLDS-HP, a loan delivery system for hire purchase processing; Bloomberg TOMS, a front-end Treasury trade recording system and StockBanking, a share margin financing system. Both the BankTrade and eLDS-HP systems are fully automated and integrate operations at branches and in Head Office. These applications incorporated imaging technology to effect a “paperless” environment as documents are scanned and transmitted from branches via the communications network to Head Office for processing and approval. These systems also have capabilities for performance monitoring and measurement for compliance with the Group’s ISO benchmarks. The automated workflows have greatly improved the turnaround time of the trade finance and hire purchase businesses of the Group.

Recognising Top Performers

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BRANCH PERFORMANCE AWARDS

Each year, the Public Bank Group accords recognition to top performing branches in the form of the Branch Performance Awards. These awards reward and recognise branches that have delivered superior performance and also incentivise other branches to strive to improve their performance.

For the Branch Performance Awards, each branch is assessed in the areas of business performance, loan asset quality, management of risks and costs and customer service and each branch is rated against other branches within the same peer group determined according to branch size. In the area of business performance, branches are assessed on specific measures such as increases in retail loans and passenger vehicle hire purchase financing, profitability, Islamic banking business, demand and savings deposits and sales of credit cards and unit trust funds. These measures are based on growth rates or on a per staff basis. For management of risks and costs, branches are assessed on credit risk management, branch internal controls and cost income management whilst for customer service, branches are assessed on frontline and loan service delivery and channel management performance.





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The Branch Performance Awards comprise 13 Special Awards, 6 Best Branch Awards and the coveted Chairman and Founder's Award for the Overall Best Branch for the year.

In March 2004, Jalan Raja Laut branch was awarded the Chairman and Founder's Award as the overall best branch for 2003 and a total of 88 individual awards were given out, with cash prizes totalling RM820,000 awarded to the winners of the Branch Performance Awards.

CROSS-SELLING AWARDS

As part of the business operations integration and rationalisation arising from the merger of the finance company business of Public Finance with the banking business of Public Bank, all branches were required to actively cross-sell the Public Bank Group's products. Business targets on specific products were assigned to all branches of Public Bank and Public Finance. As a result of the cross selling activities, new business in excess of RM1.06 billion was generated during the cross-selling campaign period from August 2002 to May 2004. Cross-selling awards, comprising 6 buddy team awards and 17 branch special awards, were presented to the top performing cross-selling branches with total cash prizes exceeding RM250,000.



In line with the strong performance of the economy, the banking and financing industry is expected to thrive on the back of increased lending opportunities and improving asset quality. On the other hand, the level of competition in the banking landscape will intensify further due to excess liquidity in the banking system as well as the proactive and aggressive marketing strategies of industry players. New players are expected in the form of the establishment of Islamic banking institutions as a result of the new Islamic banking licences issued by Bank Negara Malaysia in 2004. Further competition will also emanate from foreign-controlled domestic banks when they are allowed access to the common ATM network in the country and the lifting of restrictions on the opening of new branches by these foreign-controlled domestic banks. These challenges will compel the industry to undertake more product innovation and improve service standards.

The Public Bank Group will capitalise on the growing economy to expand its core business activities, particularly in consumer financing and retail commercial lending, without compromising on its strong asset quality. With a strategic network of 252 branches nationwide and superior customer service delivery that is benchmarked to international standards, the Group is well-positioned to consolidate its strength in lending to SMEs and providing residential mortgage loans and passenger vehicle hire purchase financing to consumers. On liability management, the Group's focus will remain on growing its low-cost customer deposits to mitigate the pressure on interest margins. The Group will continue to enhance its customer service by further expanding its cash management services and Internet banking channel, and continue to pursue greater cost efficiency and staff productivity by building on its successful business processes.

In its pursuit of a bigger market share and operational efficiency, the Public Bank Group will, as always, adhere to good corporate governance practices, sound risk management policies and prudent credit policies and practices in order to support sustainable long term growth of the Group for the benefit of all stakeholders.

Given the remarkable performance achieved in recent years, especially in 2004, the Public Bank Group looks forward to continue sharing its success by delivering shareholders' value. To be sure, it is also committed to meeting its vital socio-economic responsibilities as a good corporate citizen and an active partner in the development efforts of the country. Indeed, the Group will be mindful in addressing the rising expectations of shareholders, customers and staff as well as other stakeholders for long-term sustainable growth and profitable expansion in the years ahead.

TAN SRI DATO' SRI DR. TEH HONG PIOW
Chairman

26 January 2005