

# CHAIRMAN'S REVIEW

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**CHAIRMAN'S REVIEW****OVERVIEW**

Overall Business Environment	108
Summary of Group Financial Performance	110
Impact of New Financial Reporting Standards	117
Ratings	119

**BUSINESS  
OPERATIONS REVIEW**

Retail Banking and Financing Operations	120
• Consumer Credit	121
– Residential Property Financing	121
– Motor Vehicle Financing	123
– Share Financing	124
– Credit Cards	125
– Personal Consumer Loans	126
• SME Lending	127
• Customer Deposits	129
• Cash Management Services	131
Capital Market Operations	132
• Treasury	133
• Corporate Lending	134
• Investment Banking	135
• Fund Management	136
• Share Broking	140
Islamic Banking	141

Serving the Customer	145
• Customer Service	145
• Loan Service Delivery	147
• Channel Management	148
• Customer Loyalty Programmes	149
Information and Communication Technology	151
Recognising Top Performers	154
• Branch Performance Awards	154
International Operations	156

**OUTLOOK FOR 2006** 158



# OVERVIEW

## overall business environment

The Malaysian banking and financing industry continued to deliver improved performance in 2005 on the back of continued growth of the Malaysian economy which, although moderated compared to 2004, is expected to grow at a healthy 5 to 6%. Stable interest rates and strong liquidity of the banking system supported a healthy pace of annual loan growth of 9.5% as at November 2005, an improvement over the 8.5% growth of loans in the domestic banking system in 2004.





## CHAIRMAN'S REVIEW OVERVIEW

Domestic banking groups generally were strengthened with rising profitability. The operating environment of foreign controlled domestic banks continued to be liberalised with the implementation of the Financial Sector Masterplan. Stronger banks and a more liberalised environment have invariably led to a further intensification of the competitiveness of the Malaysian banking and financing industry in 2005.

Strong consumer confidence as evidenced by the high growth rate of private consumption and strong new car sales, and the continued support of small- and medium-sized enterprises ("SMEs") by the Government in its fiscal policy and activities resulted in every domestic banking group and foreign controlled domestic banks with retail presence pushing further into these business segments and competing intensely for the consumer credit market and the SME lending market.

The Public Bank Group, with its strategic focus on meeting the banking and financing needs of the retail consumer and middle market business enterprises, particularly SMEs, had to contend with rising competitiveness in an already intensely competitive market in 2005. The Group has risen to this challenge in its core markets on the traditional strengths of its strong branding, wide range of innovative and competitively priced products and services, the extensive reach of its branch network and the support of its dedicated and loyal staff force and delivered another year of record profitability, strong loan growth and growing market share in 2005.





## summary of group financial performance

### PROFITABILITY

The Public Bank Group turned in a record pre-tax profit of RM2.05 billion in 2005, and achieved a significant milestone in surpassing the RM2 billion profit mark for the first time in Public Bank's 39 year history. The Group's net profit attributable to shareholders increased by 14% to RM1.45 billion. The Group's strong profit performance was attributable to its sustained high level of loan growth, continued improvement in asset quality, enhanced productivity as well as proactive management of its balance sheet. The Group's cost to income ratio improved to 36.7% in 2005 from 37.9% in the previous year. The net return on equity rose to 21.4% in 2005 compared to 18.2% in 2004, and earnings per share increased by 12% to 44.2 sen per share against 39.5 sen per share in 2004.

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

### GROUP PROFIT BEFORE TAX

	2005 RM'Million	2004 RM'Million
Retail Operations	1,684	1,546
Treasury and Capital Market Operations	324	249
Corporate Lending	76	108
Share Broking and Fund Management	95	98
Investment Banking	9	17
Others	31	13
	<b>2,219</b>	2,031
Unallocated expenses and amortisation of goodwill	(170)	(177)
Profit before taxation	<b>2,049</b>	1,854

### PROFIT BEFORE TAX OF MAJOR COMPANIES IN THE GROUP

	2005 RM'Million	2004 RM'Million
Public Bank Berhad <sup>1</sup>	1,518	1,503
JCG Holdings Group	274	241
Public Mutual Berhad	73	65
PB Securities Sdn Bhd	21	32
Public Merchant Bank Berhad	9	15

<sup>1</sup> Profit before dividends from subsidiaries and associated companies (2004 profit includes profit of Public Finance Berhad for the first eight months prior to merger with Public Bank Bhd).



