

MALAYSIAN BUSINESS

Corporate
Governance
Award

Winner for
Three
Consecutive
Years

- 2002
- 2003
- 2004



NACRA

(National Annual Corporate Report Awards)

**Overall
Excellence
Award for
Most Outstanding
Annual Report**

Winner for
Four
Consecutive
Years

- 2001
- 2002
- 2003
- 2004



Bank of the Year in Malaysia - The Banker Magazine • Corporate Governance

Award - Malaysian Business Magazine •



No.1 in Corporate Governance - MSWG

& NUBS Survey 2004 • Overall Excellence Award for the Most Outstanding Annual



Report - NACRA •



Best Managed Company in Malaysia - FinanceAsia Magazine •

Towards Greater Heights Of Excellence



Malaysia's Best CEO of the Year - Asiamoney Magazine • SuperBrand Gold



Award - Reader's Digest •



Best Retail Bank in Malaysia - Asian Banker Journal •



Best Bank in Malaysia - FinanceAsia Magazine •



Best Bank in Malaysia -

Euromoney Magazine •



Best Domestic Bank in Malaysia - The Asset Magazine •



Industry Excellence Award - NACRA •



Best Bank Bond - The Asset

Magazine •



Overall Best Managed Company in Malaysia - Asiamoney Magazine •



Best Annual Report in Bahasa Malaysia - NACRA •



Corporate

Governance Asia Recognition Award - Corporate Governance Asia Journal •



PUBLIC BANK

PUBLIC BANK

2005 Annual Report



Bank of the Year in Malaysia - The Banker Magazine • Corporate Governance

Award - Malaysian Business Magazine •



No.1 in Corporate Governance - MSWG

& NUBS Survey 2004 • Overall Excellence Award for the Most Outstanding Annual



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Raising The Bar of EXCELLENCE



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Award - Reader's Digest •



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Best Bank in Malaysia -

Euromoney Magazine •



Best Domestic Bank in Malaysia - The Asset Magazine •



Industry Excellence Award - NACRA •



Best Bank Bond - The Asset

Magazine •



Overall Best Managed Company in Malaysia - Asiamoney Magazine •



Best Annual Report in Bahasa Malaysia - NACRA •



Corporate

Governance Asia Recognition Award - Corporate Governance Asia Journal •



PUBLIC BANK

PUBLIC BANK

2005 Annual Report

PAST 25 YEARS

Public Bank Annual Report



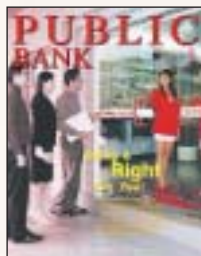
2004



2003



2002



2001



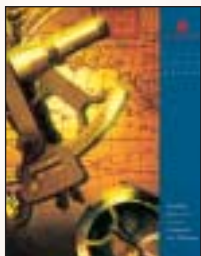
2000



1999



1998



1997



1996



1995



1994



1993



1992



1991



1990



1989



1988



1987



1986



1985



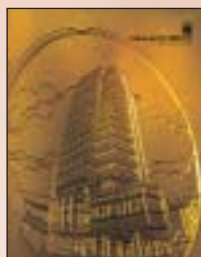
1984



1983



1982



1981



1980

Award Winning Public Bank Annual Reports

- 1985 - MACRA COMMENDATION AWARD**
 - Graphic Presentation
 - Corporate Information
- 1986 - MACRA AWARD**
 - Best Corporate Information
- 1987 - MACRA AWARD**
 - Best Corporate Information
- NARA AWARD**
 - Best Annual Report Finance Sector
- 1988 - MACRA AWARD**
 - Best Overall Annual Report
 - Best Corporate Information
- NARA AWARD**
 - Best Annual Report Finance Sector
- 1989 - NACRA AWARD**
 - Most Outstanding Annual Report
 - Best Annual Report Finance Sector
- NACRA COMMENDATION AWARD**
 - Corporate Information
 - Accounting Information
 - Annual Report in Bahasa Malaysia
- 1990 - NACRA AWARD**
 - Best Accounting Information
- 1991 - NACRA AWARD**
 - Best Accounting Information
- NACRA COMMENDATION AWARD**
 - Corporate Information
- 1994 - NACRA COMMENDATION AWARD**
 - Accounting Information
 - Corporate Information
 - Annual Report in Bahasa Malaysia
- 1995 - NACRA COMMENDATION AWARD**
 - Accounting Information
 - Annual Report in Bahasa Malaysia
- 1996 - NACRA AWARD**
 - Most Outstanding Annual Report
 - Industry Excellence Award Finance Sector
- 1997 - NACRA AWARD**
 - Best Annual Report in Bahasa Malaysia
 - Industry Excellence Award Finance Sector
- 1998 - NACRA AWARD**
 - Industry Excellence Award Finance Sector
- 1999 - NACRA AWARD**
 - Industry Excellence Award Finance Sector
- CITRA AWARD 2000**
 - Main Award
- 2000 - NACRA AWARD**
 - Industry Excellence Award Finance Sector
- CITRA AWARD 2001**
 - Special Jury Award
- 2001 - NACRA AWARD**
 - Most Outstanding Annual Report
 - Industry Excellence Award Finance Sector
- CITRA AWARD 2002**
 - Special Jury Award
- 2002 - NACRA AWARD**
 - Most Outstanding Annual Report
 - Industry Excellence Award Finance Sector
- CITRA AWARD 2003**
 - Merit Award
- 2003 - NACRA AWARD**
 - Most Outstanding Annual Report
 - Industry Excellence Award Finance Sector
 - Best Annual Report in Bahasa Malaysia
- 2004 - NACRA AWARD**
 - Most Outstanding Annual Report
 - Industry Excellence Award Finance Sector
 - Best Annual Report in Bahasa Malaysia

MALAYSIAN BUSINESS Corporate Governance Award

For the third consecutive year, Public Bank sets the milestone in corporate excellence. Having always upheld the highest standards of corporate governance and transparency, it is no surprise then that Public Bank has chalked up one triumphant win after another since the inception of the Malaysian Business Governance Award in the year 2002.

Winning this coveted award for the third time in a row has undeniably strengthened our resolve to continue being the benchmark for outstanding corporate governance, for many years to come.



• 2002 • 2003 • 2004

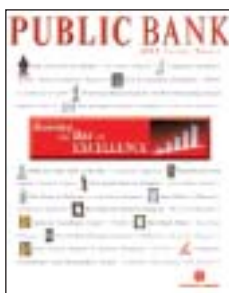
NACRA (National Annual Corporate Report Awards) Overall Excellence Award for Most Outstanding Annual Report

For the fourth consecutive year, we have upheld the highest standards of corporate governance and transparency to win the prestigious NACRA Overall Excellence Award for the Most Outstanding Annual Report.

This acknowledgement of exemplary corporate conduct and practices have energised us to a whole new level of confidence and commitment to continue our winning streak, for many more years to come.



• 2001 • 2002 • 2003 • 2004



cover rationale

The numerous accolades and awards showcased in this Annual Report is testimony to the Bank's driving commitment to continuously reinforce its reputation as a leader in the banking industry.

The Bank's achievements reflect its "values journey" to reach out to the hearts of its customers and stakeholders. To stay in the forefront, Public Bank shall continue to raise the bar of excellence to perpetuate its well recognized track record.



Public Bank ranked No. 1 in Corporate Governance in a joint study by Minority Shareholder Watchdog Group and Nottingham University Business School

financial calendar

financial year 2005

13 APRIL 2005, Wednesday

Announcement of the unaudited consolidated results for the 1st quarter ended 31 March 2005

21 JULY 2005, Thursday

Announcement of the unaudited consolidated results for the 2nd quarter and half-year ended 30 June 2005

22 JULY 2005, Friday

Issuance of notice of entitlement and payment of interim dividend of 20% less 28% income tax

10 AUGUST 2005, Wednesday

Date of entitlement to the interim dividend of 20% less 28% income tax

18 AUGUST 2005, Thursday

Date of payment of the interim dividend of 20% less 28% income tax

18 OCTOBER 2005, Tuesday

Announcement of the unaudited consolidated results for the 3rd quarter ended 30 September 2005

corporate mission

To Sustain The Position Of
Being The Most Efficient,
Profitable And Respected
Premier Financial Institution
in Malaysia



Public Bank awarded the Best Domestic Bank in Malaysia by The Asset Magazine

23 JANUARY 2006, Monday

Announcement of the audited consolidated results for the 4th quarter and year ended 31 December 2005

8 FEBRUARY 2006, Wednesday

Issuance of notice of entitlement and payment of final dividend of 20% less 28% income tax and special dividend of 15% less 28% income tax

24 FEBRUARY 2006, Friday

Issuance of notice of 40th Annual General Meeting and annual report for the financial year ended 31 December 2005

20 MARCH 2006, Monday

Date of 40th Annual General Meeting

23 MARCH 2006, Thursday

Date of entitlement to the final dividend of 20% less 28% income tax and special dividend of 15% less 28% income tax

31 MARCH 2006, Friday

Date of payment of the final dividend of 20% less 28% income tax and special dividend of 15% less 28% income tax

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notice of annual general meeting

NOTICE IS HEREBY GIVEN THAT THE FORTIETH ANNUAL GENERAL MEETING OF PUBLIC BANK BERHAD (“PBB” OR “COMPANY”) (6463-H) WILL BE HELD AT THE GRAND BALLROOM, SHANGRI-LA HOTEL, JALAN SULTAN ISMAIL, 50250 KUALA LUMPUR ON MONDAY, 20 MARCH 2006 AT 11.00 A.M. FOR THE FOLLOWING PURPOSES:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2005 and the Reports of the Directors and Auditors thereon.
2. To declare a final dividend of 20% less 28% income tax and a special dividend of 15% less 28% income tax in respect of the financial year ended 31 December 2005 as recommended by the Directors.
3. To re-elect the following Directors who retire by rotation pursuant to Article 111 of the Company's Articles of Association:
 - i. Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah
 - ii. Haji Abdul Aziz bin Omar
4. To consider and if thought fit, to pass the following Ordinary Resolutions in accordance with Section 129 of the Companies Act, 1965:
 - i. “THAT Tan Sri Dato’ Sri Dr. Teh Hong Piow, retiring pursuant to Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the next Annual General Meeting.”
 - ii. “THAT Tan Sri Dato’ Thong Yaw Hong, retiring pursuant to Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the next Annual General Meeting.”
 - iii. “THAT Dato’ Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff, retiring pursuant to Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the next Annual General Meeting.”
5. To approve the payment of Directors’ fees of RM870,000 for the financial year ended 31 December 2005.
6. To re-appoint Messrs KPMG as Auditors of the Company for the financial year ending 31 December 2006 and to authorise the Directors to fix the Auditors’ remuneration.

Ordinary Resolution 1

Ordinary Resolution 2

Ordinary Resolution 3

Ordinary Resolution 4

Ordinary Resolution 5

Ordinary Resolution 6

Ordinary Resolution 7

Ordinary Resolution 8

Ordinary Resolution 9



NOTICE OF ANNUAL GENERAL MEETING

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following Ordinary Resolutions:

7. Authority under Section 132D of the Companies Act, 1965, for the Directors to Issue Shares

“THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum of the issued and paid-up share capital of the Company for the time being, subject always to the approvals of the relevant regulatory authorities.”

Ordinary Resolution 10

8. Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

“THAT, subject to the Companies Act, 1965 (“Act”), the Memorandum and Articles of Association of the Company and the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), approval be and is hereby given for PBB and its subsidiary and associated companies (“PBB Group”) to enter into the types of arrangements and/or transactions as stated in Section 2.1.1 of the Circular to Shareholders dated 24 February 2006, involving the interests of Directors, major shareholders or persons connected to the Directors and/or major shareholders of the PBB Group provided that such arrangements and/or transactions are:

- i. recurrent transactions of a revenue or trading nature;
- ii. necessary for the day-to-day operations;
- iii. in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public; and
- iv. not to the detriment of the minority shareholders of PBB

(“Shareholders' Mandate”)

AND THAT the authority conferred by this resolution shall commence immediately upon the passing of this resolution and shall continue to be in force until:

- i. the conclusion of the next Annual General Meeting (“AGM”) of the Company, at which time it will lapse, unless renewed by a resolution passed by the shareholders of the Company in a general meeting;
- ii. the expiry of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- iii. revoked or varied by a resolution passed by the shareholders of the Company in a general meeting;

whichever is the earlier;

AND THAT the aggregate value of the transactions conducted pursuant to the Shareholders' Mandate during a financial year will be disclosed in accordance with the Listing Requirements of Bursa Securities in the annual report of the Company for the said financial year;

AND THAT the Directors be and are hereby authorised to act and to take all steps and do all things as they may deem necessary or expedient in order to implement, finalise and give full effect to the Shareholders' Mandate.”

Ordinary Resolution 11



NOTICE OF ANNUAL GENERAL MEETING

9. **Proposed Renewal of Authority for the Purchase by PBB of its Own Shares (“Proposed Share Buy-Back”)**

“THAT, subject to the Companies Act, 1965 (“Act”), the Memorandum and Articles of Association of the Company and the requirements of Bank Negara Malaysia, Bursa Malaysia Securities Berhad (“Bursa Securities”) and any other relevant authorities, the Company be and is hereby authorised to purchase such number of ordinary shares of RM1.00 each in PBB as may be determined by the Directors from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company provided that the aggregate number of shares purchased pursuant to this resolution does not exceed ten per centum of the total issued and paid-up share capital of the Company;

AND THAT an amount not exceeding PBB’s total audited retained profits and share premium account at the time of purchase be allocated by PBB for the Proposed Share Buy-Back. Based on the latest audited financial statements of PBB as at 31 December 2005, the retained profits and the share premium account of PBB amounted to approximately RM385,645,000 and RM1,574,180,000 respectively;

AND THAT the authority conferred by this resolution shall commence immediately upon the passing of this resolution and shall continue to be in force until:

- i. the conclusion of the next Annual General Meeting (“AGM”) of the Company, at which time it will lapse, unless renewed by an ordinary resolution passed by the shareholders of the Company in a general meeting;
- ii. the expiry of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- iii. revoked or varied by an ordinary resolution passed by the shareholders of the Company in a general meeting;

whichever is the earlier;

AND THAT the Directors be and are hereby authorised to act and to take all steps and do all things as they may deem necessary or expedient in order to implement, finalise and give full effect to the Proposed Share Buy-Back AND FURTHER THAT authority be and is hereby given to the Directors to decide in their absolute discretion to either retain the ordinary shares of RM1.00 each in PBB purchased by PBB pursuant to the Proposed Share Buy-Back as treasury shares to be either distributed as share dividends or resold on Bursa Securities or subsequently cancelled, or to cancel the shares so purchased, or a combination of both.”

Ordinary Resolution 12



NOTICE OF ANNUAL GENERAL MEETING

DATE OF ENTITLEMENT AND PAYMENT OF FINAL DIVIDEND AND SPECIAL DIVIDEND

NOTICE HAS BEEN GIVEN ON 8 FEBRUARY 2006 THAT subject to the approval of Members at the Annual General Meeting to be held on 20 March 2006, a final dividend of 20% less 28% income tax and a special dividend of 15% less 28% income tax for the financial year ended 31 December 2005 will be paid on 31 March 2006 to Depositors whose names appear in the Record of Depositors on 23 March 2006.

A Depositor shall qualify for entitlement to the dividends only in respect of:

- Securities transferred into the Depositor's Securities Account before 4.00 p.m. on 23 March 2006 in respect of transfers;
- Securities deposited into the Depositor's Securities Account before 12.30 p.m. on 21 March 2006 in respect of securities exempted from mandatory deposit; and
- Securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD

CHIA LEE KEE
MAICSA 7008270
Company Secretary

Kuala Lumpur
24 February 2006

NOTES:

- In respect of deposited securities, only Members whose names appear in the Record of Depositors on 13 March 2006 ("General Meeting Record of Depositors") shall be eligible to attend the Meeting.
- The right of Foreigners to vote in respect of deposited securities is subject to Section 41(1)(e) and Section 41(2) of the Securities Industry (Central Depositories) Act, 1991; the Securities Industry (Central Depositories) (Foreign Ownership) Regulations, 1996 and the Articles of Association of the Company. Where a Foreigner, based on the General Meeting Record of Depositors, holds deposited securities in a Securities Account and such securities raise the ownership of shares in the Company by Foreigners beyond the Company's foreign shareholding limit of 30%, such Foreigner or the proxy appointed by him, in respect of such securities, shall not be entitled to exercise in any manner whatsoever any voting rights in respect of the aforesaid securities at the Meeting.
- A Member entitled to attend and vote at the Meeting may appoint a proxy to attend and vote on his behalf. A proxy need not be a Member of the Company.
- A Member shall not be entitled to appoint more than two (2) proxies to attend and vote at the Meeting provided that where a Member is an authorised nominee as defined in accordance with the provisions of the Securities Industry (Central Depositories) Act, 1991, it may appoint up to two (2) proxies in respect of each Securities Account it holds with ordinary shares in the Company standing to the credit of the said Securities Account.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if such appointor is a corporation, under its common seal or the hand of its attorney.
- The instrument appointing a proxy must be deposited at the Registered Office of the Company, at 27th Floor, Menara Public Bank, 146 Jalan Ampang, 50450 Kuala Lumpur not less than 48 hours before the Meeting.

EXPLANATORY NOTES ON SPECIAL BUSINESS:

- The proposed Ordinary Resolution 10 if passed, will give the Directors of the Company authority to issue and allot shares for such purposes as the Directors in their absolute discretion consider to be in the interest of the Company, without having to convene a general meeting. This authority, unless revoked or varied by the Company in general meeting, will expire at the next Annual General Meeting of the Company.
- The proposed Ordinary Resolution 11 if passed, will empower PBB and its subsidiaries and associated companies ("PBB Group") to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the PBB Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Detailed information on the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature is set out in the Circular to Shareholders dated 24 February 2006 which is despatched together with this Annual Report.

- The proposed Ordinary Resolution 12 if passed, will empower the Directors to purchase PBB shares through Bursa Malaysia Securities Berhad up to ten per centum of the issued and paid-up share capital of the Company.

Detailed information on the Proposed Share Buy-Back is set out in the Circular to Shareholders dated 24 February 2006 which is despatched together with this Annual Report.

statement accompanying notice of annual general meeting

pursuant to Paragraph 8.28(2) of Bursa Malaysia Securities Berhad Listing Requirements

1. DIRECTORS WHO ARE SEEKING RE-ELECTION OR RE-APPOINTMENT AT THE 40TH ANNUAL GENERAL MEETING OF THE COMPANY

The Directors retiring by rotation pursuant to the Articles of Association and seeking re-election are as follows:

- Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah
- Haji Abdul Aziz bin Omar

Three Directors who are over the age of seventy years are seeking re-appointment and they are as follows:

- Tan Sri Dato' Sri Dr. Teh Hong Piow
- Tan Sri Dato' Thong Yaw Hong
- Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff

The details of the five Directors seeking re-election or re-appointment are set out in their respective profiles which appear in the Directors' Profiles on pages 26, 27, 30 and 31 of this Annual Report. Their securities holdings in the Company are set out in the Analysis of Shareholdings which appear on pages 336 and 337 of this Annual Report.

2. BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

A total of seventeen Board meetings were held in the financial year ended 31 December 2005.

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2005 was as follows:

Date of Meeting	Attendance by Directors		
	Total Number	Independent	Non-Independent
11 January 2005	8	5	3
26 January 2005	9	6	3
21 February 2005	9	6	3
29 March 2005	9	6	3
6 April 2005	9	6	3
27 April 2005	9	6	3
12 May 2005	8	5	3
25 May 2005	9	6	3
29 June 2005	9	6	3
11 July 2005	8	5	3
27 July 2005	9	6	3
29 August 2005	9	6	3
28 September 2005	9	6	3
10 October 2005	9	6	3
25 October 2005	9	6	3
29 November 2005	9	6	3
28 December 2005	9	6	3

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

The details of attendance by each Director at the Board meetings held in the financial year ended 31 December 2005 are as follows:

	Total Meetings Attended	Percentage of Attendance
Tan Sri Dato' Sri Dr. Teh Hong Piow	17/17	100%
Tan Sri Dato' Thong Yaw Hong	17/17	100%
Dato' Sri Tay Ah Lek	17/17	100%
Dato' Lee Kong Lam	17/17	100%
Dato' Yeoh Chin Kee	17/17	100%
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah	14/17	82%
Haji Abdul Aziz bin Omar	17/17	100%
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff	17/17	100%
Lee Chin Guan	17/17	100%



BOARD OF DIRECTORS

Non-Executive Chairman

TAN SRI DATO' SRI DR. TEH HONG PIOW

PSM, SSAP, SPMJ, SIMP, SSIJ, DSAP, DPMJ,
Datuk Kurnia Sentosa Pahang, JP
Hon LLD (M'sia), FIBM (M'sia), FCIB (UK),
FCIS (Aust), FCMI (UK), FICM (UK), FlntAM (UK)

Independent Non-Executive Co-Chairman

TAN SRI DATO' THONG YAW HONG

PSM, SIMP, DSAP, DIMP, JMN, SMP, JBS, AMN
BA (Econs Hons), MPA (Harvard), AMP (Harvard)

COMPANY SECRETARY

CHIA LEE KEE

MAICSA 7008270
Tel: 03-21766341
E-mail: pbbcosec@publicbank.com.my

AUDITORS

MESSRS KPMG

Chartered Accountants

SHARE REGISTRAR

EPSILON REGISTRATION SERVICES SDN BHD

312, 3rd Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia
Tel: 03-78031126, 78062116
Fax: 03-78061261
E-mail: ers@epsilonas.com



CORPORATE INFORMATION

Managing Director

DATO' SRI TAY AH LEK

PJN, SSAP, DIMP, KMN
MBA (Henley), FIBM (M'sia), FAIBF (Aust)

Executive Director

DATO' LEE KONG LAM

DIMP
FCPA (Aust), CA (M'sia), FCIB (UK)

Independent Non-Executive Director

DATO' YEOH CHIN KEE

DIMP
FCPA (Aust), FAIBF (Aust)

Independent Non-Executive Director

Y.A.M. TENGKU ABDUL RAHMAN IBNI

SULTAN HAJI AHMAD SHAH AL-MUSTAIN BILLAH
DK II, SSAP

Independent Non-Executive Director

HAJI ABDUL AZIZ BIN OMAR

ACA (England & Wales), CA (M'sia), FIBM (M'sia)

Independent Non-Executive Director

DATO' DR. HAJI MOHAMED ISHAK

BIN HAJI MOHAMED ARIFF
DSPN, JSM, DJN, SMS, KMN, PPT, PJK
FRTP (London), FMIP (M'sia), FILA (M'sia),
D.C.L. (Hon) Newcastle-upon-Tyne

Independent Non-Executive Director

LEE CHIN GUAN

BSc (Hons), BCL (Oxon), LLM (Cantab),
JD (Chicago-Kent), Barrister-at-Law (Middle Temple)

STOCK EXCHANGE LISTING

**Main Board of Bursa Malaysia
Securities Berhad**

(Listed since 6 April 1967)

REGISTERED OFFICE

27th Floor, Menara Public Bank
146 Jalan Ampang
50450 Kuala Lumpur
Malaysia
Tel: 03-21766341, 21638888
Fax: 03-21639917

HEAD OFFICE

Menara Public Bank
146 Jalan Ampang
50450 Kuala Lumpur
Malaysia
Tel: 03-21766000, 21766666,
21638888, 21638899
Fax: 03-21639917

WEBSITE

www.publicbank.com.my



CORPORATE PROFILE

Raising the bar of Excellence Is Our Way Of Life

COMING A LONG WAY

Founded in 1966 by Tan Sri Dato' Sri Dr. Teh Hong Piow and listed on the Main Board of Bursa Securities in 1967, Public Bank has grown to be the second largest lender in Malaysia by market capitalisation and the fifth largest listed company in Malaysia.

REMAINS FOCUSED ON CORE BUSINESS

Public Bank remains focused on its core strengths in the retail banking market and is committed to its goal of being a one-stop financial centre in Malaysia. The Public Bank Group's primary growth strategy remains focused on increasing market share through organic growth and on enhancing shareholders' value through strong and consistent financial performance.

STRONGER PRESENCE IN DOMESTIC MARKET

The Public Bank Group continues to strengthen its presence and market share in the domestic market, particularly in residential mortgages, passenger vehicles hire purchase financing and lending to middle market small- and medium-

sized enterprises. Having completed the merger of the finance company business of Public Finance with the commercial banking business of Public Bank in 2004, the Group is taking steps to merge Public Merchant Bank and PB Securities to form an investment bank and also to set up an Islamic Banking subsidiary.

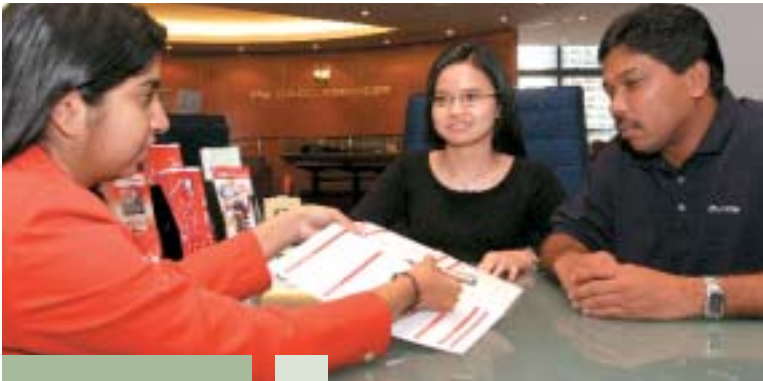
The Public Bank Group continues to selectively expand its regional operations in Hong Kong, Cambodia, Vietnam, Laos and Sri Lanka, with Campu Bank opening two new branches in 2005.

CLOSING ON A HIGH NOTE

The Public Bank Group's business ended the financial year 2005 on a high note with RM111.6 billion in assets, RM68.1 billion in loans and RM84.1 billion in deposits. Public Bank commands a larger loan market share of 12.3%, up from 5.7% in 2000, with strong loan growth in excess of or close to 20% per year in the last five years. In terms of balance sheet size, the Public Bank Group is the third largest banking group in Malaysia with the lowest non-performing loan ratios.



CORPORATE PROFILE



WIDE ARRAY OF PRODUCTS AND SERVICES

As a one-stop financial services provider, the Public Bank Group offers a wide array of financial products and services which include commercial banking, hire purchase financing, merchant banking, credit cards, Islamic banking, stockbroking, sales of trust units and management of unit trusts funds, bancassurance and general insurance products, and other related financial services such as nominees and trustee services. New products and services are introduced regularly to meet the increasingly complex and sophisticated customer demand.

MULTIPLE DELIVERY CHANNELS

As a key part of its business strategy, the Public Bank Group continues to expand and widen its multiple delivery channels. Public Bank has 251 full-service bank branches throughout Malaysia, complemented by 357 automated teller machines and 140 self-service cheque deposit machines and cash deposit terminals. The Group also provides an Internet banking channel, PBeBank.com, telebanking and desktop banking services for customers to conduct their banking transactions. The Group promotes e-commerce and actively explores new delivery channels such as mobile banking for greater customer convenience. The Group also has a strong sales and marketing force, consisting of 207 sales and marketing executives and personal financial executives.

SUPERIOR DELIVERY STANDARDS

In line with its strong customer service culture, the Public Bank Group continues to maintain its superior delivery standards which have been benchmarked against international ISO standards. Public Bank remains the first and the only bank in Malaysia which has attained bank-wide ISO 9001:2000 certifications for customer service at the front office of its branches and bank-wide loan delivery service. When customers walk into any Public Bank branch, they can expect consistent superior delivery standards that match the best in the world.

STRONG FINANCIAL RATING

Based on its strong and consistent financial performance, superior asset quality, strong capitalisation and prudent management, the Public Bank Group continues to be accorded strong financial ratings for safety and soundness. In October 2005, Moody's Investor Service reaffirmed Public Bank's financial strength rating of C and long-term deposit rating of A3, and short-term deposit rating of Prime-1. Standard & Poor's Rating Agency reaffirmed Public Bank A-long-term rating and A-2 short-term counterparty credit rating with stable outlook in July 2005. Also, in July 2005, Rating Agency Malaysia reaffirmed Public Bank's long-term rating of AAA, the highest accorded by Rating Agency Malaysia, and its short-term rating of P1.

REPEAT AWARDS OF BANKING EXCELLENCE

Public Bank continues to be accorded international and national awards of excellence in banking and corporate governance. In 2005, Public Bank received 15 awards, of which five were repeat best bank awards from FinanceAsia, Euromoney, The Banker, The Asian Banker and The Asset. In corporate governance, Public Bank was ranked number 1 amongst the top 100 listed companies on Bursa Securities in the Corporate Governance Survey Report 2004 in a study conducted by the Minority Shareholder Watchdog Group and Nottingham University Business School. Public Bank was also accorded the Malaysian Business's Corporate Governance Award for the third consecutive year. Public Bank's Annual Report continued to be accorded the NACRA Most Outstanding Annual Report Award for the fourth consecutive year and five times in total for its excellent corporate disclosure and reporting.

Public Bank was also awarded the Reader's Digest SuperBrand Gold Award. In addition, Public Bank was ranked highly in surveys of best companies in Asia in terms of management capability, investor relations, corporate governance and commitment to strong dividend policy.

CORPORATE SOCIAL RESPONSIBILITY

As a socially responsible corporate, the Public Bank Group continues to uphold its corporate social responsibilities by giving back to the community it serves in areas such as education, environmental protection, healthcare and caring for the sick and needy. The Group believes that a company's performance should be measured not only by the economic value it creates but also its impact on society and the environment. It fully subscribes to the philosophy that in fulfilling its corporate social responsibilities, the Group is also enhancing its reputation, goodwill and brand.

DEDICATED AND KNOWLEDGEABLE STAFF

Fronted by 12,800 dedicated and knowledgeable employees and guided by a prudent credit culture and a spirit of "one belief, one team, one focus", the Public Bank Group remains committed to continue raising the bar of excellence. As the Group believes that committed and engaged employees provide superior delivery standards that lead to high customer satisfaction and loyalty, the Group continues to expand training and development opportunities and extend employee achievement recognition and reward programmes.

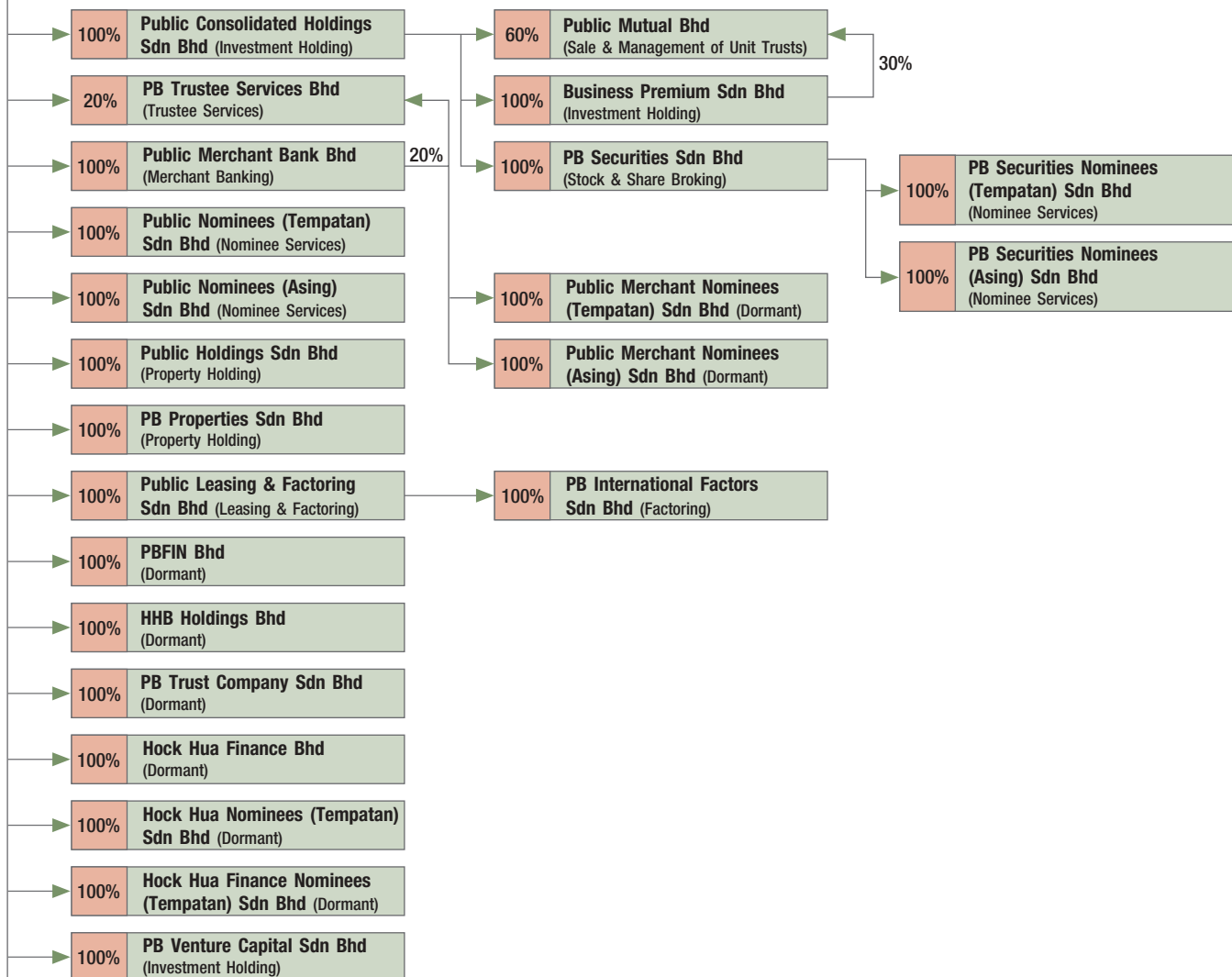


group corporate structure

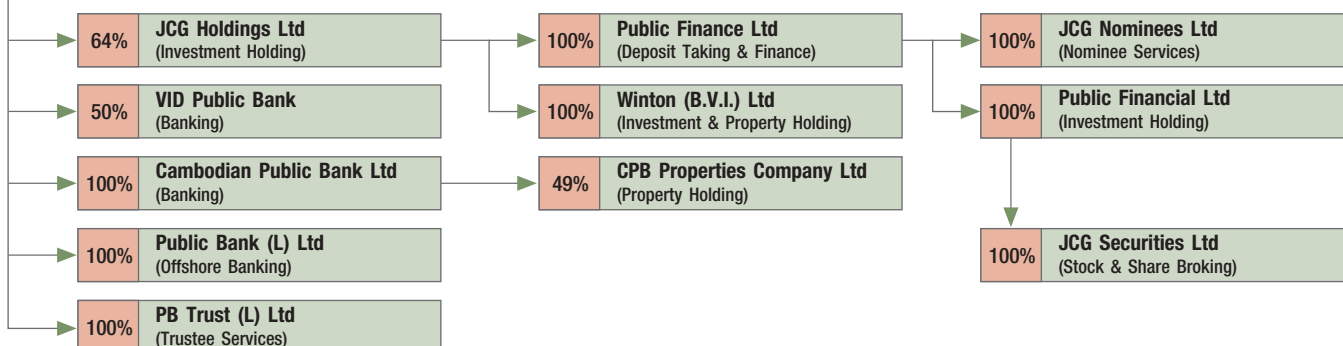
as at 20 January 2006

PUBLIC BANK

MALAYSIAN COMPANIES



OVERSEAS AND OFFSHORE COMPANIES



CUSTOMER CARE

Focused, Dedicated and Committed

In Raising the Bar of Excellence

IN TODAY'S INTENSELY COMPETITIVE FINANCIAL SERVICES LANDSCAPE, THE PUBLIC BANK GROUP FIRMLY BELIEVES THAT EXCELLENT SERVICE DELIVERED FOR EVERY CUSTOMER ENCOUNTER WILL GIVE IT A COMPETITIVE EDGE. MAKING A DIFFERENCE IN SERVING EVERY CUSTOMER REMAINS A CORE BUSINESS STRATEGY OF THE GROUP.

A RELENTLESS COMMITMENT TO CUSTOMER SERVICE EXCELLENCE

The Public Bank Group continues to commit significant resources in its pursuit of international standards of customer service. This is vital for the Group to stay ahead in the intensely competitive banking and financing industry. Recognising that competing on interest rates alone would not sustain long term profitability, the Group has embarked on a relentless and committed quest for superior customer service excellence benchmarked to international standards to stay ahead of its competitors.

INVESTING IN CUSTOMER CARE CAMPAIGNS

Caring for customers has long been advocated by the Public Bank Group. Since 1999, there has been a structured programme to drive excellent customer service delivery that has created a customer-centric culture that permeates every level of staff in the Group. The Customer Care Campaign was first launched in 1999 with the theme "Doing It Right For You". Since then, different phases of the Customer Care Campaign had been implemented that focused on achieving courtesy, efficiency, accuracy, empathy and integrity in customer service. Customers' feedback had been sought through various means and analysed for continuous improvement in the delivery of customer service. The latest Phase V of the Customer Care Campaign, "Your Needs Our Focus", is aimed at cultivating and enforcing the desired attitude in customer service delivery. With the latest phase of the campaign, the Group's customer service objectives has extended beyond fast and efficient delivery to more qualitative measures of service delivery based on behavioural aspects of the Group's staff in service delivery.

WORLD CLASS SERVICE THROUGH QUALITY STANDARDS

The Public Bank Group has achieved ISO 9001:2000 certification in two critical areas of its business, that of front-line services and loan service delivery at all branches. Maintaining the ISO certification of these key areas remains a priority of the Group. Quantitative customer service delivery standards, such as the Group's 2-minute Standard Waiting Time at the banking hall of branches and the Group's Standard Turnaround Time for loan processing are continuously being measured and monitored to ensure customer service delivery standards are



CUSTOMER CARE



consistently met. Workflows and process are regularly analysed and improved to achieve improved efficiency. In 2005, the loan customer service delivery benchmarks for loan processing and loan disbursements were reviewed to further improve the Standard Turnaround Time. This translates to a shorter time for customers to access and utilise their loan facilities with the Group.

MULTIPLE SERVICE DELIVERY CHANNELS TO MEET CUSTOMERS' NEEDS

The Public Bank Group's customer base has become increasingly knowledgeable and discerning over the years. Whilst some customers preferring face-to-face interaction, the more technologically savvy customers are increasingly turning to automated banking services. To cater to these

varied needs, the Group has not only cultivated a culture of service delivery excellence at the front line counters, it has also invested significant resources in electronic delivery channels that offers added convenience to customers. The Group's extensive ATM network, its PBeBank.com internet banking service and PB Telebanking service are developed with the capacity and capability to meet customers' needs at any time of the day from a location of the customers' choice. Alternate banking channels in branches in the form of self-service machines are also implemented. Increasing numbers of Cheque Deposit Machines and Cash Deposit Terminals are installed at more and more branches to further shorten customers' waiting time and to offer convenience of conducting banking transactions outside of banking hours.

BUILDING AND NURTURING CUSTOMER RELATIONSHIPS

Direct interaction with customers in branches helps to nurture and cement long-term customer relationships. Customer Service Representatives are specially trained to assist customers in banking halls. Such personal service at the front office helps customer interactions to evolve into customer relationships. Personal Financial Executives who specialise in providing personal financial advisory services such as investments in unit trust funds and bancassurance services and Sales and Marketing Executives are on hand at branches to help identify the investing and financing needs of customers and provide appropriate solutions to customers in making sound investing and financing decisions.



financial highlights

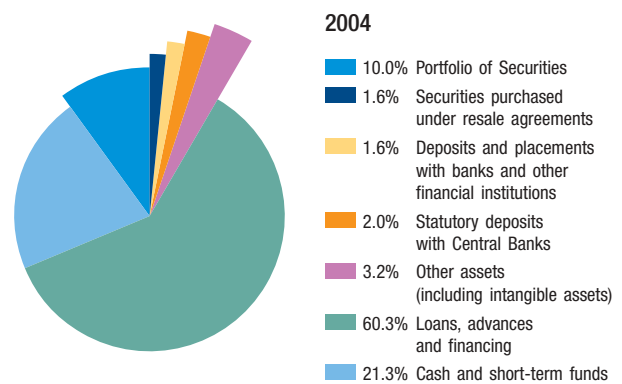
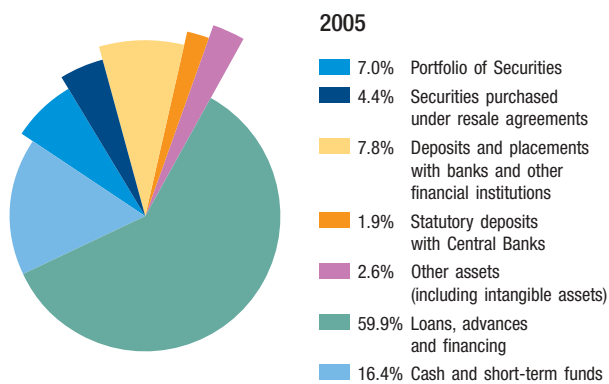
	Group		Bank	
	2005	2004	2005	2004
PROFITABILITY (RM'Million)				
Operating revenue	5,920	5,045	5,049	3,669
Operating profit	2,410	2,138	2,038	3,376
Profit before tax expense	2,049	1,854	1,733	2,921
Profit after tax expense and minority interests	1,450	1,271	1,281	2,242
KEY BALANCE SHEET DATA (RM'Million)				
Total assets	111,606	92,330	107,365	88,933
Portfolio of securities	7,862	9,235	6,967	6,943
Loans, advances and financing	66,813	55,719	64,580	53,856
Total liabilities	102,689	83,327	99,227	80,518
Deposits from customers	84,130	72,246	82,205	68,266
Shareholders' equity	8,482	8,635	8,138	8,415
Commitments and contingencies	28,952	19,781	28,755	19,535
SHARE INFORMATION				
Per share (sen)				
Basic earnings	44.2	39.5	39.1	69.7
Diluted earnings	43.8	38.8	38.7	68.5
Gross dividend	55.0	90.0	55.0	90.0
Net tangible assets	234.3	240.3	226.0	235.8
FINANCIAL RATIOS (%)				
Profitability Ratios				
Net interest margin on average interest bearing assets	3.6	4.1	3.3	2.9
Net return on equity ¹	21.4	18.2	19.5	34.1
Return on average assets	2.0	2.4	1.8	4.0
Return on average risk-weighted assets	3.3	3.6	2.9	6.9
Capital Adequacy Ratios				
Core capital ratio	11.4	13.8	11.1	13.8
Risk-weighted capital ratio	17.1	17.8	14.9	15.3
Asset Quality Ratios				
Net non-performing loans ratio (3-month classification)	1.7	2.1	1.7	2.2
Loan loss coverage	91.7	79.0	88.1	74.1
Gross loan to deposit ratio	80.9	78.8	79.9	80.4
Deposits to shareholders' funds (times)	9.9	8.4	10.1	8.1
Valuation on Local Share				
Gross dividend yield	8.4	12.7	—	—
Dividend payout ratio	89.9	166.5	101.7	94.4
Price to earnings multiple (times)	14.8	18.0	—	—
Price to book multiple (times)	2.5	2.7	—	—

¹ Adjusted for proposed dividends and goodwill.