## CHAIRMAN'S REVIEW OVERVIEW

**Retail Operations:** The Public Bank Group's retail banking and financing operations, catering to the banking and financing needs of individuals and SMEs, continue to be its core business. Retail operations accounted for 71% of the Group's total operating revenue and 76% of the Group's profit before tax in 2005. Profit grew by 9% to RM1,684 million on the back of strong growth in retail lending of 20%, lower cost of deposit funding and higher commissions and fee income, which partly mitigated the effects of lower lending margins. Despite the intense competition in the retail market, domestic retail lending expanded by

19% in 2005 whilst loans growth of the Group's overseas operations was 21%. Islamic banking operations accounted for a significant 17% of the Group's retail operations' profitability.

The pre-tax profit of JCG Holdings Group increased by 14% to HKD562 million from HKD493 million in 2004. This was mainly due to growth in loans, lower loan loss allowance, write-back of impairment allowance for financial assets and lower operating expenses. JCG Holdings Group recorded a 12% increase in gross loans in 2005 as compared to a 3% increase in 2004.

### JCG HOLDINGS GROUP

	2005 HKD'Million	2004 HKD'Million
<b>Income Statement</b>		
Net interest income	726	699
Other operating income	174	200
	900	899
Other operating expenses	(179)	(233)
	721	666
Operating profit		
Allowance for losses on loans, advances and financing	(159)	(173)
	562	493
<b>Profit before tax</b>		
<b>Key Balance Sheet Items</b>		
Total Assets	4,373	4,278
Gross loans, advances and financing	3,703	3,295
Deposits from customers	1,642	1,720
Shareholders' funds	2,316	2,163
<b>Financial Ratios</b>		
Net NPL ratio	2.2%	1.8%
Risk-weighted capital ratio (Public Finance Limited)	39.3%	38.7%





## CHAIRMAN'S REVIEW OVERVIEW

### Treasury and Capital Market Operations:

Treasury and capital market operations reported a 30% increase in pre-tax profit to RM324 million in 2005, mainly on account of higher net interest income due to higher average holding of money market instruments and higher foreign exchange income. The un-pegging of the Ringgit exchange rate to the US Dollar resulted in increased foreign exchange hedging requirements by the Public Bank Group's retail and corporate customers, leading to higher foreign exchange income.

**Corporate Lending:** Pre-tax profit from the Public Bank Group's lending to large corporate customers stood at RM76 million for 2005 compared to RM108 million in the previous year. The lower profit was mainly due to higher specific allowance for bad debts, higher general allowance due to loan growth and the impact of reduced interest margins on corporate lending.

Despite the strong competition in the corporate lending business, Public Bank Group achieved loans growth of 22% due to its active marketing activities and its ability to meet the financing requirements of corporate customers.

### Share Broking and Fund Management:

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

The operating environment for the stock broking industry in 2005 was very challenging, as after a promising start in the early part of the year, the domestic

equity market experienced thin trading volumes and lower share prices for the latter part of the year. Amidst the challenging and competitive business conditions and further liberalisation of the share broking industry, PB Securities recorded a profit before tax of RM21 million in 2005 compared to RM32 million in 2004, mainly due to lower turnover and lower recoveries.

The low interest rate environment and an increasingly well-informed investing public have led to investors looking to unit trusts for higher returns and capital growth. Public Mutual capitalised on this increasing demand and launched 7 new funds, including a foreign fund, the Public Far-East Select Fund, during 2005. The total net asset value of

unit trust funds under management of Public Mutual increased by 22% during the year to stand at RM12.08 billion as at the end of 2005. Public Mutual chalked up another record year of gross sales of trust units totalling RM3.07 billion and achieved a 12% improvement in profit before taxation to RM73 million.

### PUBLIC MUTUAL BERHAD

	2005 RM'Million	2004 RM'Million
<b>Income Statement</b>		
Revenue	270	204
Other operating income	8	8
	278	212
Other operating expenses	(205)	(147)
Profit before tax	73	65
<b>Key Balance Sheet Items</b>		
Total Assets	502	373
Shareholders' funds	294	244
Net asset value of unit trust funds under management	12,077	9,884



## CHAIRMAN'S REVIEW OVERVIEW

### PB SECURITIES SDN BERHAD

	2005 RM'Million	2004 RM'Million
<b>Income Statement</b>		
Revenue	17	23
Other operating income	16	25
	33	48
Other operating expenses	(12)	(16)
Profit before tax	21	32
<b>Key Balance Sheet Items</b>		
Total assets	346	557
Shareholders' funds	258	317

**Investment Banking:** The investment banking operations of the Public Bank Group, which is undertaken by Public Merchant Bank, cater mainly to corporate customers through the provision of corporate advisory services and funding support. Being part of the Public Bank Group, Public Merchant Bank is well positioned to offer structured financing, corporate advisory services, mergers and acquisitions and debt restructuring advisory services which are synergistic with other financial services offered by the Group. Despite the very challenging Malaysian investment banking environment in 2005, Public Merchant Bank reported a pre-tax profit of RM9 million.

### PUBLIC MERCHANT BANK BERHAD

	2005 RM'Million	2004 RM'Million
<b>Income Statement</b>		
Net interest income	8	10
Other operating income	9	12
	17	22
Other operating expenses	(8)	(8)
Operating profit	9	14
Allowance for losses on loans, advances and financing	—	1
Profit before tax	9	15
<b>Key Balance Sheet Items</b>		
Total assets	3,176	2,921
Gross loans, advances and financing	142	139
Deposits from customers	1,307	1,000
Shareholders' funds	187	178
<b>Financial Ratios</b>		
Net NPL ratio	0%	0%
Risk-weighted capital ratio	42.3%	45.4%





# CHAIRMAN'S REVIEW OVERVIEW

## LENDING

Loans, Advances and Financing	Public Bank Group				Banking System
	Outstanding (Gross)		Growth Rate		Growth Rate <sup>1</sup>
	2005 RM'Mil	2004 RM'Mil	2005 %	2004 %	2005 %
Group	<b>68,102</b>	56,912	<b>20</b>	22	<b>9.5</b>
Public Bank	<b>65,716</b>	54,898	<b>20</b>	22	<b>9.8</b>
JCG Holdings Group	<b>1,805</b>	1,610	<b>12</b>	3	<b>NA</b>

<sup>1</sup> Annual growth rate as at November 2005.

The Public Bank Group has consistently achieved a high and above industry level of loan growth, with growth rates close to or in excess of 20% annually since 2001. In 2005, the Group's loans and advances increased by RM11.19 billion or 20% to stand at RM68.10 billion as at the end of December 2005 and was again more than twice the increase in loans posted by the domestic banking system in 2005. As a result, the Group's market share for loans and advances rose to 12% at the end of 2005 from 11% a year earlier.

The Group's lending direction continued to be focused on the retail sector, with loans for the financing of residential properties, purchase of passenger vehicles and loans to SMEs accounting for 72% of the total loan portfolio and 76% of total new loans approved of RM27 billion in 2005.

The Group's residential mortgage loans grew strongly by 27% in 2005 to RM17.79 billion at the end of 2005, resulting in a higher market share of

12% compared to 11% a year ago. During the same period, loans for the purchase of passenger vehicles increased by 18% to RM16.68 billion and loans to SMEs expanded by 13% to RM14.81 billion.

JCG Holdings Group recorded a stronger 12% loans growth in 2005 compared to the 3% growth in 2004.

## ASSET QUALITY

Group Asset Quality	2005		2004	
	Group	Public Bank	Group	Public Bank
NPL – RM'Million	<b>1,406</b>	<b>1,290</b>	1,510	1,406
Net NPL Ratio	<b>1.7%</b>	<b>1.7%</b>	2.1%	2.2%
Net NPL Ratio – Banking System <sup>1</sup>	<b>6.0%</b>	<b>5.8%</b>	7.5%	7.3%

<sup>1</sup> As at 30 November 2005.

The Public Bank Group's gross non-performing loans ("NPL") fell by RM104 million while net NPLs declined by RM39 million during 2005. Consequently, the Group's gross and net NPL ratios, based on a 3-month classification, improved to 2.1% and 1.7% respectively as at the end of 2005, from 2.7% and 2.1% a year earlier. This was significantly lower than the banking industry's gross NPL ratio of 8.6% and net NPL ratio of 6.0% at the end of November 2005.



## CHAIRMAN'S REVIEW OVERVIEW

Public Bank continues to be ranked the best amongst all banks in Malaysia in terms of asset quality. The NPLs of the Public Bank Group has charted a consistently improving trend since 2001 both in terms of the quantum of NPLs as well as the NPL ratios. The consistently improving asset quality is a result of the Group's prudent lending policies and practices which were complemented by strong credit management and proactive recovery processes.

The Public Bank Group maintained a high level of provisioning with its ratio of general allowance to net loans of 1.6%. The Group's loan loss coverage at the end of 2005, before taking into consideration collateral, stood at 92% compared to 52% coverage for the banking system as at the end of November 2005.