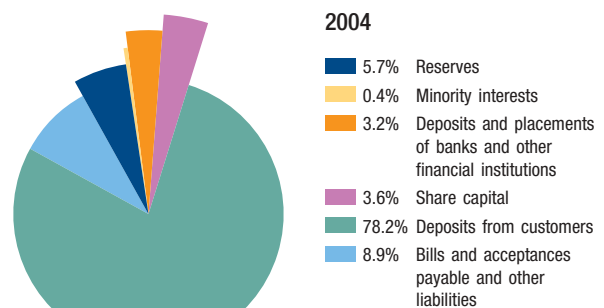
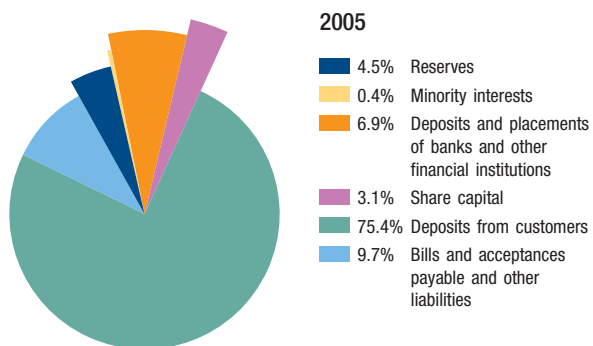


simplified group balance sheets

Assets



Liabilities & Shareholders' Equity



five-year group financial summary

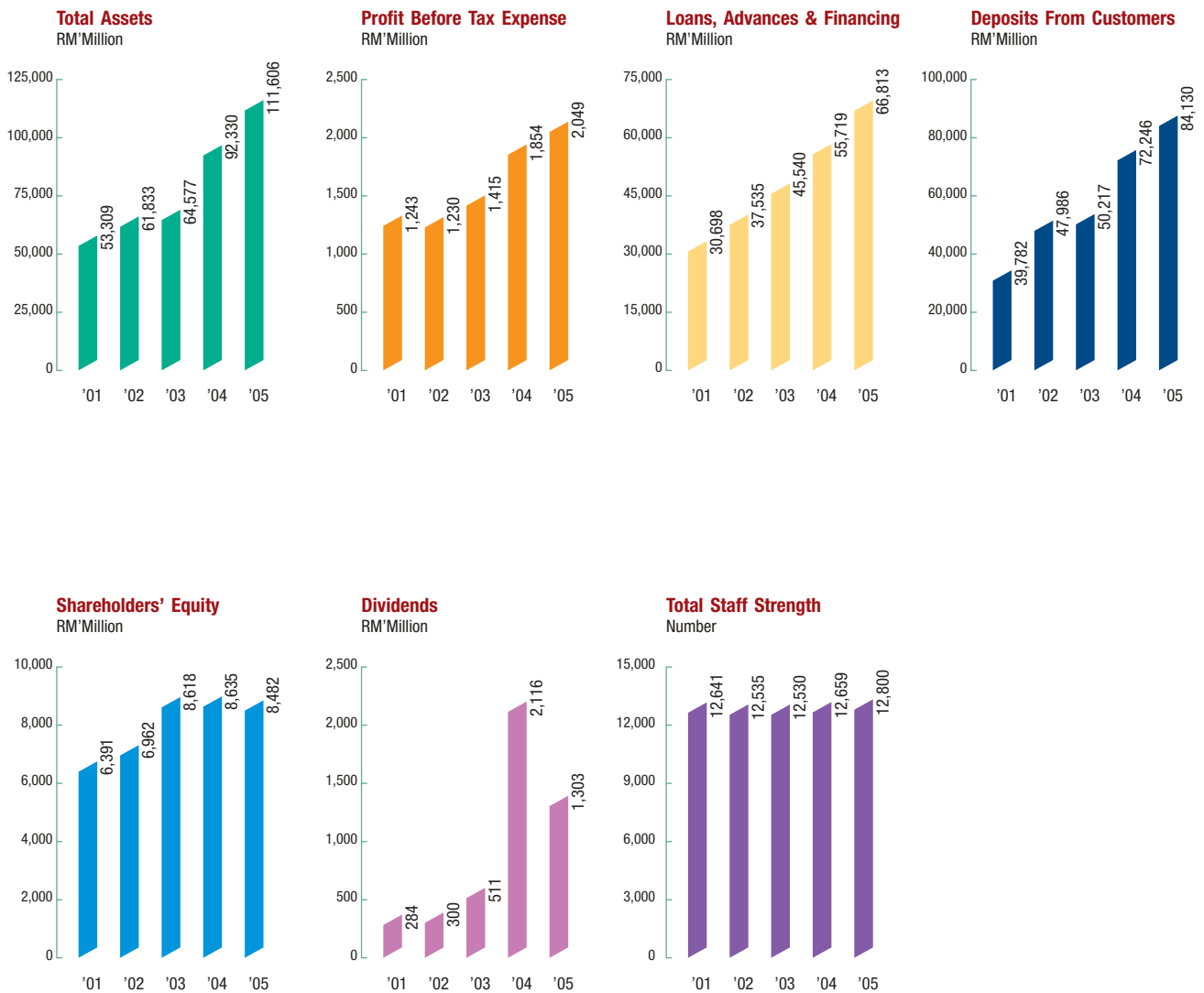
Year ended 31 December	2005	2004	2003	2002	2001
OPERATING RESULTS (RM'Million)					
Profit before tax expense	2,049	1,854	1,415	1,230	1,243
Profit after tax expense and minority interests	1,450	1,271	974	761	720
KEY BALANCE SHEET DATA (RM'Million)					
Total assets	111,606	92,330	64,577	61,833	53,309
Loans, advances and financing	66,813	55,719	45,540	37,535	30,698
Total liabilities	102,689	83,327	55,382	53,538	45,528
Deposits from customers	84,130	72,246	50,217	47,986	39,782
Paid-up capital	3,417	3,356	3,207	2,315	1,834
Shareholders' equity	8,482	8,635	8,618	6,962	6,391
Commitments and contingencies	28,952	19,781	14,246	12,316	12,147
SHARE INFORMATION					
Per share (sen)					
Basic earnings	44.2	39.5	32.0	26.4	26.2
Diluted earnings	43.8	38.8	31.2	26.2	26.0
Gross dividend	55.0	90.0	22.0	18.0	18.0
Net tangible assets	234.3	240.3	245.6	280.1	325.8
Share price as at 31 December (RM)					
– Local	6.55	7.10	5.66	3.64	3.20
– Foreign	6.40	7.60	6.20	4.16	3.40
Market capitalisation (RM'Million)	22,230	24,329	18,669	10,966	9,356
FINANCIAL RATIOS (%)					
Profitability Ratios					
Net interest margin on average interest bearing assets	3.6	4.1	4.1	4.2	4.3
Net return on equity ¹	21.4	18.2	14.4	12.8	14.5
Return on average assets	2.0	2.4	2.2	2.1	2.5
Return on average risk-weighted assets	3.3	3.6	3.3	3.4	4.2
Asset Quality Ratios/Market Share					
Gross loan to deposit ratio	80.9	78.8	93.5	81.3	81.0
Net non-performing loans ratio (3-month classification)	1.7	2.1	3.0	3.2	5.0
Domestic market share in:					
Loans, advances and financing	11.9	11.1	9.6	8.2	6.4
Deposits from customers	12.8	11.6	8.9	9.3	8.2
Capital Adequacy Ratios					
Core capital ratio	11.4	13.8	17.5	19.4	22.0
Risk-weighted capital ratio	17.1	17.8	19.3	21.2	23.8
Valuation on Local Share					
Gross dividend yield	8.4	12.7	3.9	4.0	3.6
Dividend payout ratio (Bank level)	101.7	94.4	49.7	49.8	71.4
Price to earnings multiple (times)	14.8	18.0	17.7	13.8	12.2

¹ Adjusted for proposed dividends and goodwill.



summary

of five-year group growth

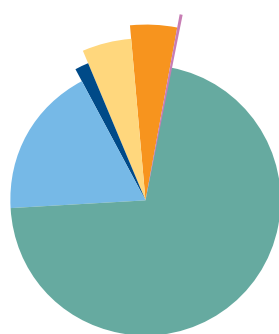


segmental analysis

for the year ended 31 December 2005

BUSINESS SEGMENTS

Operating Revenue

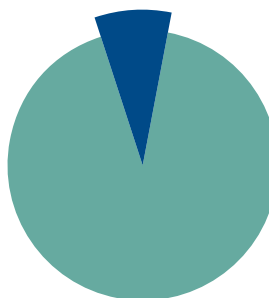


By Business Segments

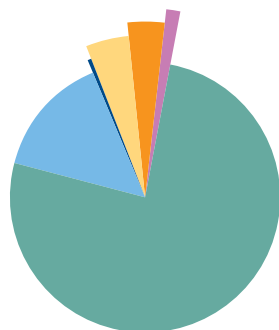
- 1.5% Investment banking
- 4.9% Share broking and fund management
- 4.3% Corporate lending
- 0.1% Others
- 71.1% Retail operations
- 18.1% Treasury and capital market operations

By Geographical Location

- 8% Overseas
- 92% Malaysia



Profit Before Tax Expense

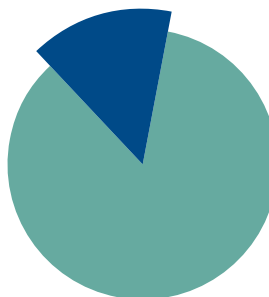


By Business Segments

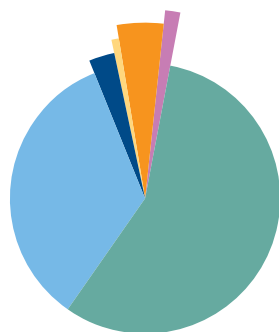
- 0.4% Investment banking
- 4.3% Share broking and fund management
- 3.4% Corporate lending
- 1.2% Others
- 76.1% Retail operations
- 14.6% Treasury and capital market operations

By Geographical Location

- 15% Overseas
- 85% Malaysia



Assets Employed

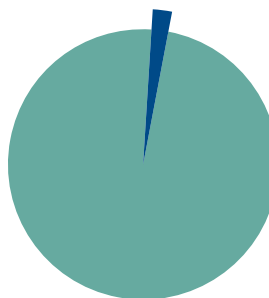


By Business Segments

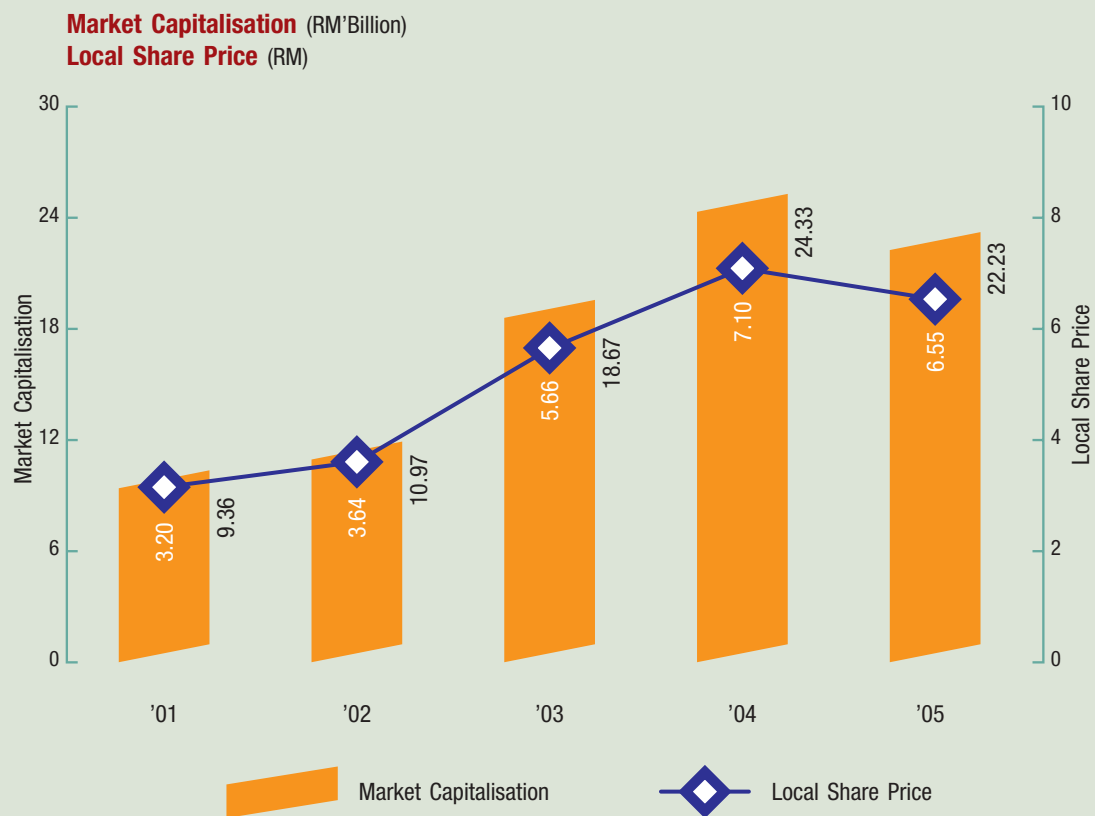
- 2.8% Investment banking
- 0.4% Share broking and fund management
- 4.3% Corporate lending
- 1.3% Others, unallocated assets and intangible assets
- 56.9% Retail operations
- 34.3% Treasury and capital market operations

By Geographical Location

- 2% Overseas
- 98% Malaysia



market capitalisation & ranking



PUBLIC BANK'S RANKING BY MARKET CAPITALISATION ON BURSA MALAYSIA SECURITIES BERHAD

Year	2001	2002	2003	2004	2005
Ranking	8th	8th	6th	5th	5th

BOARD OF DIRECTORS

www.publicbank.com.my



BOARD OF DIRECTORS



DIRECTOR'S PROFILE

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 76, began his banking career in 1950 and has more than 56 years experience in the banking and finance industry. He founded Public Bank in 1965 at the age of 35. He was appointed as a Director of Public Bank on 30 December 1965 and had been the Chief Executive Officer of the Public Bank Group since its inception in December 1965. He was re-designated as Chairman of Public Bank and Chairman of Public Bank Group with effect from 1 July 2002. He serves as Chairman of the Board Executive Committee. He is the Chairman of the Assets & Liabilities Management Committee, the Share Investment Committee, the Group Human Resource Committee and the Public Bank Berhad Employees' Share Option Scheme Committee.

Tan Sri Dato' Sri Dr. Teh Hong Piow had won both domestic and international acclaim for his outstanding achievements as a banker and the Chief Executive Officer of a leading financial services group. Awards and accolades that he had received include Asia's Commercial Banker of the Year 1991; the ASEAN Businessman of the Year 1994; Malaysia's Business Achiever of the Year 1997; Malaysia's CEO of the Year 1998; Best CEO in Malaysia 2004 and The Most PR Savvy CEO 2004. Tan Sri Dato' Sri Dr. Teh Hong Piow was awarded the Medal 'For the Course of Vietnamese Banking' by the State Bank of Vietnam in 2002 for his contributions to the Vietnamese banking industry over the past years. In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

He had served in various capacities in public service bodies in Malaysia; he was a member of the Malaysian Business Council from 1991 to 1993; a member of the National Trust Fund from 1988 to 2001; a founder member of the Advisory Business Council since 2003; and is a member of the IPRM Accreditation Privy Council. He is a Fellow of several institutes which include the Institute of Bankers Malaysia; the Chartered Institute of Bankers, United Kingdom; the Institute of Administrative Management, United Kingdom; the Institute of Chartered Secretaries and Administrators, Australia and the Malaysian Institute of Management.



Tan Sri Dato' Sri Dr. Teh Hong Piow
Non-Executive Chairman

His directorships in other public companies in the Public Bank Group are in JCG Holdings Ltd (Chairman) and Public Merchant Bank Bhd, and he is the Chairman of several other subsidiaries of the Public Bank Group. His directorships in other public companies are in LPI Capital Bhd (Chairman), Lonpac Insurance Bhd (Chairman) and Tong Meng Industries Ltd (Chairman).

Tan Sri Dato' Sri Dr. Teh Hong Piow attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.

DIRECTOR'S PROFILE

Tan Sri Dato' Thong Yaw Hong, aged 75, was appointed as a Director of Public Bank on 23 June 1986 and was made its Chairman in October 1986. He was re-designated as Co-Chairman of Public Bank with effect from 1 July 2002. He serves as Chairman of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He graduated with a Bachelor of Arts (Hons) degree in Economics from University of Malaya and a Master's degree in Public Administration from Harvard University. He attended the Advanced Management Program at Harvard Business School. In June 1998, he was appointed a Pro-Chancellor of Universiti Putra Malaysia.

He has had a distinguished career with the Government of Malaysia, primarily in the fields of socio-economic development planning and finance. He had served in the Economic Planning Unit in the Prime Minister's Department since 1957 and became its Director-General from 1971 to 1978 and served as Secretary-General, Ministry of Finance from 1979 until his retirement in 1986.

Tan Sri Dato' Thong Yaw Hong also serves as member on the Boards of Trustees of Program Pertukaran Fellowship Perdana Menteri Malaysia, Tun Razak Foundation and the Malaysian Institute of Economic Research, among others. He is also a member of the Working Group of the Executive Committee for the National Economic Action Council.

His directorships in other public companies in the Public Bank Group are in HHB Holdings Bhd (Chairman) and Public Merchant Bank Bhd (Chairman), and he is also a Director of several subsidiaries of the Public Bank Group. His directorships in other public companies are in Berjaya Land Bhd (Chairman), Berjaya Sports Toto Bhd (Chairman), Berjaya General Insurance Bhd (Chairman), KTM Bhd (Chairman), Batu Kawan Bhd, Kuala Lumpur Kepong Bhd, Malaysian Mining Corporation Bhd, Glenealy Plantations (Malaya) Bhd and Malaysian South-South Corporation Bhd.

Tan Sri Dato' Thong Yaw Hong attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.



Tan Sri Dato' Thong Yaw Hong
Independent Non-Executive Co-Chairman

DIRECTOR'S PROFILE

Dato' Sri Tay Ah Lek, aged 63, has 45 years experience in the banking and finance industry. He was appointed as an Executive Director of Public Bank on 18 June 1997 and was re-designated as Managing Director with effect from 1 July 2002. He joined the Public Bank Group as a pioneer staff in 1966. He was the Executive Vice President of Public Bank from 1995 to 1997 and prior to this appointment, he was the Executive Vice President of the former Public Finance Berhad. He is a member of the Board Executive Committee. He is the Chairman of the Credit Committee and the IT Steering Committee, and is a member of the Assets & Liabilities Management Committee, the Share Investment Committee, the Group Human Resource Committee and the Public Bank Berhad Employees' Share Option Scheme Committee.

Dato' Sri Tay Ah Lek holds a Master's degree in Business Administration from Henley, United Kingdom and attended the Advanced Management Program at Harvard Business School. He is a Fellow of the Australasian Institute of Banking and Finance and the Institute of Bankers Malaysia.

He is presently the Chairman of the Association of Finance Companies of Malaysia and Honorary Advisor to the Association of Hire Purchase Companies Malaysia. He is a Council Member of the National Economic Action Council and the National Payments Advisory Board.

His directorships in other public companies in the Public Bank Group are in Public Merchant Bank Bhd, Public Mutual Bhd and JCG Holdings Ltd. He is also a Director of Public Bank (L) Ltd, the offshore bank in the Public Bank Group. His directorships in other public companies are in Cagamas Bhd, ASEAN Finance Corporation Ltd and Financial Mediation Bureau.

Dato' Sri Tay Ah Lek attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.



Dato' Sri Tay Ah Lek
Managing Director

DIRECTOR'S PROFILE

Dato' Lee Kong Lam, aged 64, has 38 years experience in the banking and finance industry. He was appointed as an Executive Director of Public Bank on 28 November 2001. He joined Public Bank in November 1996 as General Manager and was subsequently appointed Senior General Manager in 1997 and Executive Vice President in 1998. He is a member of the Board Executive Committee. He is the Chairman of the Operational Risk Management Committee and the Business Resumption and Contingency Plan Committee; and is a member of the Credit Committee, the IT Steering Committee, the Assets & Liabilities Management Committee, the Share Investment Committee, the Group Human Resource Committee and the Public Bank Berhad Employees' Share Option Scheme Committee.

Prior to joining Public Bank, he was with Bank Negara Malaysia ("BNM") and was involved primarily in the supervision and examination of banking institutions. He retired in August 1996 as the Head of BNM's Examination Department and as a member of BNM's Management Committee.

He is a Fellow of the Australian Society of Certified Practising Accountants; a Fellow of the Chartered Institute of Bankers, United Kingdom; and a Chartered Accountant of the Malaysian Institute of Accountants.

His directorships in other public companies in the Public Bank Group are in Public Mutual Bhd (Chairman), Public Merchant Bank Bhd and Hock Hua Finance Bhd, and he is also a Director of several other subsidiaries of the Public Bank Group.

Dato' Lee Kong Lam attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.



Dato' Lee Kong Lam
Executive Director

DIRECTOR'S PROFILE



Dato' Yeoh Chin Kee
Independent Non-Executive Director

Dato' Yeoh Chin Kee, aged 63, began his banking career in 1961 and has 45 years experience in the banking and finance industry. He was appointed as a Director of Public Bank on 9 May 1978. He was the Executive Director of Public Bank from 1978 to 1997. He is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee. He is also the Chairman of the Credit Risk Management Committee.

He is a Fellow of the Australian Society of Certified Practising Accountants and the Australasian Institute of Banking and Finance.

His directorships in other public companies in the Public Bank Group are in PB Trustee Services Bhd (Chairman), Public Merchant Bank Bhd and JCG Holdings Ltd. He is also a Director of several other subsidiaries of the Public Bank Group. His directorships in other public companies are in LPI Capital Bhd and Lonpac Insurance Bhd.

Dato' Yeoh Chin Kee attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.



**Y.A.M. Tengku Abdul Rahman
Ibni Sultan Haji Ahmad Shah Al-Mustain Billah**
Independent Non-Executive Director

Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah, aged 45, was appointed as a Director of Public Bank on 16 July 1984. He is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He was educated at Harrow College, United Kingdom in Business Administration.

His other directorship in public company in the Public Bank Group is in Public Merchant Bank Bhd. His directorship in other public company is in Atlan Holdings Bhd. He also sits on the Boards of several private limited companies.

Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah attended 14 out of the 17 Board meetings which were held in the financial year ended 31 December 2005.

DIRECTOR'S PROFILE

Haji Abdul Aziz bin Omar
Independent Non-Executive Director

Haji Abdul Aziz bin Omar, aged 58, was appointed as a Director of Public Bank on 5 January 2000. He is the Co-Chairman of the Audit Committee, and is a member of the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He qualified as a Chartered Accountant from the Institute of Chartered Accountants in England & Wales, and is also a Chartered Accountant of the Malaysian Institute of Accountants.

During his previous banking experiences, he became a Fellow of the Institute of Bankers Malaysia. His other past experiences had been in the areas of audit and accounting, taxation, property, plantation, hotelling, trading and manufacturing.

His directorships in other public companies in the Public Bank Group are in Public Merchant Bank Bhd and Public Mutual Bhd.

Haji Abdul Aziz bin Omar attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.

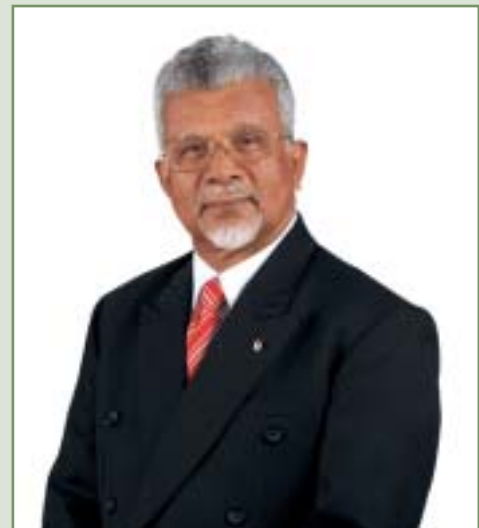
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff, aged 70, was appointed as a Director of Public Bank on 28 November 2001. He is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He qualified as a professional Chartered Town Planner in 1964 and as a professional Landscape Architect in 1973 from the University of Newcastle-upon-Tyne, England.

He was the Director-General of the Department of Town and Country Planning from 1986 to 1993. He is a Fellow of the Royal Town Planning Institute London; Fellow of Malaysian Institute of Planners; and Fellow of Institute of Landscape Architects Malaysia. He was honoured by the University of Newcastle-upon-Tyne, England with the Honorary Degree of Doctor in Civil Law in May 1993.

His directorships in other public companies in the Public Bank Group are in Public Merchant Bank Bhd and Public Mutual Bhd. His directorships in other public companies are in Yee Lee Corporation Bhd (Chairman) and Faber Group Bhd.

Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.



Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff
Independent Non-Executive Director

DIRECTOR'S PROFILE



Lee Chin Guan
Independent Non-Executive Director

Lee Chin Guan, aged 47, was appointed as a Director of Public Bank on 28 November 2001. He is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He qualified as a Barrister-at-Law from the Middle Temple, United Kingdom in 1982. He also holds a Bachelor's Degree in Science (Hons) from the University of Manchester Institute of Science & Technology, England and Degrees in Law from Cambridge University, Oxford University and Chicago-Kent College of Law.

His directorships in other public companies in the Public Bank Group are in Public Merchant Bank Bhd and JCG Holdings Ltd. His directorships in other public companies are in LPI Capital Bhd, Lonpac Insurance Bhd and Transmile Group Bhd.

Lee Chin Guan attended all of the 17 Board meetings which were held in the financial year ended 31 December 2005.

None of the Directors has:

- Any family relationship with any Director and/or major shareholder of Public Bank.
- Any conflict of interest with Public Bank.
- Any conviction for offences within the past 10 years other than traffic offences.

All of the Directors are Malaysians.



LETTER TO STAKEHOLDERS

The challenges of the financial services industry continued to test industry players in 2005. Persistently rising competitiveness in the banking and financing industry, driven by an increasingly liberalised regulatory and operating environment, together with the pursuit of the consumer and retail commercial banking and financing market by all the major banking groups and a moderating but still healthy pace of economic expansion in Malaysia in 2005, as compared to 2004, have combined to pose stiff challenges to both domestic controlled Malaysian banking groups and foreign controlled domestic banks alike.

The Public Bank Group has once again risen to the challenge with another year of record profitability and the expansion of the Group's lending business at double the industry's rate of growth in loans, whilst implementing several strategic initiatives to position the Group as a key player in the industry for the future. With the strong growth rate of its lending business over the past several years leading to continued rising market share, the Public Bank Group is the 2nd largest lender by market capitalisation in Malaysia.

The Public Bank Group continues to play an important supportive role in the Government's efforts in developing a strong domestic orientated industry as a key driver of future economic growth and development in Malaysia. The focus of the Group's commercial lending activities in meeting the financing needs of domestic small- and medium-sized enterprises ("SMEs") is very much in line with the Government's support of SMEs, which together with healthy domestic consumption activities, form the core of a healthy domestic orientated economy. The lending business of the Group increased by 20% in 2005, with strong growth in residential mortgages and vehicle hire purchase to consumers and commercial lending to SMEs. This reflects the continued commitment of the Group to domestic investment and its support of the Government's longer term objectives to diversify the economic base of Malaysia, whilst maintaining a prudent balance between fiscal support of key sectors such as the agriculture and services sectors and meeting the budgetary discipline expectations of international investors.



The Public Bank Group continues to adhere strictly to the Group's prudent credit policies and practices in the pursuit of above industry rate of growth in its lending business over the past several years. The success of the strong rate of expansion of the Group's loan portfolio without any compromise of credit standards can be seen not only in a further reduction of the Group's net non-performing loan ("NPL") ratio from 2.1% at the end of 2004 to 1.7% at the end of 2005 but also in terms of a decline in the absolute amount of non-performing loans in 2005. The Group has consistently maintained net NPL ratios that are significantly below that of the banking industry, with the Group's net NPL ratio of 1.7% at the end of 2005 standing at less than one-third of the net NPL ratio of the banking industry of 6.0% as at November 2005. The Group's prudent credit culture remains a critical factor of the Group's healthy long-term financial performance.

The unrelenting march towards greater liberalisation of the Malaysian financial services industry by Bank Negara Malaysia in 2005 is consistent with the key objective of the Financial Sector Masterplan to enhance the efficiency and effectiveness of Malaysian financial services providers through having to compete in a liberalised environment, in preparation for competition in the global market place.

Given the Group's tried and tested business strategies and the key strategic initiatives undertaken in 2005 in respect of its investment bank subsidiary and the setting up of Public Islamic Bank Berhad, the Public Bank Group is well positioned for further progress and sustainable growth in such a liberalised market.

TO OUR SHAREHOLDERS

FINANCIAL PERFORMANCE

The Public Bank Group achieved another year of record profits in 2005 with pre-tax profit surpassing the RM2 billion mark for the first time. Net profit grew by 14% from RM1.27 billion in 2004 to RM1.45 billion in 2005. Earnings per share in 2005 improved to 44.2 sen from 39.5 sen in 2004 and net return on equity reached 21.4% compared to 18.2% in 2004.

Total assets of the Public Bank Group also surpassed the RM100 billion mark for the first time in the history of the Group to stand at RM111.61 billion at the end of 2005. This cements the Group's position as the 3rd largest banking group in Malaysia in terms of balance sheet size.

Growth in both the lending business and deposit-taking business of the Public Bank Group drove the 21% expansion of the balance sheet in 2005. The Group's gross loans increased by RM11.19 billion or 20% to stand at RM68.10 billion as at the end of 2005. Domestic loans amounted to RM65.98 billion, making the Group the 2nd largest domestic lender in Malaysia.

Customer deposits expanded by RM11.88 billion to stand at RM84.13 billion, with lower cost savings deposits and current accounts growing by 9% and 10% respectively in 2005.



LETTER TO STAKEHOLDERS

STRATEGIC BUSINESS DIRECTION

In 2005, the Public Bank Group continued to pursue its long-term business strategy of focusing on the consumer and middle market commercial enterprises, particularly the SMEs. There continued to be a distinct lack of effective demand for bank credit from large corporates, which together with strong liquidity and stable interest rates in the banking system, had resulted in an extremely competitive market place, with both domestic banking groups and a number of foreign controlled domestic banks aggressively pursuing the lending business to consumers and middle market commercial enterprises.

The Public Bank Group, with its comprehensive range of competitive lending products, was well positioned to maintain the high rate of growth of its lending business achieved in the past few years, despite the extremely competitive market place. The Group's loan growth rate of 20% was more than twice that of the domestic banking system's annual loan growth of 9.5% as at November 2005. In the key consumer lending sectors of residential mortgages and passenger vehicle hire purchase financing, growth rates of 27% and 18% respectively were achieved in 2005. The focus on these key customer sectors has resulted in 63% of new loans being directed to retail consumers and 24% to SMEs. As at the end of 2005, RM17.79 billion or 26% of gross loans outstanding were for residential mortgages, RM16.68 billion or 24% for passenger vehicle hire purchase financing and RM14.81 billion or 22% were to finance the needs of SMEs.

The Public Bank Group continued to build a long-term core deposit funding base of retail depositors with sustained higher than industry rate of growth of customer deposits. In 2005, current accounts, savings deposits and fixed deposits grew by 10%, 9% and 10% respectively compared to the annual growth rates of 8%, 5% and 6% for current accounts, savings deposits and fixed deposits seen for the banking system as at November 2005.

Of these core customer deposits, 71% were from individual depositors. With the implementation of the deposit insurance scheme in Malaysia in September 2005 by Bank Negara Malaysia, the financial strength and safety of a banking institution is of a lesser consideration, particularly for a retail depositor. As a result,

With the healthy above industry growth rates in both the lending business and the deposit-taking business, the Public Bank Group's market share for loans increased to 12%, compared to 11% at the end of the previous year whilst customer deposits market share also increased to 12% from 11%, with the Group having a very strong 17% market share of savings deposits.

Despite an intensely competitive Malaysian lending market exerting continued downward pressure on lending rates and spreads, net interest income and Islamic financing income increased by 7.0% to RM2.89 billion in 2005. Other operating income grew by 24% to RM918 million whilst operating expenses growth was constrained with other operating expenses growing by 7.1% in 2005.

The strong and solid financial performance of the Public Bank Group in 2005 was supported by the strong growth in the Group's lending and deposit-taking businesses, together with the healthy growth in other operating income whilst growth rate in other operating expenses was capped at a single digit.

The consistently healthy financial performance of the Public Bank Group is also underpinned by NPL ratios that continue to fall even as the Group achieved lending growth rates averaging over 20% per annum, a rate which is well above industry growth rates, for the past 5 years. Gross and net NPL fell from 2.7% and 2.1% at the end of 2004 to 2.1% and 1.7% respectively at the end of 2005. Not only have the NPL ratios fallen in 2005 but the amount of gross NPLs had also declined from RM1.51 billion at the end of 2004 to RM1.41 billion at the end of 2005.



LETTER TO STAKEHOLDERS

depositors are likely to place greater emphasis on good service delivery in deciding where to deposit their savings. The Public Bank Group, with its long established ISO-standard customer service delivery infrastructure, particularly at the front-office of its branches, is well positioned to compete effectively for customer deposits in an environment where service delivery is even more important in attracting deposit customers.

The trend of increasing competitiveness in the banking and financing sector continued unabated in 2005. The commoditisation of banking and financing products and services offered to retail consumers such as residential mortgages and passenger vehicle hire purchase financing, and increasingly in lending product offerings to SMEs has impacted on pricing as a means of gaining a competitive edge. The Public Bank Group's lending product offerings are generally the most competitively priced, with the Group being constantly vigilant of what its competitors offer and responding promptly to changes and developments in the market place. As a consequence, the Group has to contend with continued thinning interest margins in its lending business.

The Public Bank Group is meeting the challenge of narrowing interest margins and the consequent impact on profitability with a combination of high volume growth and improved cost efficiency, whilst maintaining strong asset quality. The growth in lending business of 20% in 2005 is the fifth year in a row of strong annual growth of the Group close to or exceeding 20% per annum. The continued expansion of its customer base also sets the foundation for the future growth of the Group's business through the development of longer term relationships with an expanding customer base.

With top line growth under constant pressure, improving cost efficiency is a key strategy for continued bottom line growth. With the completion of the rationalisation and integration of the branch networks of Public Bank and

Public Finance in 2004, the Public Bank Group has been able to leverage on a more efficient operating infrastructure, including a more efficient branch network of 251 domestic branches, to improve employee productivity. The Group had maintained the number of staff at around 12,800 in 2005, a similar number as in the past few years, whilst achieving growth rates in both its lending and deposit-taking businesses well in excess of industry growth rates. Together with improving staff productivity, the Group continued to pursue cost efficiency improvement initiatives, including cost control measures where appropriate and the enhancement of electronic delivery channels. Initiatives to improve cost effectiveness of delivery channels include the introduction of new channels such as the use of cash deposit machines, the expansion of existing electronic delivery channels and proactive steps to increase the utilisation levels of such electronic delivery channels by customers.

Maintaining the strong asset quality of the Public Bank Group's loan portfolio is also critical in sustaining profitability growth whilst operating with narrowing margins. The Group reduced further not only both its gross and net NPL ratios to 2.1% and 1.7% respectively in 2005 but also reduced the amount of gross NPL by RM104 million in 2005.

The ongoing implementation of the Financial Sector Masterplan by Bank Negara Malaysia has seen the Public Bank Group undertake several key initiatives in 2005. After the merger of the finance company and commercial banking businesses of banking groups to improve operational efficiency, Bank Negara Malaysia, together with the Securities Commission, issued the guidelines for the formation of investment banks from the merger of the



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businesses of the merchant bank, stock broker and discount house within a banking group, again with improved operational efficiency and competitiveness as a key objective. The Public Bank Group has initiated the process to form an investment bank from the merger of the businesses of Public Merchant Bank Berhad and PB Securities Sdn Bhd which would see the emergence of Public Investment Bank Berhad in 2006.

Pursuant to another key component of the Financial Sector Masterplan, that of the development of the Malaysian Islamic banking sector into a leading player in the global Islamic banking and financial services stage, the Public Bank Group had in October 2005 obtained the approval-in-principle of Bank Negara Malaysia for an Islamic banking subsidiary licence to undertake the Islamic banking business of the Group which is currently carried out as an Islamic banking window of Public Bank. Public Islamic Bank Berhad is anticipated to commence business in 2006. Public Islamic Bank Berhad is well positioned to compete effectively in the Islamic banking sector, supported by the strength of the Group's existing Islamic banking window operations which saw Islamic banking pre-tax profit of RM293 million in 2005.

MANAGING CAPITAL EFFICIENCY

The Public Bank Group continued to take steps to improve the efficiency of its capital structure in 2005 as an integral part of a long-term strategy to remain competitive in an increasingly liberalised environment and to further enhance return on equity of the Group.

The Public Bank Group further geared up on its strong core capital position with a second issue of Subordinated Notes amounting to USD400 million in June 2005. A key innovation of the second issue of Subordinated Notes by the Group was the extension of the typical maturity structure of a "10 non-call 5" structure to a "12 non-call 7" structure which extends the call date of the Subordinated Notes to seven years. Public Bank is the first Asian bank to offer a "12 non-call 7" Subordinated Note issue. Similar to its first issue of Subordinated Notes, the USD400 million of "12 non-call 7" Subordinated Notes was rated BBB+ by Standard & Poor's and Baa1 by Moody's Investors Services. Despite the longer maturity structure, the high regard that international investors have for the Group with its consistently strong financial performance and high ratings by international rating agencies, ensured another successful issue with an oversubscription of nearly four times. This resulted in a level of pricing of the USD400 million Subordinated Notes which was lower than the Group's first issue of Subordinated Notes a year earlier despite the extension of the maturity structure from 5 years to 7 years. The USD400 million Subordinated Notes issue was named the Best Bank Bond for 2005 in The Asset Triple A Regional Awards for Best Deals.

The issue of further Tier 2 capital allows the Public Bank Group to further pursue the expansion of its business and balance sheet aggressively without burdening shareholders for more equity capital and allows the Group to further improve the return on equity through other capital efficiency improvement initiatives.

Public Bank bought back a further 24 million of its own shares in 2005 making a total cumulative shares bought back of 124 million Public Bank shares or 3.6% of the issued and paid-up share capital of Public Bank. All the shares bought back are held as treasury shares.



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The implementation of the Basel II Capital Accord scheduled on 1 January 2008 by Bank Negara Malaysia will see an enhancement to the capital adequacy ratios of the Public Bank Group. The Group is fully prepared to implement the Basel II Capital Accord using the Standardised Approach. Given its business focus of lending to the retail consumer, particularly in the residential mortgage sector, the Group's focus on SMEs in its commercial lending business and having one of the lowest gross NPL ratios in the Malaysian banking system, the Standardised Approach will result in an improvement in the capital adequacy ratios of the Group. The Group has initiated a review of its preparedness to adopt the Internal Rating Based Approach to the Basel II Capital Accord, a step that is expected to further improve the capital adequacy ratios of the Group and enhance the efficiency of its capital structure.

SHAREHOLDER VALUE

The Public Bank Group remains fully committed to the delivery of superior shareholder value. The unbroken profitability track record of the Group since it started business in 1966 underpins the value that all shareholders derive from investing in the shares of Public Bank. In recent years, in addition to delivering a consistently improving profitability performance, the Group had also undertaken proactive initiatives to further enhance shareholder value.

A key initiative to further enhance shareholder value is to make the capital structure of the Public Bank Group more efficient through a combination of the gearing up of its core capital with Tier 2 subordinated debt capital, the Public Bank's programme of share buy-backs and the pursuit of a high dividend payout policy. A measure of the improvement in the efficiency of the Group's capital structure is the consistently improving net return on equity from 12.8% in 2002 to 21.4% in 2005.

The Public Bank Group continued to pursue a high dividend payout policy. Since 2001, Public Bank had maintained an annual dividend payout ratio of over 95% of its net profit of each year after the transfer of profit after tax to the statutory reserve as required by the Banking and Financial Institutions Act. In addition, special dividend of 55 sen less 28% taxation per Public Bank share was paid in respect of 2004, in addition to the payment of an annual dividend of 35 sen less 28% taxation per Public Bank share for that year.

For the first time in its history, Public Bank paid an interim dividend of 20 sen less 28% taxation, which was paid in August 2005. Together with a proposed final dividend of 20 sen and a proposed special dividend of 15 sen, totalling 35 sen less 28% taxation, the total dividend paid and payable for 2005 would amount to RM1.30 billion. The payment of an interim dividend has enhanced the cash flow of the shareholders of Public Bank.

As part of the Public Bank Group's high dividend payout policy, Public Bank intends to pay out all of its profit after taxation and minority interest and after transfer to statutory reserves, as required by the Banking and Financial Institutions Act, 1989 as interim and final annual dividends for 2006, subject to the approval of Bank Negara Malaysia.



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issue in 1998, would have 3,791 Public Bank (Local) shares at the end of 2005, which at RM6.55 per Public Bank (Local) share would be worth RM24,831, besides having the benefit of receiving total gross dividends of RM8,165 in this ten year period. This means that a shareholder of Public Bank had enjoyed an average rate of return on investment of over 17% per annum for the past ten years.

The consistent trend of improving net return on equity, the strong dividend yield and the enhanced cash flows to shareholders of Public Bank through a high dividend payout ratio have benefited shareholders of Public Bank directly in the premium valuation multiples of Public Bank shares. Throughout 2005, Public Bank shares have consistently traded at a premium to the price-to-book value multiples of the leading listed banking groups in Malaysia. Whilst the premium trading multiples also reflect the excellent financial performance and the strengths of the management team of the Public Bank Group, the market has rewarded the shareholders for the Group's proactive initiatives to enhance shareholders' value.

Despite the general weaker market sentiment of the Malaysian stock market at the end of 2005 and the fall in Public Bank share prices compared to the start of 2005, the medium term return to the shareholders of Public Bank remained strong. A shareholder of Public Bank who purchased 1,000 Public Bank (Local) shares at the beginning of 2003 at a price of RM4.54 per Public Bank (Local) share would have 1,563 Public Bank (Local) shares worth RM6.55 per share at the end of 2005 and would have received a total of RM2,834 of gross dividends. This translates into a remarkable annual return on investment of 48% for each of the three years that a shareholder had held shares in Public Bank.

Similarly, returns to shareholders of Public Bank over the longer term have also been striking and exceptional. A shareholder of Public Bank who purchased 1,000 Public Bank (Local) shares at the beginning of 1996 for a total investment of RM7,120, which included a rights

TO OUR CUSTOMERS

Bank Negara Malaysia continues to foster greater customer education and awareness and increasing product and services transparency as a key objective of the Financial Sector Masterplan to develop a better-informed customer for financial services. With the implementation of the standard basic current account and basic savings account for the Malaysian banking sector, Bank Negara Malaysia has also promoted further commoditisation of banking products and services. These initiatives to promote the growing maturity and awareness of customers and continued commoditisation of products and services, together with the intensely competitive environment of the financial services sector, means that the manner in which a product or service is delivered can be the key differentiation in capturing the customer.

The Public Bank Group's firm commitment to customer service delivery excellence is clearly demonstrated by the Group's pursuit of initiatives to reinforce the customer service delivery standards of its ISO-certified service delivery infrastructure, and the continued investment in the development of products and service delivery channels. The two key areas of customer service delivery of the Public Bank Group's business, that of the "Provision of Customer Service at the Front Office" and the "Provision of Customer Service in Loan Delivery", continued to be ISO9001:2000 certified. With the maintenance of high customer service delivery standards such as the 2-minute standard waiting time and 1-minute standard processing time for core banking transactions, 2 to 3 working days turnaround time for approving consumer loans and 7 to 8 working days turnaround time for approving commercial loans, and the continuous monitoring of the achievement of these standards, customer service delivery excellence remains at the top of the agenda for action by the staff of the Group.



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The continuous improvement of the Public Bank Group's products and service delivery channels is focused on the two key channels of the Group's branch network and its electronic delivery channels. The Group proactively assesses the location and size of its branches with a view to improving customer accessibility and comfort. In 2005, Public Bank relocated 13 branches and expanded the size of a further 17 branches. In respect of its electronic delivery channels, the Group had in 2005 extended the scale and scope of its electronic delivery channels and plans to introduce a new delivery channel in the form of cash deposit machines across its branch network in early 2006. A total of 105 cheque deposit machines was installed in 2005, bringing the total number of cheque deposit machines of the Group to 164. The Group has also piloted the use of cash deposit machines in several branches with favourable response from customers.

The Public Bank Group had also undertaken initiatives to actively promote the migration of customer transactions at branch counters to the Group's electronic delivery channels through a combination of increasing resources for customer education and improving functionalities and simplifying user procedures of its electronic delivery channels. The active development of electronic delivery channels and the promotion of the use of these channels not only improves the efficiency of branch counter services for customer transactions that are required to be carried out at branch counters but also provides customers with added flexibility and convenience to conduct their banking transactions outside of normal banking hours.

The Public Bank Group's efforts in pursuing excellence in customer service delivery have resulted in building up a strong base of individual loyal customers and achieving growth rates in its lending business that is well above industry growth rates. The Group's market share of customers' savings deposits stood at 17% compared to its overall market share of total customers' deposits of 12%.

Deposits from individuals also accounted for over 71% of core customer deposits. In the lending business, the setting of high standards of customer service delivery of the Group's electronic Loan Delivery System ("eLDS") is a key factor in sustaining strong loan growth during the past few years.

TO OUR STAFF

Underpinning the remarkable success and consistently strong performance of the Public Bank Group is the contribution of a united team of committed, knowledgeable and dedicated employees who are focused on a common goal and constantly striving for excellence. The human capital of the Group is continuously being nurtured and proactively managed to bring out the best in each and every staff. Collectively, the staff force represents the most valuable asset of the Group.

The Public Bank Group continues to implement specific initiatives to maximise the long-term value of its human capital. Significant management and financial resources are devoted to implementing its policy of mandatory training for all levels of staff. The Group conducted over 46,000 man-days of training courses for all levels of staff in 2005. The Group also continues to upgrade its training facilities at its dedicated Knowledge and Learning Centre in Bangi. The investment in training all staff not only equip them with the capability and skills to deliver the highest standards of performance expected, it also prepares the staff for career progression within the Group as part of their professional development and, hence, fulfills the structured succession planning objectives of the Group.