NPL Trend	2005	2004	2003	2002	2001
Gross NPL – RM'Million	<b>1,406</b>	1,510	1,781	1,726	2,193
Net NPL – RM'Million	<b>1,173</b>	1,212	1,404	1,240	1,575
Gross NPL Ratio (%)	<b>2.1%</b>	2.7%	3.8%	4.5%	6.9%
Net NPL Ratio (%)	<b>1.7%</b>	2.1%	3.0%	3.2%	5.0%

### FUNDING

Group Customer Deposits	Outstanding		Growth Rate		Mix	
	2005 RM'Mil	2004 RM'Mil	2005 %	2004 %	2005 %	2004 %
Demand	<b>9,566</b>	8,683	<b>10</b>	18	<b>11</b>	12
Savings	<b>12,567</b>	11,498	<b>9</b>	19	<b>15</b>	16
Fixed	<b>43,210</b>	39,315	<b>10</b>	21	<b>51</b>	54
NIDs	<b>18,492</b>	12,482	<b>48</b>	>100	<b>22</b>	17
Others	<b>295</b>	268	<b>10</b>	—	<b>1</b>	1
	<b>84,130</b>	72,246	<b>16</b>	44	100	100

The Public Bank Group's total customer deposits increased by RM11.88 billion or 16% to RM84.13 billion at the end of 2005, with further improvement to the overall funding structure. Savings deposits grew by 9%, while demand deposits grew by 10%, outpacing the industry's annual growth rate of 5% and 8% respectively as at November 2005. Fixed deposits and negotiable instruments of deposit ("NIDs") recorded significant increases during the year to fund the strong expansion in the lending business of the Group.

Deposits from individuals made up 71% of the Public Bank Group's core demand, savings and fixed deposits, providing the Group with a stable deposit base. The Group's market share of deposits by individuals remained intact at 15%.





# CHAIRMAN'S REVIEW OVERVIEW

## CAPITAL

	Group		Public Bank		Banking System <sup>1</sup>
	2005	2004	2005	2004	2005
Shareholders' funds (RM'Million)	<b>8,482</b>	8,635	<b>8,138</b>	8,415	<b>na</b>
Core capital ratio (%)	<b>11.4</b>	13.8	<b>11.1</b>	13.8	<b>10.8</b>
Risk-weighted capital ratio (%)	<b>17.1</b>	17.8	<b>14.9</b>	15.3	<b>13.8</b>

<sup>1</sup> As at 30 November 2005.

The Public Bank Group's shareholders' funds stood at RM8.48 billion as at 31 December 2005 and was the third largest amongst banking groups in Malaysia. The marginal decline of the Group's shareholders' funds was due to the high dividend payout of RM1,652 million, including an interim dividend of RM473 million paid out in 2005 which offset the Group's current earnings and proceeds from new shares issued pursuant to the Public Bank Group Employees' Share Option Scheme.

The strong capitalisation of the Public Bank Group is reflected in its risk-weighted capital ratio ("RWCR") of 17.1% as at 31 December 2005, which was higher than the RWCR of 13.8% for the banking system as at November 2005 and more than twice the statutory minimum of 8%.

The core capital ratio and RWCR of Public Bank continued to be strong at 11.1% and 14.9% respectively.

## CAPITAL MANAGEMENT

Proactive measures continued to be taken in 2005 to improve the efficiency of the Public Bank Group's capital. In June 2005, Public Bank increased its Tier 2 capital by RM1.52 billion with the issue of USD400 million Subordinated Notes, thereby increasing the Group's total Tier 2 debt capital to USD750 million. The gearing up of its core capital with Tier 2 debt capital provides the Group with the capacity to pursue business and balance sheet expansion without burdening shareholders for more equity capital, thus improving the return on capital whilst maintaining a strong RWCR.

Public Bank has to date spent RM785 million to buy back a total of 124 million Public Bank shares, representing 3.6% of the issued and paid-up share capital of Public Bank. The share buy-back had resulted in an improvement of the Public Bank Group's return on equity by 2.0%.

As part of its initiatives to create shareholder value and improve the Group's capital structure, Public Bank maintained its high dividend payment ratio in 2005 with an interim dividend paid during the year of 20 sen less 28% taxation, as well as a proposed final dividend of 20 sen and a proposed special dividend of 15 sen, totalling 35 sen less 28% taxation, subject to the approval of shareholders. The total net dividends paid and payable for 2005 would amount to RM1,303 million, representing 136% of the profit after taxation and after transfer to statutory reserves of Public Bank for 2005.

The Public Bank Group is committed to delivering and maximising shareholder value over the long term through the active management of capital, with the aim to achieve improved return on equity and higher share price valuation multiples, whilst positioning the Group for strong balance sheet growth with an appropriate level of debt and equity capital. With a more efficient capital structure, the Group is better placed to compete in an intense and increasingly competitive banking and financing industry and maintain its traditionally strong balance sheet.



## CHAIRMAN'S REVIEW OVERVIEW

### impact of new financial reporting standards

In order to bring Malaysian accounting standards into convergence with International Financial Reporting Standards, the Malaysian Accounting Standards Board ("MASB") has approved 21 new or revised Financial Reporting Standards ("FRS"), of which 18 standards are applicable for financial years commencing on or after 1 January 2006.

Assuming that all the approved 21 FRSs were to be implemented for the financial year commencing 1 January 2006, the impact will be reflected in the Public Bank Group's financial statements for the quarter ending 31 March 2006. The new FRSs would require the application of fair value measurement techniques. This will introduce greater volatility to the Group's financial performance.

With the implementation of the FRSs, a number of the Public Bank Group's accounting policies will be changed. The key areas which would impact the Group are outlined below:

#### **Loan impairment**

Presently, the Group's loan loss allowance is determined in accordance with BNM/GP3 Guideline issued by Bank Negara Malaysia. Under "FRS 139, Financial Instruments: Recognition and Measurement", the Group will not be allowed to recognise impairment until objective evidence is available that a loss event has occurred, for example, continuing deterioration of loan aging. Loan impairment is calculated as the difference between the carrying amount and the present value of future cash flows discounted at the loan's original effective interest rate. General allowance will be discontinued.

#### **Revenue recognition**

Presently, interest on loans is recognised in the income statement at contracted interest rates. FRS 139 requires interest income to be recognised on an effective interest rate basis. This will mainly affect the Group's loan portfolio

with step-up interest rates, resulting in higher income recognition during the initial period of the loan tenor when the effective interest rate is higher than the contracted rate. Interest income will be lower in the latter period of the loan tenor when the effective interest rate is lower than the contracted rate.

#### **Investment properties**

The Group's properties which are held for rental or capital appreciation are required to be reclassified to investment properties. "FRS 140: Investment Property" allows the valuation of investment properties using the cost model or the fair value model. Under the cost model, the properties will continue to be carried at cost and depreciated, and will be subject to impairment charge. If the fair value model is adopted, the properties will be measured at fair value and any changes in fair value is charged or credited to the income statement.





## Intangible assets

Amortisation of goodwill for the Group is no longer required under the new FRSs. Instead, any goodwill recognised within the Group is subject to an annual impairment test and any identified impairment must be recognised in the income statement immediately. Other intangibles will be amortised on a systematic basis that best reflects the expected pattern of consumption of the assets' benefits over their expected useful lives.

## Share-based payments

"FRS 2: Share-based Payment" will require the Group to recognise share options granted to employees as an expense in the income statement. The fair value of the share options at grant date will be expensed over their expected vesting period on a straight line basis. This rule will be applied to share options granted after 1 January 2005 and vested after 1 January 2006.

As at 31 December 2005, there are no share options that have been granted by the Group under the Public Bank Group Employees' Share Option Scheme which remained unvested.

## Capital implication

All prior period adjustments arising from the adoption of FRSs will be made to retained earnings and will result in a restatement of the Group's capital base. However, the actual impact on the Group's regulatory capital is not determined yet and will depend on the treatment to be determined by Bank Negara Malaysia.

## Transitional policy changes

As a result of these accounting policy changes, prior year adjustments will be effected to the opening retained profits. Restatement of comparative financial information will be required for those FRSs with retrospective implementation.

The summarised financial impact on the Group's income statement as a result of the implementation of the 21 new or revised FRSs are as follows:

	Expected Net Impact
Loan impairment	Positive
Revenue recognition	Positive
Investment property	Neutral
Intangible assets	Positive
Share-based payment	Neutral

The overall impact arising from the implementation of the 21 new or revised FRSs is expected to be positive and would have resulted in an enhancement of the Group's earnings in the range of 3% to 5% of the Group's 2005 earnings had the 21 new or revised FRSs been implemented in 2005.



## CHAIRMAN'S REVIEW OVERVIEW

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

## ratings

In July 2005, Rating Agency Malaysia ("RAM") reaffirmed Public Bank's long-term and short-term ratings of AAA and P1 respectively. The AAA rating is the highest rating given by RAM and is accorded only to financial institutions that are financially strong and offer the highest safety for timely payment of financial obligations.