LETTER TO STAKEHOLDERS



The Public Bank Group continues to increase the financial resources for the development of its human capital with an increase in the Group's outlay for staff training expenses of 7.6% in 2005. A sum of RM19 million was expended on staff training in 2005, representing 3.7% of total human resources related costs, a ratio that is above the requirement of Bank Negara Malaysia in respect of staff training expense allocation.

A key factor in the management and development of the Public Bank Group's human capital is its established performance-based remuneration system where rewards are closely and transparently correlated to the delivery of superior performance levels. This comprehensive and transparent performance appraisal system has enabled the Group to fairly reward its top performers with performance related bonuses of up to 15 months salary as well as promoting meritocracy in career progression of staff.

Providing staff with a direct stake in the financial well being of the company in which they are engaged is a key incentive to promote superior staff performance. The staff of the Public Bank Group are highly motivated to deliver superior performance by the generous Group Employees' Share Option Scheme ("ESOS") which is extended to all levels of staff especially right down to the most junior grades. The ESOS share price continued to be in the money with the strong performance of the Public Bank share price.

The Public Bank Group continues to inculcate and nurture in all staff a culture of commitment, trust, honesty and integrity and promote an environment of exemplary corporate conduct and meticulous regulatory compliance through the Group's extensive human resource development programmes and the strict adherence to a policy of zero tolerance for dishonesty and the lack of integrity. Such a stringent and uncompromising stance in terms of honesty and integrity is absolutely necessary to engender the trust implicit in the Group's role as a trusted financial institution and a custodian of public funds.

The Public Bank Group's commitment to its staff force, the established and transparent performance-based remuneration structure, meritocracy-based career progression path and priority accorded to internal filling of vacancies have provided the Group with a work force that is passionately performance driven and one that seeks career advancement with the Group. Productivity gains from superior and improving levels of performance have allowed the Group to grow its business at levels well above that of its competitors over the past few years with a total staff force that has remained relatively unchanged in these years. The desire of the staff force seeking career advancement within the Group remains high with over 90% of current senior management and branch management appointments being filled from within the Group. The staff of the Group do proudly and professionally have a sense of dedication and commitment to serve.

TO THE COMMUNITY

The Public Bank Group is committed to giving back to the community that supports its business and corporate activities through the conscientious discharge of its corporate social responsibility. In the fulfilment of its commitment to the community, the Group's participation in and contribution, both financial or otherwise, to activities for the betterment of the community have been geared towards benefiting as many in the community as possible.



LETTER TO STAKEHOLDERS

The initiatives and activities of the Public Bank Group in active support of the community range from financial support of health care and educational projects to the promotion of academic excellence by recognition of top student performers, the support of environmental conservation and events in promoting national pride and unity including sports, arts, culture and literature, besides direct charitable contributions to the welfare of the needy and less fortunate. In 2005, the total direct financial contribution for the discharge of the Group's corporate social responsibility totalled over RM2 million. With the extensive branch network of the Group throughout Malaysia, the Group has been able to reach a wide spectrum of members of the community both through the community activities of its branches and staff of the branches as well as supporting the collection of charitable donations by the National Welfare Foundation in a smart partnership arrangement of having National Welfare Foundation collection boxes and appeal posters in all 251 Public Bank branches.

The 39 years of unbroken profitability track record of the Public Bank Group has provided the platform and financial capacity for the Group to continue to play its role as a socially responsible corporate citizen and fulfil its corporate social responsibility. In addition, as a profitable corporation, Public Bank has been a significant contributor to the fiscal revenue of the country as a tax payer. With payment of taxes totalling more than RM2.31 billion since 2000, the Group has indeed contributed significantly to the development efforts of the nation.

AWARDS AND RECOGNITIONS

The outstanding financial performance of the Public Bank Group, the commitment to the pursuit of excellence in all aspects of its business and operations and the track record of its management in consistently delivering stellar results, continued to be recognised by a total of 15 awards and recognitions conferred on the Public Bank Group in 2005.

Public Bank's strong and entrenched culture of good corporate governance, its adherence to good corporate governance practices and its excellent corporate conduct have led to Public Bank being ranked first in corporate governance amongst the top 100 listed companies on Bursa Securities in a joint study by the Minority Shareholder Watchdog Group ("MSWG") and the Nottingham University Business School ("NUBS"). The findings of this joint study is set out in the Corporate Governance Survey Report 2004 issued by the MSWG and the NUBS. The study assesses the level of compliance of the top 100 public listed companies with the corporate governance requirements as set out in the Malaysian Code on Corporate Governance and the Bursa Securities Listing Requirements as well as international best practices in corporate governance drawn from influential principles, guidelines or codes on corporate disclosure and governance including those of the OECD Principles, the IMF Principles and the CalPERS Guidelines on Corporate Governance. Besides topping the overall rankings, Public Bank was also ranked first in the international best practices section of the study.



LETTER TO STAKEHOLDERS



The excellent corporate governance of Public Bank was also recognised with the Malaysian Business Corporate Governance Award 2004 being awarded to Public Bank by Malaysian Business for the 3rd consecutive year. This makes Public Bank the sole recipient of the award since the inauguration of the Corporate Governance Awards by Malaysian Business.

At the National Annual Corporate Report Awards ("NACRA") 2005, Public Bank's Annual Report 2004 won the Overall Excellence Award for Best Annual Report. This makes it the 4th consecutive year and the 6th time in total that Public Bank has won the much coveted Overall Excellence Award. Public Bank's Annual Report 2004 also won the Industry Excellence Award for the Main Board Finance Sector for the 9th time in a row as well as the Best Annual Report in Bahasa Malaysia for the 3rd time.

NACRA's objectives are to promote excellence in annual corporate reporting by encouraging transparency and corporate accountability through the publication of timely, informative, factual and reader friendly annual reports. Therefore, the NACRA awards are not just a recognition of the Annual Report itself but also a concrete testimony to the high degree of transparency and the adherence to a high standard of corporate governance as practised by the Public Bank Group.

Public Bank continued to be accorded best bank awards in 2005 for the strong positioning of the Public Bank Group in the Malaysian banking and financing sector, its financial strength, excellent asset quality and rising profitability performance. The best bank awards received by Public Bank in 2005, some of which were for a number of consecutive years, include:

- Bank of the Year in Malaysia by The Banker
- Best Bank in Malaysia by Euromoney
- Best Domestic Bank in Malaysia by The Asset
- Best Local Bank in Malaysia by FinanceAsia
- Best Retail Bank in Malaysia by The Banker

Public Bank was also named the overall Best Managed Company in Malaysia by FinanceAsia.

In addition to the awards and recognitions conferred on the Public Bank Group, the exemplary leadership of Tan Sri Dato' Sri Dr. Teh Hong Piow, the Chairman and Founder of Public Bank was recognised when he was named Malaysia's Best CEO 2004 by Asiamoney.

Apart from acknowledging the outstanding achievements of the Public Bank Group, these accolades and awards will, to be sure, further motivate the Group to continue its relentless pursuit of excellence with humility and commitment.

PROSPECTS

The Year 2006 is expected to be another challenging one for the Public Bank Group. With the anticipated moderate improvement in the growth rate of the Malaysian economy and continued intensification of the competitiveness of the financial services industry in 2006, the challenges to the Group in the pursuit of its strategies of strong lending business growth and relentless improvement in profitability are expected to be daunting.



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Looking further ahead, the Public Bank Group expects the market place to remain equally challenging. As a guide to the Group in navigating the path to further profitability growth and expansion of its business and balance sheet as well as continuing to deliver shareholder value in such an environment, the Group has in place medium term plans for the next 3 years. Amongst the myriad details of such medium term plans are medium term targets of key ratios the Group has set out to achieve. These include a return on average equity ratio of 28%, core capital and risk-weighted capital ratios of 8.0% and 12.5% respectively whilst maintaining the net non-performing loan ratio at 1.7%. The Group is also targeting to reach a total loan and advances portfolio and a total balance sheet size of RM98 billion and RM150 billion respectively in 3 years' time, barring unforeseen circumstances and the key underlying assumptions of these medium term plans being substantially realised.

2006 will also see significant changes in the accounting measures of the financial performance of companies in Malaysia with the implementation of new and revised Malaysian Financial Reporting Standards ("FRS") from 1 January 2006. The Group is fully prepared for the impending implementation of the FRS. Although the new and revised FRS generally leads to more volatility in profitability, the Group expects the new and revised FRS to have a positive impact on its bottom line.

The unabated pace of liberalisation of the Malaysian financial services industry will result in an even more competitive landscape, which in the last few years had seen a continued downward trend in lending margins and spreads. Liberalisation of the operating constraints on foreign controlled domestic banks, such as the recent announcement by Bank Negara Malaysia to allow such banks to open 4 new branches a year, will likely lead to foreign controlled domestic banks increasing the size of their branch network as well as linking up their ATMs to

a nationwide network of ATMs. The introduction of strong foreign institutional shareholders and increased activism of existing institutional shareholders of domestic banking groups, together with the introduction of new management teams, are likely to result in improved performance of domestic banking groups, thus leading to further intensification of competition in the Malaysian banking industry.

The Malaysian economy is expected to see an improvement in GDP growth rate in 2006, albeit a modest increase to 5.5%. The uncertainties of a global economy faced with high oil prices, the risk of an avian flu pandemic and its related economic fallout as well as generally rising interest rates are contributory factors to the moderate improvement in expected GDP growth for 2006. Malaysia, despite the rise in Bank Negara Malaysia's overnight policy rate from 2.7% to 3.0% in November 2005, the first increase in domestic interest rates since 2000, is expected to see only modestly rising interest rates in 2006 given the country's strong fundamentals, continuation of an accommodative monetary policy by Bank Negara Malaysia, a stable exchange rate, highly liquid banking system and the fiscal discipline of the Government. The expanding and stable domestic economy will still provide the opportunities and support for the banking industry in a challenging environment of intense and growing competitiveness.

Agile and vigilant, the Public Bank Group remains mindful of steps taken by Malaysian financial services groups to seek growth avenues by regional expansion. The Group continues to keep a close watch on such developments, as it has always done, and would explore appropriate opportunities to extend the scale or scope of its business both domestically and regionally, whilst aggressively pursuing the Group's organic growth strategies.



LETTER TO STAKEHOLDERS

ACKNOWLEDGEMENT

We wish to express our deepest appreciation to the management and all staff of the Public Bank Group for their untiring commitment, dedication and loyalty in contributing to the continuing success of the Group.

We also wish to express our sincere appreciation and gratitude to all our customers and shareholders for their continued support of and confidence in the Public Bank Group.

The Board and Management would also like to thank Bank Negara Malaysia and all other relevant authorities for their invaluable advice, guidance and support.

Despite recent developments which may lead to a possible market driven consolidation of the Malaysian banking industry, the Public Bank Group will continue to pursue its strategy of high organic growth by building on the momentum of strong loan growth in recent years and its focus on lending to consumers and middle market commercial enterprises, particularly SMEs, whilst keeping stringently to the uncompromising prudent credit standards and practices of the Group.

The Public Bank Group is well positioned to meet the challenges of the further increase in competitiveness in the market place brought about by further liberalisation and possible consolidation of the Malaysian financial services industry. The Group's remarkable resilience and rising profitability performance track record, its strong branding, its excellent asset quality and its culture of prudent credit together with customer service delivery that is benchmarked to international standards, as well as the unwavering commitment of all levels of staff, will be the key to the Public Bank Group's success in meeting the challenges ahead and in fulfilling the rising expectations of all stakeholders.

TAN SRI DATO' SRI DR. TEH HONG PIOW

Chairman

TAN SRI DATO' THONG YAW HONG

Co-Chairman

DATO' SRI TAY AH LEK

Managing Director

DATO' LEE KONG LAM

Executive Director

DATO' YEOH CHIN KEE

Director

Y.A.M. TENGKU ABDUL RAHMAN IBNI SULTAN HAJI AHMAD SHAH AL-MUSTAIN BILLAH

Director

TUAN HAJI ABDUL AZIZ BIN OMAR

Director

DATO' DR. HAJI MOHAMED ISHAK BIN HAJI MOHAMED ARIFF

Director

LEE CHIN GUAN

Director

23 January 2006



THE PERFECT DESIGN IS OUR
CONSTANT QUEST FOR EXCELLENCE

We strive relentlessly in pursuit of excellence

Delivering only the best to our customers

Constantly improving, year after year

That is how we keep

RAISING THE BAR OF EXCELLENCE



PUBLIC BANK



AWARDS AND **RECOGNITIONS**



Guided by its corporate mission “To Sustain The Position Of Being The Most Efficient, Profitable And Respected Premier Financial Institution In Malaysia”, the Public Bank Group continues its relentless pursuit of excellence in all aspects of the Group’s business and operations. The success of the Group’s quest for banking excellence is evident in the numerous awards and accolades accorded to Public Bank in 2005, many of which are for a number of consecutive years. These awards besides enhancing the Group’s reputation and branding as a profitable, strong and reliable financial institution, also motivates the Group to continue with its commitment to excellence.

2005 AWARDS

<p>1 MALAYSIAN BUSINESS CORPORATE GOVERNANCE AWARD Malaysian Business magazine 2004, 2003, 2002</p>	<p>2 NO. 1 RANKING IN CORPORATE GOVERNANCE Minority Shareholder Watchdog Group & The Nottingham University Business School Survey 2004 2005</p>	<p>3 NACRA AWARD FOR THE MOST OUTSTANDING ANNUAL REPORT National Annual Corporate Report Awards 2005, 2004, 2003, 2002, 1997, 1990</p>
<p>4 THE ASIAN BANKER AWARD FOR BEST RETAIL BANK IN MALAYSIA Asian Banker Journal 2004, 2003, 2001</p>	<p>5 FINANCEASIA ANNUAL COUNTRY ACHIEVEMENT AWARDS FOR THE BEST BANK IN MALAYSIA FinanceAsia magazine 2005, 2004, 2003, 2002, 2001, 2000, 1999</p>	<p>6 THE ASSET TRIPLE A AWARDS 2005 FOR BEST DOMESTIC BANK IN MALAYSIA The Asset magazine 2005, 2004, 2003, 2002</p>
<p>7 EUROMONEY AWARDS FOR EXCELLENCE FOR THE BEST BANK IN MALAYSIA Euromoney magazine 2005, 2004, 2003, 2002, 1999, 1998, 1993</p>	<p>8 CORPORATE GOVERNANCE ASIA RECOGNITION AWARD Corporate Governance Asia Journal 2004</p>	<p>9 NACRA INDUSTRY EXCELLENCE AWARD FOR THE FINANCE SECTOR National Annual Corporate Report Awards 2005, 2004, 2003, 2002, 2001, 2000, 1999, 1998, 1997</p>
<p>10 NACRA AWARD FOR THE BEST ANNUAL REPORT IN BAHASA MALAYSIA National Annual Corporate Report Awards 2005, 2004</p>	<p>11 READER'S DIGEST SUPERBRAND GOLD AWARD 2005 Reader's Digest SuperBrand 2005 Survey 2005, 2004</p>	<p>12 FINANCEASIA ASIA'S BEST COMPANIES 2005 FinanceAsia magazine 2005, 2004</p>
<p>13 THE BANKER AWARDS FOR BANK OF THE YEAR IN MALAYSIA The Banker magazine 2005, 2001</p>	<p>14 THE ASSET TRIPLE A REGIONAL AWARDS FOR BEST BANK BOND The Asset magazine 2005</p>	<p>15 BEST CEO IN MALAYSIA 2005 Asiamoney magazine 2004</p>
<p>16 ASIAMONEY AWARD FOR OVERALL BEST-MANAGED COMPANY IN MALAYSIA Asiamoney magazine 2004</p>		



2005 AWARDS



RECORD OF PAST AWARDS

1
KLSE CORPORATE EXCELLENCE AWARDS
 Kuala Lumpur Stock Exchange Berhad

2003, 2002, 2001, 2000

2
KLSE CORPORATE AWARD FOR BEST CORPORATE DISCLOSURE IN ANNUAL REPORT
 Kuala Lumpur Stock Exchange Berhad

2003

3
GLOBAL FINANCE BEST BANK AWARD FOR THE BEST BANK IN MALAYSIA
 Global Finance magazine

2004, 2003, 2002, 2001, 2000

4
2004 BEST INVESTOR RELATIONS BY INSTITUTIONAL INVESTOR RESEARCH GROUP
 Institutional Investor Research Group

2004

5
ASIAMONEY DOMESTIC BANKS AWARDS FOR THE BEST DOMESTIC COMMERCIAL BANK IN MALAYSIA
 Asiamoney magazine

2004, 2003, 2002

6
THE ASSET AWARD FOR A LEADER IN CORPORATE GOVERNANCE IN MALAYSIA
 The Asset magazine

2003

7
VOTED AND RANKED AS NO. 2 IN THE REVIEW 200: ASIA'S LEADING COMPANIES AWARD
 Far Eastern Economic Review magazine

2003, 2002, 2001

8
BANK-WIDE ISO 9001-2000 QUALITY MANAGEMENT SYSTEMS CERTIFICATION FOR "PROVISION OF CUSTOMER SERVICE IN LOAN DELIVERY"
 SIRIM

2003



RECORD OF PAST AWARDS

- 9
MERIT AWARD FOR ANNUAL REPORT
(BAHASA MALAYSIA) ANUGERAH CITRA
WANGSA MALAYSIA SEKTOR SWASTA
Dewan Bahasa & Pustaka
2003
- 10
ASIAMONEY AWARD FOR THE BEST
COMPANY OVERALL FOR INVESTOR
RELATIONS 2001 FOR MALAYSIA
Asiamoney magazine
2002
- 11
SPECIAL JURY'S AWARD FOR ANNUAL
REPORT (BAHASA MALAYSIA) ANUGERAH
CITRA WANGSA MALAYSIA SEKTOR
SWASTA
Dewan Bahasa & Pustaka
2002, 2001
- 12
KLSE CORPORATE SECTORAL AWARD
FOR THE FINANCE AND CLOSED-END
FUND SECTOR
Kuala Lumpur Stock Exchange
Berhad
2001, 2000
- 13
2001 BEST RETAIL BANK FOR MALAYSIA
The Asian Banker Journal
2001
- 14
BANK-WIDE ISO 9001-2000 QUALITY
MANAGEMENT SYSTEMS CERTIFICATION
FOR "PROVISION OF CUSTOMER SERVICE
AT THE FRONT-OFFICE"
SIRIM
2001
- 15
BANK OF THE YEAR IN MALAYSIA
The Banker magazine
2001
- 16
THE STRONGEST BANK IN MALAYSIA
AND FOURTH STRONGEST BANK IN ASIA
Asiamoney magazine
2001
- 17
BEST BANK IN MALAYSIA
Emerging Markets Investor magazine
2001



RECORD OF PAST AWARDS

18

**CITRA ANNUAL REPORT AWARD
(BAHASA MALAYSIA)**

Dewan Bahasa & Pustaka

2000

19

**THE ASIAN BANKING AWARDS FOR
THE MOST OUTSTANDING CUSTOMER
SERVICE PROGRAMME CATEGORY**

The Asian Banking Awards

2000

20

**THE BEST BANK IN MALAYSIA AND
THE 5TH MALAYSIA BEST MANAGED
COMPANIES AWARDS**

Asiamoney magazine

1999

21

**FIABCI'S AWARD OF DISTINCTION
FOR THE BEST COMMERCIAL
DEVELOPMENT BUILDING**

FIABCI

1999

22

**NACRA COMMENDATION AWARD
FOR ACCOUNTING INFORMATION**

National Annual Corporate
Report Awards

1999, 2001, 2002

23

**ASIAMONEY AWARD FOR BEING VOTED
ONE OF THE TOP 10 BEST MANAGED
COMPANIES 1996 IN MALAYSIA IN A
REGIONAL POLL BY INSTITUTIONAL
INVESTORS**

Asiamoney magazine

1997

24

**NACRA COMMENDATION AWARD FOR
BAHASA MALAYSIA ANNUAL REPORT**

National Annual Corporate
Report Awards

1996, 1995, 1990

25

MANAGEMENT AWARDS OF ASIA

Asian Institute of Management

1996



RECORD OF PAST AWARDS

26

WINNER OF THE 'BEAUTIFUL COMPOUND COMPETITION' FOR PRIVATE SECTOR COMPLEX/BUILDING CATEGORY

Dewan Bandaraya Kuala Lumpur

1994

27

INDUSTRY EXCELLENCE AWARD UNDER THE SERVICE EXPORT EXCELLENCE FOR THE FINANCIAL CATEGORY

Ministry of International Trade & Industry

1994

28

MALAYSIAN CORPORATE REPORT AWARD (MACPA) GOLD AWARD FOR THE MOST OUTSTANDING ANNUAL REPORT

MACPA and MIM

1990

CHAIRMAN'S AWARDS AND RECOGNITIONS

29

MALAYSIA'S CEO OF THE YEAR AWARD

Business Times and American Express

1999

30

THE BUSINESS ACHIEVER OF THE YEAR

Yazhou Zhoukhan magazine

1997

31

ASEAN BUSINESSMAN OF THE YEAR AWARD

ASEAN Business Forum

1994

32

ASIA'S COMMERCIAL BANKER OF THE YEAR

Asiamoney and Finance magazine

1991



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors, Management and staff of Public Bank are delighted and honoured that Public Bank's culture of accountability, transparency, integrity, professionalism and responsible corporate conduct continues to receive top-notch ratings in 2005, inter-alia:

- Public Bank's corporate governance was ranked No. 1 in the Corporate Governance Survey Report 2004, a joint study which the Minority Shareholder Watchdog Group conducted with the Nottingham University Business School, Malaysia Campus.
- Public Bank was accorded the Overall Excellence Award (for the most outstanding annual reporting of the year) in the National Annual Corporate Report Awards ("NACRA") 2005; the 4th consecutive year that Public Bank had received this Award since 2002, and the 6th time that the Award was given to Public Bank.
- Public Bank received the NACRA 2005 Industry Excellence Award for the Finance Sector (for the most outstanding annual reporting in the finance industry), making it nine straight years that it had received this Award since 1997.
- Public Bank received the Malaysian Business Corporate Governance Award 2004, making it the third year in a row that it was accorded the Award by the Malaysian Business Magazine.