RAM attributed Public Bank's high ratings to its strong fundamentals with superior asset quality, sturdy capitalisation and commendable profitability. The ratings further took cognizance of Public Bank's reputable franchise as one of the leading domestic commercial banks. RAM also noted that the merger of the finance company business of Public Finance with the banking business of Public Bank in

September 2004 has effectively reinforced Public Bank's position, allowing it to achieve economies of scale and optimize synergistic benefits by being a one-stop financial services provider.

Also in July 2005, Standard & Poor's Rating Services reaffirmed Public Bank's long-term credit rating of A- and short-term credit rating of A-2. Public Bank is one of the only two Malaysian banks with single A ratings by Standard & Poor's. The Standard & Poor's rating rationale cited Public Bank's standing as one of the top-tier commercial banks in Malaysia and its sound financial profile in the areas of asset quality, profitability and capitalization despite a competitive environment. Public Bank is also expected to continue enhancing its

business profile, by extracting further group synergies through streamlining its group operations and increasing cross selling of its products and services.

In October 2005, Moody's Investors Service reaffirmed Public Bank's long-term deposit rating of A3 and short-term deposit rating of Prime-1 in view of its solid financial fundamentals and conservatism. Moody's Investor Service also assigned Public Bank a Bank Financial Strength Rating ("BFSR") of C, reflecting Public Bank's strong recurring earnings, robust capital and good asset quality. Public Bank is one of the only two Malaysian banks with a BFSR of C.





## CHAIRMAN'S REVIEW

# BUSINESS OPERATIONS REVIEW

## review of group operations

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### retail banking and financing operations

Underlying the Public Bank Group's core strategy of expansion through organic growth is its resolute focus on the retail banking and financing business. Over the past 5 years, total assets of the Group had expanded from RM45.28 billion at the end of 2000 to RM111.61 billion at the end of 2005. This multi-fold expansion of the balance sheet had been driven by growth of its lending business of close to or in excess of 20% per year for the last 5 years as well as strong growth in the Group's retail core customer deposits and wholesale corporate deposits business.

The extraordinary growth of the Public Bank Group's lending business over the past few years, which has positioned the Group as the second largest domestic lender in Malaysia, has been focused on lending to retail consumers and mid-market SMEs. In 2005, the Group's retail loans expanded by 20% to stand at RM63.25 billion as at the end of the year, with loans to consumers accounting for 77% of outstanding retail loans.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

### CONSUMER CREDIT

#### Residential Property Financing

The Public Bank Group's flagship residential mortgage loan packages, the 5HOME ("Home Ownership Made Easy") Plan and MORE ("Mortgage Refinancing") Plan continued to rank amongst the top housing loan brands in the market. In 2005, a total of RM6.23 billion of new residential mortgage loans was approved under the 5HOME Plan and MORE Plan as compared to RM5.56 billion approved in 2004. The Group's residential property financing portfolio grew by RM3.75 billion or 27% in 2005 to RM17.79 billion, outpacing the industry's annual growth rate of 12% as at November 2005. This translated to an increased market share of 12% of the residential property financing market.

To maintain the competitiveness of the Public Bank Group's residential mortgage loan packages, the pricing and product benefits of the 5HOME Plan and MORE Plan are regularly reviewed and enhanced in response to changing customer needs and market demands. The Group introduced an innovative "Zero Interest Knock-Out" rate package under its residential mortgage loan package in March 2005. Under this package, no interest is charged to the customers during the first year of the loan for properties under construction. The package was very well received with RM1.82 billion of residential mortgage loans approved under this package within the first 6 months of its introduction.

Following on from customers' feedback, another package was added to the wide suite of residential mortgage loan packages offered by the Public Bank Group. The "Single Tier Interest Rate" package priced at Base Lending Rate ("BLR") minus 0.35% was launched in July 2005, to





cater for a larger segment of house buyers. This package was further enhanced with better pricing structure and features in November 2005, offering BLR minus 0.50% for the first 15 years and BLR minus 0.70% for the subsequent years. To further differentiate the package and provide more flexibility to customers, the early settlement penalty clause was not imposed. This product feature caters well to customers who may wish to consider upgrading their homes within a short period of time whilst enjoying competitive rates at the same time. Apart from offering more choices of home loan solutions and lower interest rates to customers, the 5HOME Plan and MORE Plan also come with added benefits such as free credit cards for the entire tenure of the residential mortgage loan and free personal accident coverage for the first year.