STATEMENT ON CORPORATE GOVERNANCE

It is indeed heartening that Public Bank continues to receive resounding votes of excellence from domestic as well as international investors, fund managers and financial analysts, and awards accorded to Public Bank in 2005 included the following:

- “Best Bank in Malaysia” by Euromoney
- “Best Retail Bank in Malaysia” by Asian Banker
- “Best Local Bank in Malaysia” by FinanceAsia
- “Best Domestic Bank in Malaysia” by The Asset
- “Bank of the Year in Malaysia” by The Banker
- “Best Managed Company in Malaysia” by FinanceAsia

The Members of the Board remain resolute that Public Bank shall maintain its track record as a leading financial institution in the country, in terms of financial strength, profitability, service quality, and adherence to the principles and best practices of corporate governance established by the Malaysian Code on Corporate Governance.

The Board is fully committed in ensuring that the interests of all stakeholders are not just safeguarded, but are continually enhanced in value.

BOARD OF DIRECTORS

Well Balanced and Experienced Board

The size of the Board, comprising 9 Members, is optimum given the scope, size and complexity of Public Bank’s business operations.

The composition of the Board is well balanced, with an effective mix of Executive Directors and Independent Non-Executive Directors. There are two (2) Executive Directors, and seven (7) Non-Executive Directors of whom six are independent as defined by the Bursa Malaysia Securities Berhad (“Bursa Securities”) Listing Requirements.

The majority in the number of Independent Non-Executive Directors facilitates the exercise of independent evaluation in Board deliberations and decision-making, and thus provides check and balance in the Board.

Tan Sri Dato’ Sri Dr. Teh Hong Piow, the Founder and Non-Executive Chairman who has been described as the “grandmaster of the domestic banking industry”, is illustrious in his experience and expertise in banking and finance industry. Dato’ Sri Tay Ah Lek, the Managing Director; and Dato’ Lee Kong Lam, the Executive Director, are well respected and highly regarded in the banking and finance fraternity. These three (3) Directors have been steeped in the financial services industry since the beginning of their respective careers, and they have collectively amassed 140 years of experience in banking and finance.

The Independent Non-Executive Co-Chairman, Tan Sri Dato’ Thong Yaw Hong, holds a highly distinguished record of service with both the public and private sector. The other five (5) Independent Non-Executive Directors are persons of high calibre and professionals in their own right, and are well qualified in banking and various fields relevant to the banking industry, such as accounting, law, economics, and business management.

Training and Development of Directors

All the Directors have completed the Mandatory Accreditation Programme and attended various training programmes under the Continuing Education Programmes (“CEP”) for Directors pursuant to the requirements of Bursa Securities (the CEP requirements have been repealed with effect from 1 January 2005).



STATEMENT ON CORPORATE GOVERNANCE



The Directors are mindful that they should receive appropriate continuous training and they have attended seminars and briefings in order to broaden their perspectives and so that they keep abreast with developments in the market place and with new statutory and regulatory requirements.

The training programmes and seminars attended by Members of the Board in 2005 are, inter-alia, on areas relating to banking and related industries, corporate governance, risk management and financial reporting.

Training Programmes, Seminars and Briefings Attended by Directors in 2005

(not including those attended by Directors to fulfil the CEP requirements)

• On Banking and Related Industries

1. Bank Negara Malaysia (“BNM”) Dialogue Session with Financial Institutions on Focus of Financing Activities
2. BNM Briefing on Deposit Insurance System in Malaysia
3. BNM Dialogue with Insurers and Takaful Operators
4. Seminar on 10-year Master Plan for Islamic Financial Services Industry: jointly organised by the Islamic Development Bank and the Islamic Financial Services Board
5. BNM Briefing on the Study on Customers’ Needs and Satisfaction

• On Corporate Governance

1. From Good Governance to Good Results: organised by Rating Agency Malaysia
2. Value Creation and Corporate Governance – Growth and Bottom Line Financial Strategies in Today’s Market: organised by Rating Agency Malaysia
3. From Good Governance to Good Branding and Corporate Social Responsibility: Public Bank In-House Training conducted by Rating Agency Malaysia
4. Briefing and Dialogue Session with Assistant Governor of BNM on Corporate Governance for Licensed Institutions (BNM/GP1): organised by Institute of Bankers Malaysia

• On Risk Management and Financial Reporting

1. Understanding & Minimising the Risk of Accounting Manipulations – A Corporate Director’s Perspective: organised by Rating Agency Malaysia
2. Board Room Finance for Directors: organised by Chartered Institute of Management Accountants
3. Briefing on Financial Reporting Standards: Public Bank In-House Training conducted by KPMG

• On Other Areas

1. Strategic Negotiation for Senior Executives: organised by Harvard Club Malaysia/Harvard Business School
2. Investors’ Conference on “Malaysia: An Investment Destination”: organised by the Ministry of Finance
3. Expanding Asean-EU Economic Links – the Role of the EURO: jointly organised by BNM and the European Commission

STATEMENT ON CORPORATE GOVERNANCE



Directors' Code of Ethics

The Directors observe a code of ethics that is consistent with the code of conduct expected of Directors of financial institutions as set out in the BNM/GP7-Part 1 Code of Ethics: Guidelines on the Code of Conduct for Directors, Officers and Employees in the Banking Industry, and the Company Director's Code of Ethics established by the Companies Commission of Malaysia.

Duties and Responsibilities of the Board

The Board formulates the Bank's business plans, and medium-term and long-term strategic plans annually, in order to set the focus of the Bank's business in accordance with the prevailing economic and market environment. The Board approves the Bank's annual budget and carries out periodic review of the progress made by the various operating divisions against their respective budgets. The Board also reviews the action plans that are implemented by the business units and their performance against targets allocated to them.

The Board prescribes the 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 assumes various functions and responsibilities that are required of them by BNM, as specified in guidelines and directives issued by BNM from time to time.

The roles and responsibilities of the Non-Executive Chairman and the Independent Non-Executive Co-Chairman are different and separate from the role of the Managing Director.

The Board has established the Board Executive Committee, comprising Tan Sri Dato' Sri Dr. Teh Hong Piow, Dato' Sri Tay Ah Lek and Dato' Lee Kong Lam, to manage Public Bank in all aspects of its business.

The Independent Non-Executive 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.

The six (6) Independent Directors, and in particular Tan Sri Dato' Thong Yaw Hong, who is the Chairman of the Audit Committee, and Tuan Haji Abdul Aziz bin Omar, who is the Co-Chairman of the Audit Committee, in effect represent minority shareholders' interests in Public Bank by virtue of their respective roles and responsibilities as Independent Directors and as the Chairman/Co-Chairman of the Audit Committee.

Board Meetings and Supply of Information to the Board

Board meetings for the following financial year are scheduled before the end of the current financial year so as to enable Directors to plan their other appointment dates in order to facilitate their attendance at the Public Bank Board meetings.

The Board meets very regularly, at least once every month. At the monthly Board meetings, the Board reviews various management reports on the business performance of the

STATEMENT ON CORPORATE GOVERNANCE

Bank and major subsidiaries and reviews, inter-alia, the progress compared to the preceding month and year-to-date, and also the comparison of achievements against pro-rated business targets and against the industry. The Board also notes the decisions and salient issues deliberated by Board Committees and Management Committees through minutes of these committees which are tabled monthly to the Board. Members of the Board deliberate, and in the process evaluate the potential risks and viability of business propositions and corporate proposals that have significant impact on the Bank's business or on its financial position. The Board also assesses various types of credit propositions and matters that are required to be submitted to the Board for concurrence or approval, as specified by BNM.

The Chairman of the Audit Committee would report to the Directors at Board meetings, on salient issues that have been raised at Audit Committee meetings and he would highlight to Directors, the areas of emphasis as may be expressed by the Audit Committee.

Board meetings are also held upon finalisation of the results of each financial quarter to facilitate the Board to review and approve the quarterly financial results. In addition, the Board convenes meetings on an ad-hoc basis as and when necessary to consider corporate proposals or business issues that require the urgent decision of the Board.

Tan Sri Dato' Thong Yaw Hong, the Independent Non-Executive Co-Chairman, chairs all the Board meetings.

The agenda for each Board meeting and papers relating to the agenda items are forwarded to all Directors for their perusal prior to the date of the Board meeting. Board meeting papers circulated to Directors include progress reports on business operations, details of business propositions and corporate proposals, supporting documents such as professional advice from solicitors or advisers, new policies and guidelines issued by BNM, and reports for updating the Board on issues relevant to the Bank's business. The Directors can thus peruse the business reports and appraise the issues to be deliberated at the Board meeting well before the date of the meeting.

Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board meeting, and Directors may require clarification or raise comments on the minutes prior to the confirmation of the minutes.

The Board has complete and unimpeded access to information relating to the Bank in the discharge of their duties. The Directors may require to be provided with further details or clarifications on Board meeting agenda items. Senior Management Officers are invited to attend the monthly Board meetings to update the Directors on their respective business portfolios and to brief the Directors on proposals submitted for the Board's consideration. Professional advisers, accountants and solicitors appointed by the Bank to advise on corporate proposals to be undertaken by the Bank, would be invited to attend Board meetings, to render their advice and opinion, and also to clarify issues that may be raised by the Directors relating to the corporate proposals tabled for the Board's consideration. The Directors have the liberty to seek external professional advice at the Bank's expense, if they so require.

The Directors are also regularly updated and advised by the Company Secretary on new statutory and regulatory requirements relating to the discharge of their duties and responsibilities, including policies and guidelines issued by BNM concerning the 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. The Company Secretary attends all Board meetings and ensures that accurate and adequate records of the proceedings of Board meetings and decisions made are properly kept.



STATEMENT ON CORPORATE GOVERNANCE

The commitment of the Board of Directors towards the effective discharge of their duties and responsibilities is reflected by the high number of Board meetings held during the financial year ended 31 December 2005. The Members of the Board attended all the 17 Board meetings held during the year, except for one Member who was unable to be present at three of the Board meetings due to other unavoidable official engagements.

Appointment of Board Members and Terms of Reference of Nomination Committee

The proposed appointment of a new Member of the Board and the proposed re-appointment or re-election of existing Directors who are seeking re-appointment or re-election at the annual general meeting of Public Bank, will be reviewed and assessed by the Nomination Committee. The Nomination Committee will, upon its review and assessment, submit its recommendation on the proposed appointment, re-appointment or re-election of Directors to the Board for approval.

As a financial institution and pursuant to provisions of the Banking and Financial Institutions Act, 1989 ("BAFIA") and guidelines issued by BNM, any proposed appointment of a new Member of the Board, and the proposed re-appointment or re-election of existing Directors at the annual general meeting of Public Bank, are required to be submitted to BNM for prior approval before the proposed appointment is made, or before the proposed re-appointment or re-election is presented to shareholders for approval.

Public Bank's Nomination Committee is comprised entirely of Independent Non-Executive Directors; all the six (6) Independent Non-Executive Directors are Members of the Nomination Committee.

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

- To establish the minimum requirements on the skills, experience, qualifications and other core competencies of a Director and of 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.
- To assess and recommend to the Board, the re-appointment of Directors/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 appropriate size, required mix of skills, experience and core competencies, and adequacy of balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review.
- To determine annually whether a Director is independent as may be defined in the guidelines issued by BNM and in the Bursa Securities Listing Requirements.
- To establish the mechanisms for the formal assessment on the effectiveness of the Board as a whole; the effectiveness of each Director; and the performance of the CEO. The annual assessment to be conducted would be based on objective performance criteria as approved by the Board.
- To assess, on an annual basis, that the Directors/CEO and key Senior Management Officers are not disqualified under Section 56 of the BAFIA and that the Directors and CEO continue to comply with the standards for "fit and proper" criteria as approved by the Board.
- To ensure that all Directors receive appropriate continuous training programmes in order to broaden their perspectives and to keep abreast with developments in the market place and with changes in new statutory and regulatory requirements.
- To recommend to the Board the removal of a Director/CEO if he is ineffective, errant or negligent in discharging his responsibilities.



STATEMENT ON CORPORATE GOVERNANCE

- To oversee the appointment, management succession planning and performance evaluation of the key Senior Management Officers.
- To recommend to the Board the removal of key Senior Management Officers if they are ineffective, errant or negligent in discharging their responsibilities.
- To assess and recommend to the Board, the terms of reference of Board Committees and to review the adequacy of committee structure of Board Committees.
- To assess and recommend to the Board persons of acceptable reputation, character, integrity and possess necessary knowledge, expertise or experience in Islamic jurisprudence (Usul al-Fiqh) or Islamic transaction/commercial law (Fiqh al-Mu'amalat) for appointment as members of the Bank's Shariah Committee subject to the approval of BNM.
- To carry out such other responsibilities as may be specified by BNM or delegated by the Board from time to time.

The Nomination Committee has reviewed and is satisfied that the size of the Board is optimum and that there is appropriate mix of skills and core competencies in the composition of the Board. The Nomination Committee is of the view that all the Members of the Board are suitably qualified to hold their positions as Directors of Public Bank in view of their respective academic and professional qualifications, experience and qualities; furthermore, all the Directors comply with the "fit and proper" criteria as established by BNM in the Guidelines on Corporate Governance for Licensed Institutions (BNM/GP1).

The Nomination Committee has also reviewed and is satisfied that all the Directors have received appropriate training during the financial year ended 31 December 2005, which would enhance their effectiveness in the Board.

Meetings of the Nomination Committee are held as and when required, and at least once a year. A total of 12 meetings were held by the Nomination Committee in 2005.

Directors' Remuneration and Terms of Reference of Remuneration Committee

The Remuneration Committee carries out the annual review of the overall remuneration policy for Directors, CEO and key Senior Management Officers whereupon recommendations are submitted to the Board for approval. The Board is mindful that the Bank's remuneration policy remains supportive of the Bank's corporate objectives and shareholder value, and that the remuneration packages of Directors, CEO and key Senior Management Officers are sufficiently attractive to draw in and to retain persons who possess the attributes and competencies necessary to manage the Bank effectively and to align their interests with those of shareholders.

The Remuneration Committee reviews annually the performance of the CEO and the Executive Director and submits 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 Board as a whole determines the remuneration of Non-Executive Directors, and each individual Director abstains from the Board decision on his own remuneration.

The Directors are paid annual fees and attendance allowance for each Board meeting that they attend.

The Remuneration Committee is made up entirely of Independent Non-Executive Directors; all the six (6) Independent Non-Executive Directors are Members of the Remuneration Committee.



STATEMENT ON CORPORATE GOVERNANCE

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 Bank's growth and profitability; and that the remuneration policy supports the Bank's objectives and shareholder value and is consistent with the Bank's culture and strategy.
- To review annually the performance of the Executive Director 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 Bank'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 contributions to the effective functioning of the Board.
- Keeps abreast of the terms and conditions of service of the Executive Director, CEO and key Senior Management Officers including their total remuneration package for market comparability; and 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 responsibilities held and reviews and recommends changes to the Board whenever necessary.
- To determine the remuneration of the members of the Bank's Shariah Committee, which shall be commensurate with and reflective of the roles and functions of the Shariah Committee.

Meetings of the Remuneration Committee are held as and when necessary, and at least once a year. A total of 6 meetings were held by the Remuneration Committee in 2005.



Re-Appointment and 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.

The Articles of Association of Public Bank provide that one-third of Directors, and those appointed during the financial year, 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 further provide that all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election.

BOARD COMMITTEES

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 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 main Management Committees in Public Bank are as follows:

Board Committees

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



STATEMENT ON CORPORATE GOVERNANCE

Management Committees

- Group Human Resource Committee
- Credit Committee
- Credit Risk Management Committee
- Operational Risk Management Committee
- Assets & Liabilities Management Committee
- Share Investment Committee
- IT Steering Committee
- Business Resumption and Contingency Plan Committee

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

Composition of Board Committees

	Board Executive Committee	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Tan Sri Dato' Sri Dr. Teh Hong Piow (Non-Executive Chairman)	C	—	—	—	—
Tan Sri Dato' Thong Yaw Hong (Independent Non-Executive Co-Chairman)	—	C	C	C	C
Dato' Sri Tay Ah Lek (Managing Director)	M	—	—	—	—
Dato' Lee Kong Lam (Executive Director)	M	—	—	—	—
Dato' Yeoh Chin Kee (Independent Non-Executive Director)	—	M	M	M	M
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah (Independent Non-Executive Director)	—	M	M	M	M
Haji Abdul Aziz bin Omar (Independent Non-Executive Director)	—	C ¹	M	M	M
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff (Independent Non-Executive Director)	—	M	M	M	M
Lee Chin Guan (Independent Non-Executive Director)	—	M	M	M	M

C – Chairman

C¹ – Co-Chairman

M – Member



STATEMENT ON CORPORATE GOVERNANCE

Attendance at Board Committee Meetings

	Board Executive Committee	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Tan Sri Dato' Sri Dr. Teh Hong Piow (Non-Executive Chairman)	97/97	—	—	—	—
Tan Sri Dato' Thong Yaw Hong (Independent Non-Executive Co-Chairman)	—	16/16	12/12	6/6	12/12
Dato' Sri Tay Ah Lek (Managing Director)	*196/97	—	—	—	—
Dato' Lee Kong Lam (Executive Director)	97/97	—	—	—	—
Dato' Yeoh Chin Kee (Independent Non-Executive Director)	—	16/16	12/12	6/6	12/12
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah (Independent Non-Executive Director)	—	*214/16	*211/12	*24/6	12/12
Haji Abdul Aziz bin Omar (Independent Non-Executive Director)	—	16/16	12/12	6/6	12/12
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff (Independent Non-Executive Director)	—	16/16	*39/9	*34/4	12/12
Lee Chin Guan (Independent Non-Executive Director)	—	16/16	12/12	6/6	12/12

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

*2 Did not attend the meetings due to other unavoidable official engagements.

*3 Attended all the meetings held since his appointment in April 2005.



STATEMENT ON CORPORATE GOVERNANCE

The salient terms of reference and frequency of meetings of the 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 and Terms of Reference of Nomination Committee” 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 and Terms of Reference of Remuneration Committee” 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 limits.
- 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 the main 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.



STATEMENT ON CORPORATE GOVERNANCE

■ Credit Committee

- Approves loan applications which are beyond the individual discretionary powers of senior officers.
- Recommends credit policy and direction of lending.
- The Credit 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.

■ Business Resumption and Contingency Plan Committee

- Manages the overall formulation, implementation and maintenance of the Bank's business resumption and contingency plan.
- Compiles the overall schedule for carrying out the Bank's business resumption and contingency plan from all Head Office Divisions (including branches and IT systems) and plans for its testing at least once a year or as and when appropriate.
- The Business Resumption and Contingency Plan Committee holds quarterly meetings.



STATEMENT ON CORPORATE GOVERNANCE

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 disclosure made to shareholders, investors and the regulatory authorities.

Early releases of announcements on quarterly financial results and the press releases accompanying these results announcements reflect the Board's commitment to provide timely, transparent and up-to-date disclosure 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 the financial reporting of 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 Public Bank Group is set out on page 191 of this Annual Report.

Internal Control

The Board has overall responsibility for 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 Public Bank Group's systems of internal controls are designed to provide reasonable and not absolute assurance against the



risk of material errors, frauds or losses occurring. The Risk Management Committee meets monthly to ensure that the accountability for managing the significant risks identified is clearly assigned and that identified risks confronting Public Bank and the Public Bank Group are being satisfactorily addressed on an ongoing basis.

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

The Statement on Internal Control, which provides an overview of the state of internal controls within the Public Bank Group, is set out on pages 95 to 97 of this Annual Report.



STATEMENT ON CORPORATE GOVERNANCE



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 assists the Board in monitoring the effectiveness of the internal control and risk management systems of the 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 93 and 94 of this Annual Report.

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 the audit/non-audit fees paid/payable in 2005 to the external auditors are set out below:

	Bank RM'000	Group RM'000
Fees paid/payable to KPMG		
• Audit	710	830
• Half-year review	100	100
• Other services	159	209
Audit fees paid/payable to other auditors		
• Audit	—	839
• Other services	—	30
Total	969	2,008

STATEMENT ON CORPORATE GOVERNANCE

EFFECTIVE COMMUNICATION WITH SHAREHOLDERS

The Public Bank Group recognises the paramount importance of maintaining transparency and accountability to its stakeholders. As such, the Group maintains a high level of disclosure and communication with its stakeholders through a number of readily accessible channels. The Group consistently practises the provision of clear, comprehensive and timely information to its stakeholders, particularly shareholders and investors, to facilitate informed investment decision making.

The annual report of Public Bank is a key channel of communication with shareholders and investors. The contents of the annual report of Public Bank extend well beyond the disclosures required to be made in an annual report as specified by the Bursa Securities Listing Requirements. As a financial institution regulated by BNM, Public Bank prepares its financial statements in accordance with BNM's guidelines, BNM/GP8, in respect of the contents and format of financial statements of financial institutions. BNM/GP8 was revised in 2005 to significantly increase an already higher level of disclosure of financial and risk management information compared to that of other non-financial corporations. The revision of BNM/GP8 also increased the level of information and contents of Public Bank's quarterly results announcements to Bursa Securities, thereby further enhancing the level of transparency of Public Bank's results announcements.

Public Bank also provides an executive summary of its annual report, highlighting key financial and corporate information, to facilitate shareholders' easy access to the key financial and corporate information. Also in keeping with the advancement in the use of technology, Public Bank has produced its Annual Report 2005 in CD ROM.

An important forum for communication and dialogue with shareholders is the general meeting of Public Bank, where shareholders are accorded both the opportunity and the time to raise questions on the agenda items of the general meeting and where Directors and Senior Management Officers would provide the answers and appropriate clarifications to issues raised.

At the annual general meeting of Public Bank, the Chairman would present a comprehensive review of the financial performance of the Public Bank Group and the delivery of shareholder value. This review is supported by visual presentation of salient points and key financial figures. Printed copies of the review of the Group's financial performance 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 about 2,900 shareholders attended the annual general meeting held on 30 March 2005, a significant increase compared to 2,200 shareholders who attended the annual general meeting held on 20 April 2004.

Public Bank conducts separate media and analysts briefings in conjunction with the release of its half-year and annual results announcements. The media briefings are intended to promote the dissemination of not only the announcement of the financial performance of the Public Bank Group to as wide an audience of shareholders and investors as possible, but also to keep shareholders and investors updated on the progress and development of the business of the Group as well as any strategic developments within the Group.



STATEMENT ON CORPORATE GOVERNANCE

In order to reach as wide an audience as possible, all the corporate and financial information that is made public, such as the annual report of Public Bank, the quarterly announcements of the financial performance of the Public Bank Group, announcements and disclosures made pursuant to the disclosure requirements of Bursa Securities Listing Requirements and other corporate information are easily available on Public Bank's website, www.publicbank.com.my.