As a major player in the residential mortgage loan market, the Public Bank Group has established strong business relationships with many established housing developers, real estate agents and solicitors with the business relationships further cemented through regular contacts and offering of competitive loan packages. Special end-financing packages are offered on an exclusive basis for selected housing projects to provide house buyers with convenient and competitive financing of their property purchases. Exclusive joint marketing activities were also carried out with established developers to promote the Group's suite of

residential mortgage loan packages. The Group also actively participates in major property roadshows and property exhibitions nationwide to promote and create awareness of its loan products as well as generate sales leads for business development. In 2005, the Group took part in 14 such roadshows and exhibitions.

The Public Bank Group fully supports the Government's initiatives to assist low income earners to own their homes. The Group has committed to provide financing for 37,125 units of residential properties costing RM180,000 and below which well exceeded Bank Negara Malaysia's priority sector target for lower cost home financing of 27,000 units with the Group's aggressive pursuit of the residential mortgage loan business and its flexible and competitive residential mortgage loan packages.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

industry annual growth rate of 10% as at November 2005. In 2005, 73% of the total motor vehicles financed by the Group were for new motor vehicles. With the robust growth of commercial vehicle sales in 2005, the Group has stepped up its commercial vehicle financing business by leveraging on its large mid-market SME customer base and the offering of competitive packages for commercial vehicle financing.

Proactive promotional and marketing activities were carried out throughout 2005 to enhance market penetration in the motor vehicle financing business. The Public Bank Group's network of car dealers expanded by 15% from 4,800 dealers in 2004 to 5,500 car dealers nationwide in 2005. The Group maintained strong business relationships with car distributors and car dealers through the participation and sponsorship of joint sales promotions, car sales carnivals, road shows as well as other joint promotional activities such as interest subsidy schemes. As part of its continuous efforts to improve services to customers, the Group will be launching the variable rate vehicle hire purchase packages in 2006. This will provide more financing options to customers seeking to finance their motor vehicles purchases.

### Motor Vehicle Financing

Motor vehicle financing continued to be one of the core areas of the consumer credit business of the Public Bank Group, with motor vehicle hire purchase financing accounting for 25% of the Group's total loans of RM68.10 billion as at end of 2005.

The sales of motor vehicles in Malaysia for 2005 remained strong. Based on a report by the Malaysian Automotive Association, the sales of new motor vehicles in Malaysia was 15% higher at 551,038 units as at the end of December 2005, as compared to 481,154 units for the same period in 2004. Sales of new commercial vehicles was particularly strong, with a growth rate of 59% in 2005.

Supported by the strong sales of motor vehicles in 2005, the Public Bank Group posted strong volume growth in its motor vehicle hire purchase financing business despite the increasingly competitive motor vehicle financing market. The Group's motor vehicle hire purchase portfolio grew by 18% or RM2.50 billion in 2005 to RM16.68 billion from RM14.18 billion as at end of 2004, outperforming the



The outlook for the automotive industry is expected to be positive with continued growth in motor vehicle sales. It is expected that more new and replacement models will be launched in 2006 with distributors embarking on aggressive marketing strategies to increase sales. In addition, the uncertainties in the automotive industry is expected to be reduced in early 2006 when the details of the National Automotive Policy are announced by the Government, which will set out the direction for the growth of the automotive industry over the next 5 to 10 years. The recent interest rate increase by Bank Negara Malaysia is not expected to dampen consumer demand for motor vehicles and car financing. With the motor vehicle hire purchase financing packages offered by the Public Bank Group remaining one of the most competitive in the market and the fast turnaround time for approval and disbursement of motor vehicle hire purchase loans of its Electronic Loan Delivery System, the Group is well positioned to expand further its motor vehicle hire purchase financing business.





## Share Financing

The performance of the Public Bank Group's share trading and margin financing business, PB Sharelink, was not spared by the sluggish performance of the Malaysian stock market in 2005 as trading volume on Bursa Securities contracted by 17% as compared to 2004. Despite the unfavourable market conditions and the keen competition in the share financing business, Public Bank continued to register growth in the number of share financing accounts and approved share loan limits by 17% and by 50% respectively whilst outstanding share trading and margin financing account balances increased by 40%. However, total gross brokerage and interest income of the Group from share trading and margin financing declined by 24%, reflecting the lacklustre performance of the stock market with relatively low volume and muted interest of retail investors.