Prompt and timely availability of information is important for shareholders and investors to make informed investments decisions. As such, the Public Bank Group places a high priority on ensuring that information is made available and disseminated as early as possible. Public Bank strives for early issue of its annual report and is always well ahead of the deadlines specified in the Bursa Securities Listing Requirements in its disclosures of its quarterly financial results.

Release of Annual Report

	Date of Issue	No. of Days After End of Year	Deadline Imposed by Bursa Securities
Annual Report 2004	8 March 2005	67	30 June 2005
Annual Report 2005	24 February 2006	55	30 June 2006

Release of 2005 Quarterly Results

	Date of Issue	No. of Days After End of Quarter	Deadline Imposed by Bursa Securities
1st Quarter ended 31 March 2005	13 April 2005	13	31 May 2005
2nd Quarter ended 30 June 2005	21 July 2005	21	31 August 2005
3rd Quarter ended 30 September 2005	18 October 2005	18	30 November 2005
4th Quarter ended 31 December 2005	23 January 2006	23	28 February 2006

The Public Bank Group has been able to achieve such early issuance of its annual reports and releases of quarterly financial results despite the regulatory requirements that need to be complied with, including a significantly higher level of disclosure of financial information, and the requirement for the annual financial statements and half-year financial results to be approved by BNM prior to their public release. The prompt and timely availability of information clearly enhances the value of such information to shareholders and investors and reflects the high standard of transparency that the Group seeks to achieve.



STATEMENT ON CORPORATE GOVERNANCE

INVESTOR RELATIONS

Another important channel of communications with shareholders, investors and the investment community, both in Malaysia and internationally, is the Public Bank Group's investor relations activities. The Group has a strong following amongst domestic and international institutional investors, fund managers and the stockbroking industry's research analysts, and a direct channel to them exists in the investor relations function of the Group. Management personnel responsible for the Group's investor relations function are of very senior levels, thereby providing views and information on the Group that is appropriate and substantive for the consumption of investors and research analysts.

Senior Management Personnel in Investor Relations Activities

Public Bank

- Dato' Sri Tay Ah Lek, *Managing Director*
- Leong Kwok Nyem, *Senior General Manager*
- Wong Jee Seng, *General Manager, Finance & Risk Management*
- Nasaruddin bin Arshad, *Group Economist, Economics & Corporate Planning Division*

JCG Holdings Limited

- 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 half-year and annual results announcements in 2005. Representatives of the Public Bank Group conducted presentations and meetings at 5 investor conferences and forums and held 2 teleconferences in 2005.

In addition, management personnel responsible for investor relations activities held 195 meetings with equity research analysts, fund managers and institutional shareholders and investors in 2005.

The extensive investor relations activities of the Public Bank Group have resulted in a wide coverage of the Group by stock brokerages and equity research companies. This is reflected in the high number of contributors to the Thomson Financial Institutions Brokers' Earnings System (I/B/E/S) earnings estimates.

	Public Bank	JCG Holdings
No. of contributors to I/B/E/S earnings estimates	23	8

The significant level of resources allocated to the investor relations function of the Public Bank Group is a reflection of the commitment of the Group to maintain a consistently high standard of transparency to its shareholders.



STATEMENT ON CORPORATE GOVERNANCE

Primary Contacts for Investor Relations Matters

Public Bank	
Leong Kwok Nyem <i>Senior General Manager</i> <i>Contact Details</i> Telephone number: 03-21766270 E-mail: leongkn@publicbank.com.my	Mr Leong is an accountant by profession and 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 was appointed Senior General Manager in 2001. He oversees the Bank's Treasury and Corporate Structure portfolios.
Wong Jee Seng <i>General Manager,</i> <i>Finance & Risk Management</i> <i>Contact Details</i> Telephone number: 03-21766320 E-mail: wongjs@publicbank.com.my	Mr Wong is an accountant by profession. He joined Public Bank in 1993 as a Manager in Finance Division. He was subsequently promoted Senior Manager in 1997 and transferred to Treasury Division in 1998. He was promoted Director of Risk Management Division in 2000. He was appointed General Manager in 2002 to oversee the Finance and Risk Management Divisions.
JCG Holdings	
Tan Yoke Kong <i>Executive Director</i> <i>Contact Details</i> Telephone number: 852-25377226 E-mail: yktan@jcg.com.hk	Mr Tan was appointed an Executive Director of JCG Holdings Limited in 1992 and has more than 24 years of experience in the banking and finance industry, all of which were with the Public Bank Group since 1981. He is an accountant by profession and is currently the Vice-Chairman of The DTC Association of Hong Kong and a member of the Deposit-Taking Companies Advisory Committee in Hong Kong.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors dated 12 January 2006.

TAN SRI DATO' SRI DR. TEH HONG PIOW

Chairman



RISK MANAGEMENT



OVERVIEW

Being in the financial services industry, the Public Bank Group can be said to be in the risk business. A critical success factor for sustained profitability and continued delivery of shareholder value by the Group is the capability and the resolve to effectively manage the risk associated with all aspects of the Group's business as well as achieve optimum risk adjusted returns through proactive risk return management.

To achieve this aim, an enterprise-wide risk management framework is in place to manage risk. The major areas of risk which the activities of the Public Bank Group are exposed to are credit risk, operational risk, market risk (which includes interest rate risk, equity risk and foreign currency risk) and liquidity risk. The Group's risk management policies

are designed to identify and analyse these risks, to set appropriate risk limits and controls, and monitor the limits and controls continuously by means of reliable risk management systems. On-going risk management initiatives are undertaken to enhance the risk management policies, infrastructure and capabilities in line with changes in markets, products and best practice risk management processes.

The risk-conscious corporate culture of the Public Bank Group, engendered by the policies and procedures including a Code of Ethics, and which provides a framework for all staff to conduct themselves with the highest level of integrity in conducting the Group's business is also critical for effective risk management.

RISK MANAGEMENT

OVERALL RISK MANAGEMENT FRAMEWORK

The Public Bank Group's risk management infrastructure provides clear accountability and responsibility for the risk management process. The enterprise-wide risk management framework within the Group is based on the following six fundamental principles which outline the principal risk management and control responsibilities:

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

- 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 the Group.
- 2) The Risk Management Committee ("RMC") is responsible for total risk oversight covering credit risk, market risk, liquidity risk and operational 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 RMC 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 risk management 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”), Hire Purchase Credit Control (“HPCC”), 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 responsible for the identification, measurement and monitoring of risks.

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. HPCC monitors the hire purchase financing portfolio and implements credit control measures to prevent delinquencies, and rehabilitates and reschedules potential delinquent accounts to expedite recovery. 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 with risk management policies and procedures.

- 5) The Business Units are responsible for identifying, mitigating and managing risks within their lines of business. They 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 guidelines and regulatory requirements.

SENIOR INTERNAL CONTROL AND RISK MANAGEMENT OFFICERS

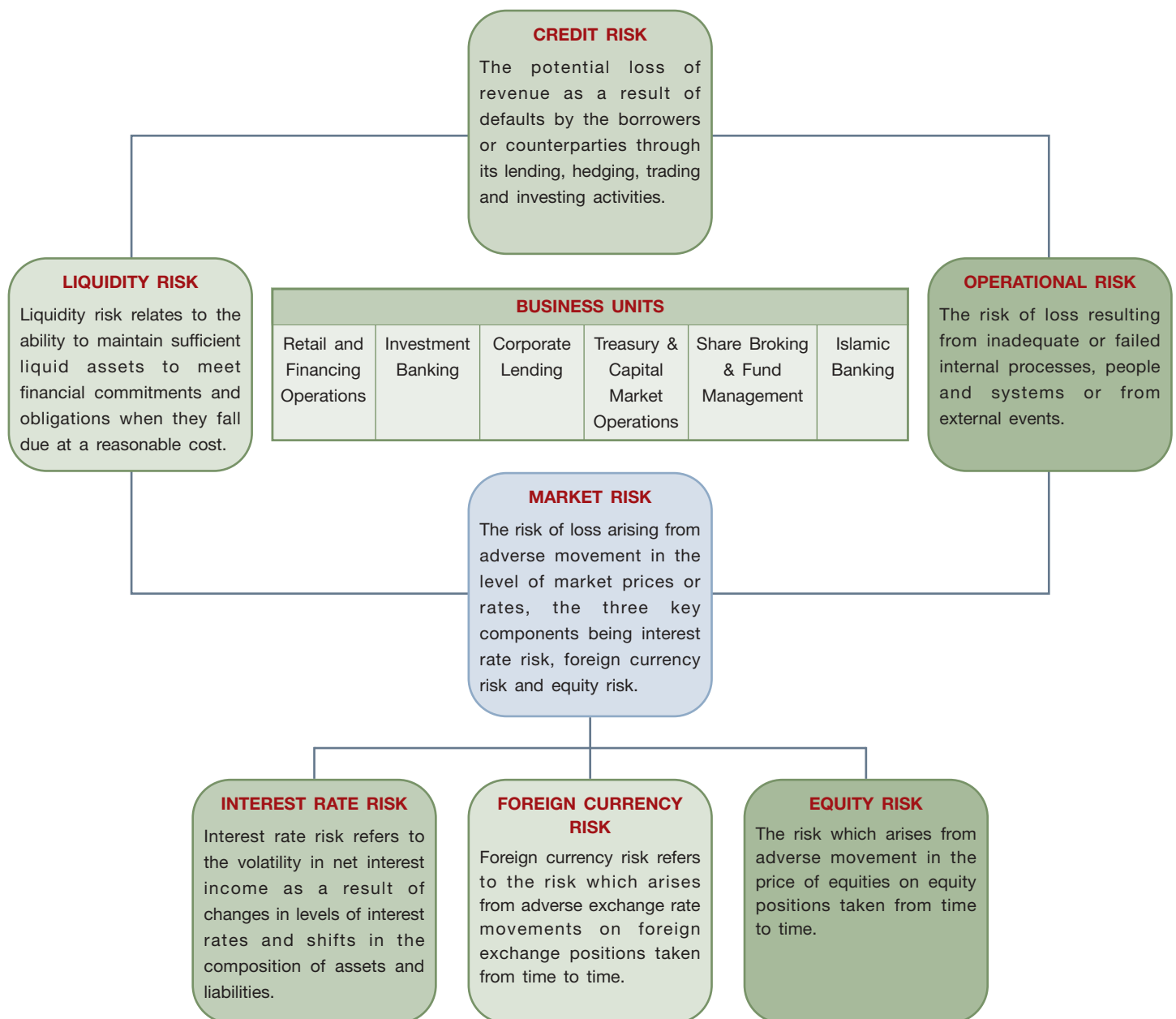
Senior Internal Control Officer Mr Soong Hoe Seng	Mr Soong is an accountant by profession and has a total of 31 years of audit experience. He was attached to an audit firm prior to joining Public Bank in 1991 as Head of Internal Audit Division. He is now the Group Chief Internal Auditor.
Senior Risk Management Officer Mr Wong Jee Seng	Mr Wong is an accountant by profession and he joined Public Bank in 1993 as Manager in Finance Division and was subsequently promoted as Senior Manager in 1997. He was transferred to Treasury Division in 1998 and promoted as Director of Risk Management Division in 2000. He is now the General Manager overseeing Finance Division and Risk Management Division.



RISK MANAGEMENT

AREAS OF RISK

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

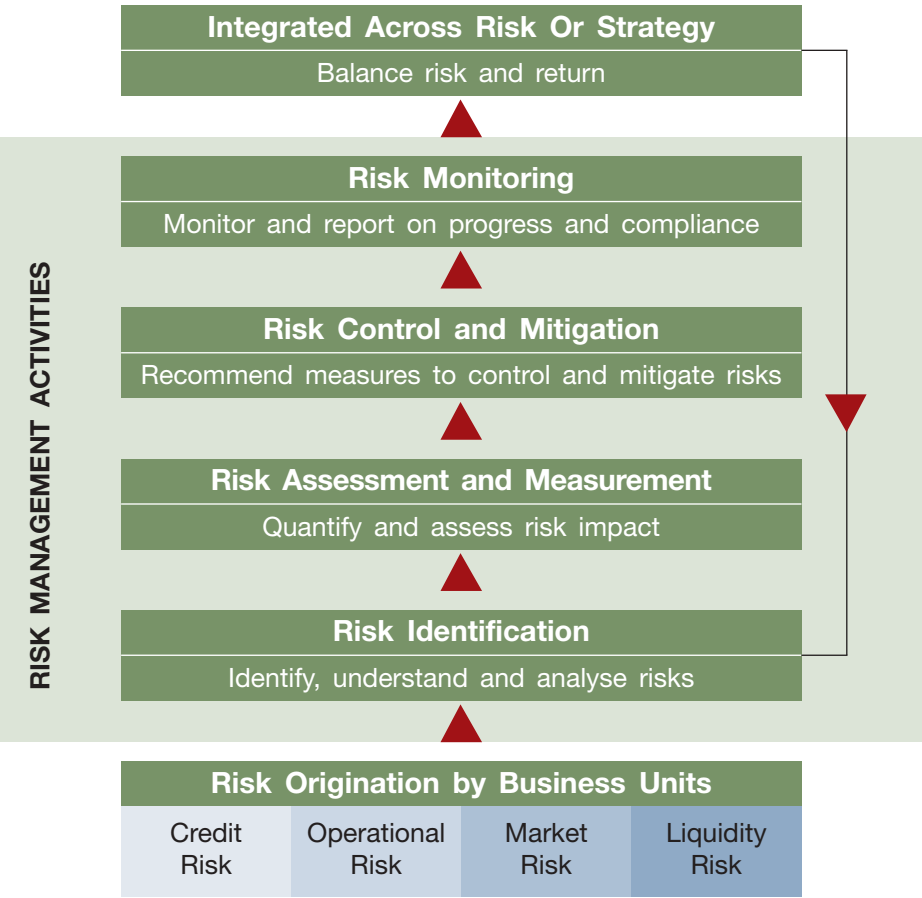


RISK MANAGEMENT

RISK MANAGEMENT PROCESS

The Public Bank Group has established, within its enterprise-wide risk management framework, a structured approach to risk management which balances risks and returns, as well as integrated risk management processes for credit risk, market risk, liquidity risk and operational risk.

The risk management activities encompass four broad processes, namely risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring which lead to a balanced risk return framework integrated across areas of risk.



RISK MANAGEMENT

CREDIT RISK MANAGEMENT

The key methods used to identify, assess, control and monitor credit risk are as follows:

Risk Identification & Assessment	<ul style="list-style-type: none"> • Use of credit risk rating system to grade the quality of borrowers as well as track shifts in credit risk profile of various portfolios. • Stress testing of loan portfolios under various scenarios. • Benchmarking of asset quality against industry peers. • Post-mortem review of weak credit and delinquent accounts to identify weaknesses in 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 analysis of loan exposure, quality of loan portfolios, movements of NPLs and adequacy of specific provisions for NPLs. • Review and evaluation of risk-return of products and services. • Qualified credit personnel for credit processing and review. • Independent credit reviews to monitor quality of credit appraisals and credit personnel, accuracy of risk grading and quality of credit portfolio.

The Public Bank Group's credit function is governed by its Credit Policy which sets out the lending direction, credit processes and procedures, the credit approving authorities and the management of credit risk. The Credit Policy is formulated with the aim of ensuring that the objectives in the area of lending consistent with its business plans are achieved and within the acceptable level of tolerance for credit risk. It is the Group's policy to adopt a high level of lending prudence and to practise a stringent credit appraisal system with individual accountability and a sound system of centralised control and reinforced with a strong credit control system.

The Public Bank Group has in place an effective credit risk management information system which reports relevant information covering loans exposure, quality of loan portfolios, credit concentration, movements of non-performing loans ("NPLs") and adequacy of specific provision for NPLs to Management, the Credit Committee, the Board Executive Committee, the Risk Management Committee and the Board regularly.

Credit Approval

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee which is chaired by the Managing Director. All loans exceeding specified limits are approved at Head Office or by the Credit Committee while experienced senior officers at branches approve loans with lower risk exposures. The Board has the power to reject or modify terms and conditions of loans exceeding certain amounts which have been approved by the Credit Committee. The quality of the credit appraisals by the officers is monitored and reviewed regularly to ensure that high credit standards are maintained.

There is a clear segregation of duties in the lending process as the loans are approved by officers who are independent of the business units involved in loan origination.



Credit Evaluation Process

Credit evaluation is conducted by experienced and qualified credit processing officers. The internally developed Credit Risk Rating (“CRR”) system is used together with a thorough analysis conducted by the credit processing officers to evaluate the risk returns relationship of a borrower. The CRR is also an effective tool to manage the loan portfolios of the Group. Good customers are identified for enhancement of credit facilities and any deterioration in asset quality is identified at an early stage so that appropriate remedial action can be taken promptly.

During the year, extensive post-mortem reviews of NPLs and credit profiling were undertaken for the hire purchase and housing loan business. The results of the study were used to refine the CRR scoresheets to ensure the scoresheets remain robust and an effective tool for credit risk management.

Credit Review and Supervision

An effective preventive measure to identify and manage emerging problem loans is the independent periodic and special reviews of performing loans. The credit review is generally conducted on an annual basis, but more frequently for higher risk borrowers. A web-based application to conduct on-line review of loans, the electronic Credit Review (“eReview”) system was implemented in 2005 to ensure the effectiveness and timeliness of credit reviews.

Securities Documentation Centres (“SDCs”) are set up to consolidate the monitoring and execution of all loan security documentation for the branches. With specialisation under the SDCs, there is reduced risk of faulty or invalid security documentation and better control and custody of security documents as well as timely disbursement of loans.

In line with the Best Practices for the Management of Credit Risk, independent post approval reviews of loans are conducted to monitor quality of credit appraisals and credit personnel, accuracy of risk grading and quality of the credit portfolio. The regular independent reviews monitor adherence to policies, procedures and guidelines and recommend improvements to ensure the effectiveness of credit risk practices.

Credit Control and Monitoring

A credit facility will be classified as close attention when certain adverse factors occur and are monitored more closely and reported to Management on a regular basis. Close communication is maintained with the borrowers to prevent further deterioration of such accounts into non-performing status.

Credit Control Centres have been established to handle the specialised function of collection, loan recovery, loan restructuring and rehabilitation. The recovery task force officers will follow-up on delinquent accounts and assess the borrower’s financial problems, cash flows and thereafter recommend an appropriate mode of repayment to restructure and reschedule the account.



RISK MANAGEMENT

Stress Testing and Benchmarking of Asset Quality

Quarterly stress tests are conducted to ensure that the asset quality is still within acceptable levels even under stress scenarios and timely proactive actions are taken to arrest any signs of deterioration in the quality of the loan portfolios.

Quarterly benchmarkings of asset quality against industry measures of asset quality are also conducted to ensure that the asset quality of the Group remain well above that of industry peers. The areas covered are NPL ratio by sectors, loan loss coverage and percentage of loans in arrears.

NPL position

Retail loans represented 93% of the Group's loan portfolio. The retail portfolio is well diversified into consumer and SME loans that have low volatility of credit risk outcomes as evidenced by the Group's low NPL ratios for these sectors. As a result of the Group's prudent lending practices and proactive credit risk management, the Group's NPL ratio was 1.73% as at the end of 2005 (2004: 2.14%). The NPL ratio has also been consistently lower than the banking industry and currently stands at only one third of the industry's NPL ratio of 5.8% as at end November 2005.

MARKET RISK MANAGEMENT

The key methods used to identify, assess, control and monitor market risk are as follows:

Risk Identification & Assessment	<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 exchange positions.
Risk Control & Monitoring	<ul style="list-style-type: none"> • Policies and procedures on valuation and validation of trading positions are established. • Mark-to-market valuation of trading positions are compared against pre-determined market risk limits. • Market risk limits are set taking into consideration the risk appetite and the risk-return relationship. • Regular reviews of trading limits.

Trading Risk Management

The Public Bank Group's market risk trading activities arise from market-making, arbitrage and proprietary position-taking activities. Financial instruments held in the Group's trading portfolios include debt securities and equity. Details of such financial instruments are found in Note 5 to the Financial Statements.

The Public Bank Group's trading activities are principally conducted by Treasury Division and are subject to the guidelines set out in the Trading Book Policy Statement ("TBPS") which is approved by the Board and Bank Negara Malaysia. The TBPS serves to clearly delineate the role and responsibilities of parties involved in trading activities of the Group. The TBPS sets out the trading limits which include, inter alia, the Overall Open Position, Daily and Cumulative Cut Loss Position and Maximum Holding Periods to ensure that dealers day-to-day trading activities are within the risk parameters set, independent mark-to-market valuation and validation procedures, policy on hedged transactions and prohibition on the transfer of financial instruments from the trading book to the banking book.



RISK MANAGEMENT

The engagement in complex derivative products requires specific approval of the Risk Management Committee and the Board and is subject to compliance with the Bank Negara Malaysia's guidelines on Minimum Standards on Risk Management Practices for Derivatives whereby an independent assessment of the risks is carried out to ensure that relevant risks are identified and understood, and can be measured, managed and reported.

The incorporation of the regulatory market risk charge on trading exposures has a 0.3% and 0.4% impact on the Group's and Public Bank's risk weighted capital ratio respectively as at 31 December 2005. With the incorporation of the regulatory market risk charge, the risk weighted capital ratio is at 17.1% for the Group and 14.9% for Public Bank.

INTEREST RATE RISK MANAGEMENT

The key methods used to identify, assess, control and monitor interest rate risk are as follows:

Risk Identification & Assessment	<ul style="list-style-type: none">• Simulations under different interest rate environments and impact on net interest income.• Review of inflation risk.• Review of changes in interest rates on the economic value using duration-weighted methodology.• Measuring of interest rate risk through the interest rate sensitivity gap analysis in RM and in foreign currency.• Mark-to-market valuations of the trading and banking books.
Risk Control & Monitoring	<ul style="list-style-type: none">• Regular review of the interest rate outlook, vulnerability of net interest income to movements in interest rates and develop strategies to mitigate interest rate risk.• Review and monitoring of changes in market value of the trading and banking books to movements in interest rates.• Review of adverse movements in interest rate on net interest income and monitoring such movements against risk tolerance limits.

The Public Bank Group strives to meet customers' demand and preferences for products with different interest rate structures and maturities. Sensitivity to interest rate movements arises from mismatches in the repricing dates, cash flows and other characteristics of specific assets and liabilities. In managing interest rate risk, the primary objective is to monitor and avert significant volatility in net interest income ("NII") and the economic value of equity.

The Public Bank Group manages its interest rate risk in a variety of ways that involve the offsetting of position against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in interest rate sensitive assets and liabilities and the use of derivative instruments.



RISK MANAGEMENT

The table set out in Note 43 to the Financial Statements represents the Public Bank Group's and Public Bank's interest rate risk sensitivity based on repricing gaps as at 31 December 2005 and 31 December 2004. The Group and Public Bank had an overall positive banking book interest rate sensitivity gap of RM13.16 billion (2004: RM13.04 billion) and RM11.25 billion (2004: RM11.06 billion) respectively, which represents the net difference in the interest rate sensitive assets and liabilities across time buckets for the entire balance sheet.

Based on the interest rate risk sensitivity repricing gaps set out in Note 43 to the Financial Statements and after adjusting for basis risk and for behavioural maturity, it is estimated that a hypothetical immediate and sustained 1% increase in interest rates on 1 January 2006 would increase the NII for the 12 months to 31 December 2006 as follows:

	The Group	The Bank
For the year 2006		
Increase in NII	RM78 million	RM80 million
Impact on increase in NII against NII in 2005	3%	3%

Complementing the static analysis is the simulation of favourable and adverse interest rate environments. The potential reduction in NII from an adverse interest rate movement is monitored against the risk tolerance limits set by the ALCO. The exposure of the economic value of equity to changes in interest rates is also measured using duration-weighted methodology and monitored against the risk tolerance limits set by the ALCO.

Derivative hedging instruments such as interest rate swaps are used to mitigate interest rate risk. Interest rate swaps serve as an efficient tool to mitigate the Public Bank Group's interest rate risk by changing a fixed rate financial instrument to a floating rate financial instrument. Details of the interest rate swaps entered into for this purpose are set out in Note 41 to the Financial Statements.

FOREIGN EXCHANGE RISK MANAGEMENT

The key methods used to identify, assess, control and monitor foreign exchange risk are as follows:

Risk Identification & Assessment	<ul style="list-style-type: none"> Regular review of foreign exchange 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"> Monitoring of Net Open Positions for foreign currencies against pre-determined limits. Regular review of the cost to hedge positions by comparing the interest differential of the currencies involved.



RISK MANAGEMENT

Foreign exchange exposures originate from Treasury Division's money market activities and the Public Bank Group's investments and retained earnings in subsidiaries, branches and associated companies whose functional currencies are not the Ringgit. The main functional currencies in which the Group business are transacted in are US dollars and Hong Kong dollars.

The types of instruments entered into during the course of providing services to customers and in the Public Bank Group's investment strategies which are exposed to this risk include foreign currency-denominated loans and financing, foreign currency-denominated securities and foreign exchange related contracts. Where possible, foreign-denominated loans and financing are funded by foreign currency deposits. The foreign currency-denominated securities are generally funded by borrowings in the same foreign currency, including the proceeds of the issuance of US dollar Subordinated Notes and foreign currency interbank borrowings.

The Public Bank Group hedges its foreign currency exposures arising from the Group's investments and earnings retained in its subsidiaries, branches and associated companies after assessment of the expected exchange loss as compared to the interest differential between two currencies, being the cost of the hedge. Hedges of such foreign currency positions are performed through the funding of the Group's net investment with borrowings of the same currencies as the functional currencies involved. A summary of the Group's foreign currency exposure as at 31 December 2005 is set out below:

	RM'Million
Foreign currency exposures arising from the Group's investments and retained earnings in overseas operations	1,251
Hedges by funding in functional currencies	(1,211)
Net foreign currency exposures	40



RISK MANAGEMENT

EQUITY RISK MANAGEMENT

The key methods used to identify, assess, control and monitor equity risk are as follows:

Risk Identification & Assessment	<ul style="list-style-type: none"> • Review of broad market and economic outlook of various economic 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.

The equities held by the Public Bank Group are primarily listed common stock, equity warrants, debt converted securities and convertible bonds. Equities held for trading purposes are also governed by the Trading Book Policy Statement.

The Share Investment Committee formulates policies and strategies on share investment and approves the purchase and sale of shares within established guidelines and policies. The Share Investment Committee also reviews share investment portfolios regularly and takes necessary measures to improve their values and profitability.

As at 31 December 2005, equity shares held under “Securities Held-For-Trading” had a fair value of RM11 million (2004: RM5 million). During the year, the Group recorded trading gains of RM2 million (2004:RM6 million) in its equity investment and trading activities.

LIQUIDITY RISK MANAGEMENT

The key methods used to identify, assess, control and monitor liquidity risk are as follows:

Risk Identification & Assessment	<ul style="list-style-type: none"> • Analysis of the changes in the behavioural maturity of depositors. • Analysis of abnormal deposits/withdrawals. • Review of the concentration of large depositors. • Using BNM’s New Liquidity Framework as a tool to assess excesses or shortfalls in short term liquidity.
Risk Control & Monitoring	<ul style="list-style-type: none"> • Setting of internal liquidity risk management limits, trigger limits and trigger ratios. • Monitoring of the liquidity and concentration ratios to ensure diversification of funding structure. • Liquidity Contingency Funding Plan to manage liquidity crisis. • Monitoring of net maturity mismatches under normal circumstances and under liquidity shocks.

The primary tool used for liquidity management is Bank Negara Malaysia’s New Liquidity Framework (“NLF”). The NLF assesses liquidity based on the contractual and behavioural cash flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of eligible liquifiable securities.



RISK MANAGEMENT

Public Bank and its subsidiary which are required to comply with the NLF have consistently complied with the NLF and the positions as at 31 December 2005 are as follows:

	As at 31 December 2005		As at 31 December 2004	
	The Group RM'Million	The Bank RM'Million	The Group RM'Million	The Bank RM'Million
Available cumulative mismatch to accommodate liquidity shocks	7,440	7,220	12,611	12,276
Compliance requirements by BNM	(3,202)	(3,177)	(2,803)	(2,782)
Compliance surplus	4,238	4,043	9,808	9,494
As a % of total assets	4%	4%	11%	11%

The Group and Public Bank remained highly liquid in the “up to 1 month” bucket with net cashflow surplus of RM4.24 billion and RM4.04 billion respectively.

The NLF is further supplemented with internal liquidity risk management policies to ensure that liquidity surpluses are within the limits set so as not to have excessive liquidity surpluses which may result in loss of income opportunities. The liquidity risk management activities are carried out through a combination of cash flow management, maintenance of high quality long-term and short-term marketable securities that can be readily converted to cash and diversification of the funding base.

Set out below are the concentration ratios of the Public Bank Group, Public Bank and the banking system:

	The Group	The Bank	Banking System*
Loans-to-deposit ratio	81%	80%	81%
Interbank borrowings/Total borrowings	8%	7%	10%
Number of large depositors (>1% of total deposits from customers)	4	4	Na

* This is as at end November 2005.

The Group seeks to grow its core deposits, which are generally customer-based as these deposits are a stable, diversified, low-cost funding source and less sensitive to interest rate changes compared to wholesale deposits. The Group monitors the stability of its core deposits by analysing volatility over time and this is assisted by the application of the behavioural maturity process method used in the NLF. The Group's core deposits are demand deposits, savings deposits and fixed deposits. Details of the core deposits are as set out in Note 17 to the Financial Statements.



RISK MANAGEMENT

OPERATIONAL RISK MANAGEMENT

The key methods used to identify, assess, control and monitor operational risk are as follows:

Risk Identification & Assessment	<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 frauds and control lapses. • Regular review of the adequacy of premises controls and safety. • Regular review of ICT systems and networks availability.
Risk Control & Monitoring	<ul style="list-style-type: none"> • Self Compliance Audit Programmes of business units. • 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.

The Public Bank Group believes that effective management of operational risk requires ownership by the management responsible for the relevant business process, and operational risk is thus monitored and controlled through a system of comprehensive policies and an operational risk management framework designed to provide a sound and well-controlled operational environment.

One of the key elements of the operational risk management framework is the Self Compliance Audit Programme which has been automated and put on an on-line platform. This Self Compliance Audit System ("SCAS") is used by the business units for risk identification and for evaluation of control effectiveness and monitoring capability. Further enhancements to the SCAS include incorporating changes which facilitate ease of conducting self-audits and the understanding and enforcement of fraud prevention measures.

As part of the process to improve operational risk management and in response to the on-going threat of external fraud, losses arising from fraud or control lapses are extensively analysed with emphasis on identifying the sources and causes of such losses. Thorough examination of the adequacy of controls is performed and the actions to be taken are monitored to ensure proper implementation to improve the capability to combat fraud, reduce control lapses and enhance the control processes and procedures.

Non-performing loans are also analysed for any operational lapses which directly contribute to the loans turning non-performing. The causes of the operational lapses are analysed and information on the identified operational lapses and findings are disseminated to all business units involved in credit processing and credit review to avoid recurrence. Appropriate punitive actions are taken against the errant staff involved.



RISK MANAGEMENT

Key Risk Indicators (“KRIs”) are statistical information that are collected and monitored by business units on an on-going basis for early detection of changes that may be indicative of risk concerns and potential areas of operational control weaknesses. KRIs cover areas such as fraud incidence, customer service efficiency, customer complaints, system availability and credit card issuing and acquiring losses.

Included in the control framework is a disciplined product evaluation process. Each new product or service introduced as well as variations of existing products and services are subject to a rigorous risk review and sign-off process where relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or service.

Ethical hacking and network architecture reviews are carried out by external security specialists to assess the security level of the Public Bank Group’s internet infrastructure from both external and internal threats. These tests act as an independent assessment and provide assurance that the security of the Group’s ICT infrastructure is in line with industry best practices.

Disaster recovery and business continuity plans are in place as an integral part of the Public Bank Group’s strategy to mitigate risks and manage the impact of loss events. During the year, a formal Business Resumption Contingency Plan (“BRCP”) Committee, headed by the Executive Director, was established to manage the overall formulation, implementation and maintenance of the BRCP. Where appropriate, the Group mitigates risk of high impact loss events by appropriate insurance coverage.

The Public Bank Group will embark on initiatives on anti-money laundering which are in line with international standards including performing risk profiling of customers for the purpose of anti-money laundering and counter financing of terrorism, adopting a risk-based approach when conducting customer due diligence and developing a mechanism to determine politically exposed persons. Training on anti-money laundering is on-going to ensure that staff possess the required skills and knowledge to manage this risk.

Reputation risk is considered and assessed as the Public Bank Group seeks to conduct itself with integrity and trustworthiness to engender the trust and confidence that customers, the public and stakeholders have in the Group. Reviews are conducted on the potential areas of threat which would lead to adverse impact on the Group’s reputation and controls are put in place to mitigate reputation risk.



RISK MANAGEMENT

REVIEW OR ASSESSMENT CONDUCTED ON THE GROUP'S RISK MANAGEMENT SYSTEMS

It is the Public Bank Group's policy that all risk management policies approved by the Risk Management Committee and the Board are subject to periodic reviews. This is to ensure that the risk management policies remained applicable and effective under the changing market and regulatory environments. The review of the risk management policies are undertaken by the respective business units together with Risk Management Division and Internal Audit Division. In undertaking the review of the risk management policies, the Group's risk management objectives and the impact of the risk management policies on both the operations and the financial performance of the Group are considered. The Internal Audit Division monitors compliance with policies and procedures and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.

The Public Bank Group is in the process of reviewing the Group's risk reporting framework. This is to enhance the Group's risk management function and to ensure that there is adequate risk reporting in respect of credit risk, operational risk, market risk and liquidity risk by the subsidiaries, associated companies and overseas branches. The reporting requirements will be subject to review by Risk Management Division periodically and appropriate changes in reporting will be made.

The Public Bank Group is also in the process of appointing an independent external party to conduct a comprehensive assessment of the Group's enterprise-wide risk management systems as well as its readiness for the more advanced approach in the Basel II Capital Accord. An independent review of the risk management systems and benchmarking against the best practices by an independent external consultant was last conducted in 2003.



ETHICS, INTEGRITY AND TRUST

The Public Bank Group operates in an industry where trust and confidence are of paramount importance given its role as a custodian of public funds. The Group actively seeks to conduct itself with integrity and trustworthiness to engender such trust and confidence in the Group and actively takes steps to eliminate the exposure to reputational risk arising from unethical or fraudulent conduct by employees.

Accountability

EXCELLENCE

A key determinant of the reputation of a trusted financial institution 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 adhere to a set of values and principles, and conduct themselves to behavioural standards that are consistent with that of a financial institution that is well trusted by customers and the public.

The formalisation of what constitute 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 a culture of trust and integrity in employee conduct and behaviour. Include amongst such codes and policies are a Code of Ethics, an Anti-Fraud Policy and an Anti-Money Laundering Policy.

CODE OF ETHICS

Bank Negara Malaysia issues guidelines to financial institutions, amongst which is BNM Garis Panduan 7 ("BNM/GP7"). 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



ETHICS, INTEGRITY AND TRUST

ANTI-FRAUD POLICY

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

The objectives of the anti-fraud policy are 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 Public Bank Group for 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 Public Bank Group, as the 3rd largest banking group in Malaysia and with an extensive network of branches throughout the country, is at the front line of the Government's and Bank Negara Malaysia's initiatives and efforts in the prevention of the use of the banking system for illicit and laundering activities. The Anti-Money Laundering Act, 2001 provides the legal framework to counter money laundering and terrorist financing. Central to the Group's established infrastructure for the prevention and detection of illicit and 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
- The Group's 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 demanding standards set for the behaviour of the Public Bank Group's staff are reinforced by 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 frequency of such training courses and their availability on the e-learning platform of the Group ensures that the commitment of the Group to building trust and integrity in employee conduct extend across the board.

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



CHAIRMAN

Independent Non-Executive Director

- 1 **TAN SRI DATO' THONG YAW HONG**
PSM, SIMP, DSAP, DIMP, JMN, SMP, JBS,
AMN, BA (Econs Hons), MPA (Harvard),
AMP (Harvard)

CO-CHAIRMAN

Independent Non-Executive Director

- 2 **HAJI ABDUL AZIZ BIN OMAR**
ACA (England & Wales), CA (M'sia),
FIBM (M'sia)

MEMBERS

Independent Non-Executive Director

- 3 **DATO' YEOH CHIN KEE**
DIMP
FCPA (Aust), FAIBF (Aust)

Independent Non-Executive Director

- 4 **Y.A.M. TENGKU ABDUL RAHMAN**
IBNI SULTAN HAJI AHMAD SHAH
AL-MUSTAIN BILLAH
DK II, SSAP

Independent Non-Executive Director

- 5 **DATO' DR. HAJI MOHAMED ISHAK**
BIN HAJI MOHAMED ARIFF
DSPN, JSM, DJN, SMS, KMN, PPT, PJK
FRTPI (London), FMIP (M'sia), FILA (M'sia),
D.C.L. (Hon) Newcastle-upon-Tyne

Independent Non-Executive Director

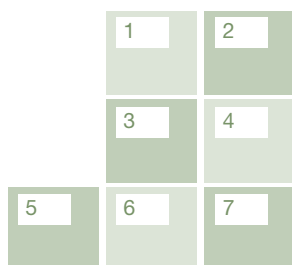
- 6 **LEE CHIN GUAN**
BSc (Hons), BCL (Oxon), LLM (Cantab),
JD (Chicago-Kent), Barrister-at-Law
(Middle Temple)

SECRETARY

Group Chief Internal Auditor

- 7 **SOONG HOE SENG**

AUDIT COMMITTEE REPORT



AUDIT COMMITTEE REPORT

1. MEMBERSHIP AND ATTENDANCE

The Audit Committee ("Committee") members and details of attendance of each member at Committee meetings during 2005.

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

2. COMPOSITION AND TERMS OF REFERENCE

2.1 Composition

- 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. **Chairman/Co-Chairman**
 - The Chairman/Co-Chairman of the Committee shall be approved by the Board of Directors and shall be an independent non-executive director.
 - The Chairman or Co-Chairman shall be a member of the Malaysian Institute of Accountants.
- c. 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.

2.2 Frequency of Meetings

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

2.3 Quorum

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

2.4 Secretary

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

2.5 Authority

The Committee shall have the authority to:

- seek any information relevant to its activities from employees of Public Bank and the Public Bank Group.
- obtain such independent professional advice as it considers necessary.
- 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 responsibilities and duties of the Committee shall be:

a. Risk Management

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

b. Internal Audit

- To approve the appointment, replacement and dismissal of the Chief Internal Auditor.
- To review 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.
- To evaluate the performance and decide on the remuneration of the internal auditors.

c. External Audit

- To review the external auditors' audit plan, scope of their audits and their audit reports.
- To assess the performance of the external auditors and make recommendations to the Board of Directors on their appointment and removal.

- To review the independence and objectivity of the external auditors and their services, including non-audit services.
- To approve the provision of non-audit services by the external auditors.

d. Audit Reports

To review the:

- 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 response.

e. Financial Reporting

To review 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.



AUDIT COMMITTEE REPORT

f. **Related Party Transactions**

To monitor and review any related party transactions that may arise within Public Bank and the Public Bank Group.

g. **Other Matters**

To consider 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 by 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 over 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 a total of 262 internal audit reports which were tabled during the year, the audit recommendations made and management's response to these recommendations. Where appropriate, the Committee has directed management to rectify and improve control and workflow procedures based on the internal auditors' recommendations and suggestions for improvement.
- d. Monitored the implementation of the audit recommendations to ensure that all the key risks and controls have been addressed.
- e. Reviewed 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 half-yearly audit performance reports to monitor the performance, progress and adequacy of coverage of the internal audit functions.
- g. Reviewed the staffing requirements of Internal Audit Division and the core 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 response to the findings of the external auditors.
- b. Assessed the independence and objectivity of the external auditors annually and prior to the appointment of the external auditors for non-audit services.
- c. Evaluate the performance and effectiveness of the external auditors and made recommendations to the Board of Directors on their appointment and remuneration.
- d. 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 high risk activities in each auditable area are audited annually. Audits are prioritised according to an assessment of the potential risk exposures.

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. 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.

In addition, Internal Audit Division also audits the various computer application systems and telecommunications network of the Public Bank Group.

Prior to implementation of new business products and projects, 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 Internal Audit Division are set out in the Statement on Internal Control.

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.

STATEMENT ON INTERNAL CONTROL

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 highlight significant findings in respect of any non-compliance. Audits are carried out on all units and 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 and 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 of the Group. 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 Credit Committee, the Share Investment Committee and the Information Technology Steering Committee.



STATEMENT ON INTERNAL CONTROL



- 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 or 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 bank's 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 its 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 2005 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.





BOARD EXECUTIVE COMMITTEE

1

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 54 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.

2

Dato' Sri Tay Ah Lek

Managing Director

Holder of a Masters degree in Business Administration, Dato' Sri Tay has been a veteran in the financial services industry for the past 45 years. A pioneer staff of Public Bank in 1966, he 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. He sits on the Board of Directors of several subsidiary companies in the Public Bank Group.

3

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 its 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 on the Board of Directors of several subsidiary companies in the Public Bank Group.



HEADS OF DIVISIONS



1

Dato' Chang Kat Kiam**Senior General Manager**

Holder of a Masters in Business Administration degree, Dato' Chang has been with Public Bank since 1975. Experienced in all aspects of banking having managed branches and banking business portfolios in Head Office. Appointed Senior General Manager in 2001. He oversees the Bank's Retail, HP and Overseas Operations.

2

Leong Kwok Nyem**Senior General Manager**

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 was appointed Senior General Manager in 2001. He oversees the Bank's Treasury and Corporate Structure portfolios.

3

Soong Hoe Seng**Group Chief Internal Auditor**

An accountant by profession. He has a total of 31 years of audit experience. He was attached to an audit firm prior to joining Public Bank in 1991 as Head of Internal Audit Division. Mr. Soong oversees the Group's Internal Audit portfolio.



HEADS OF DIVISIONS



1

2

3

1

Jenny Cheng Siew Ngoh (Ms)

General Manager, Human Resource Division

Holder of Bachelor of Economics (Public Administration) degree. A HR practitioner with more than 29 years of experience in the banking industry. She has been with Public Bank since 1976 and was appointed Head of HR Division in 1991. Ms. Cheng oversees the Group's Human Resource portfolio.

2

Chia Lee Kee (Ms)

General Manager, Secretariat Division

Holder of ICOSA degree and is a Fellow of The Malaysian Association of The Institute of Chartered Secretaries and Administrators. Joined Public Bank in 1978 with exposure in banking operations for 12 years. Was transferred to the Bank's Secretariat in 1990 and appointed Head of Secretariat Division in 1997. Ms. Chia oversees the Group's Company Secretarial matters.

3

Chong You Lin (Ms)

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.



HEADS OF DIVISIONS



4

Ismail bin Ibrahim**General Manager, Credit Control & Islamic Banking**

En. Ismail holds a Diploma in Business Studies and has been in the banking industry since 1973. For the last 33 years, he has gained wide experience having served in a few financial institutions. He joined Public Bank in 1992 as Director of Credit Operations. He is now the General Manager overseeing the Bank's Credit Administration & Supervision and Islamic Banking operations.

5

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 was appointed Director of the Bank's Economics Division in 1995 and subsequently appointed Group Economist in 1999.

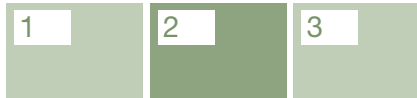
6

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 is now the General Manager overseeing the Bank's Credit Operations Division.



HEADS OF DIVISIONS



1

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 Senior Manager in 1997 and transferred to Treasury Division in 1998. Was promoted Director of Risk Management Division in 2000. He was appointed General Manager in 2002 to oversee the Finance and Risk Management Divisions.

2

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 29 years 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.

3

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 31 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 company 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.



HEADS OF DIVISIONS



4

Chan Chew Fung (Ms)

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.

5

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.

6

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 23 years. He joined Public Bank in 1983 and is experienced in all aspects of the Bank's IT operations. Mr. Tan was appointed Director in 2000 to head the IT Division of the Bank.



HEADS OF DIVISIONS



1

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 has been responsible for the Bank's HP Financing portfolio since 2004.

2

Mohd Najeed bin Abdullah

Director, Islamic Banking Division

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

3

Nizam bin Hj Zainal Abidin

Director, Security Division

En. Nizam was attached to the Royal Malaysian 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.



HEADS OF DIVISIONS



4

Sim Goay Chye**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 22 years. He held the position of Senior Manager of Business Development in Public Finance since 2000, before his appointment as the Head of the Bank's Property Division in 2004.

5

Tang Kam Hoe**Director, Banking Operations Division**

Holder of Bachelor of Economics degree. Has been with the financial services industry for the last 24 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 was appointed the Head of Banking Operations Division of the Bank in 2004.