To cater for the share trading and margin financing needs of a wider base of investors, Public Bank entered into broker tie-up arrangements with 8 stockbroking companies in 2005, where Public Bank will provide share margin financing to the clients of these stockbroking companies. Public Bank offers a highly competitive and attractive package for share margin financing which resulted in the healthy growth in the amount of loans approved. The increase in loans approved will contribute to higher interest income once trading volume on Bursa Securities picks up.

The Public Bank Group proactively reviews the competitiveness of the features of its PB Sharelink offerings and continues to improve its service delivery standards in order to meet customers' increasingly demanding needs in this highly competitive

business. Internet share trading, another service delivery channel to enable customers to conduct their share trading activities from the convenience of their home or office, will be fully implemented in early 2006.

In its effort to increase its share margin financing business, the Public Bank Group will continue to seek business opportunities through broker tie-up arrangements with stockbroking companies and offer highly attractive and competitive packages for share margin financing.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

Vehicles as grand prizes received overwhelming response. The “SMS2WIN” campaign with a Kia Sorento car as the grand prize and a multitude of Samsung lifestyle products was equally well received. The PB Manchester United MasterCard also achieved overall growth in 2005. The “Experience Old Trafford” contest which offers a “MU Dream Prize” of watching a home match at Old Trafford in England is a much sought after prize by Manchester United football fans.

In November 2005, Public Bank launched the Astro Interactive TV Coupons service in an exclusive partnership with Measat Broadcast Network System Sdn Bhd and Visa International. Visa credit card holders can download attractive bargains and special offers from participating merchant partners of Public Bank using the Astro decoder onto the EMV chip embedded on their Public Bank Visa credit cards. This revolutionary home shopping is a world's first and is available at no extra cost to Public Bank credit card holders.

In December 2005, Public Bank launched the PB Platinum MasterCard credit card to complement its existing PB Visa Platinum credit card. The product was an important addition to the portfolio of credit card products of the Public Bank Group.

### Credit Cards

The Public Bank Group recorded another year of strong growth in its credit card business in 2005. The number of applications for credit cards exceeded 200,000 and 122,000 new credit cards were approved. Credit card sales increased by 26% to RM2.00 billion whilst credit card receivables grew by 22% to RM581 million. The acquiring business volume registered a hefty increase of 53% to RM1.95 billion. As the credit card business continued to grow, non-performing credit card receivables remained low with a gross credit card non-performing loan rate of 2.2% as compared to the industry average of 5.1% as at September 2005.

In the Public Bank Group's efforts to expand its credit card base, it continues to leverage on its large customer base through concerted cross-selling efforts, particularly to residential mortgage loan and motor vehicle hire purchase financing customers. In 2005, 2 major credit card acquisition campaigns generated significant new credit card customers. The Public Bank Visa “8 Great Benefits” campaign with the “Capture Your Citra” contest, which offered 8 Naza Citra Multi-Purpose



The Public Bank Group is continuously mindful of and is alert to the potential risk of credit card fraud and unauthorise use of credit cards. Procedures and policies to combat credit card fraud are regularly reviewed and updated to minimise the risk of loss to credit card customers and the Group. In addition to being a pioneer issuer of EMV-chip credit cards, a key risk mitigation factor, Public Bank, in collaboration with both Visa International and MasterCard International, introduced the “Verified by Visa and MasterCard” Secure Code in 2005. This allows credit card holders to use their credit cards to shop online with a personal PIN and prevents the unauthorise usage of their credit card data in internet-based transactions.



The Public Bank Group strategically expanded its merchant acquiring resources to aggressively grow the credit card merchant acquiring business. For 2005, total merchant sales grew by 53% to reach a record high of RM1.95 billion. The total merchant base also increased by 12% to 2,962 merchants with over 4,400 outlets nationwide. As a complementary business initiative to promote the Group's merchant acquiring business, the monthly PB Rewards Newsletter is used to highlight exclusive merchants offers and privileges. The "Back To School" promotion was another effort to drive cardmembers' spending at key Public Bank merchants whilst the Group's "Zero-Interest Instalment Plan" and "Flexipay Plan" enable cardmembers to make purchases at merchant outlets with interest-free instalment payment schemes.

### Personal Consumer Loans

The personal consumer financing business of Public Bank Group focuses primarily on the provision of personal consumer loans under the Bai-Al-Einah ("BAE") Islamic financing principle in Malaysia and the individual personal loans market in Hong Kong.

The Public Bank Group continued to promote BAE personal consumer loans in Malaysia which are offered to staff of government agencies, quasi government corporations and large corporations. As at the end of 2005, the Group was offering competitive BAE personal consumer financing to staff of 99 such agencies and corporations. As part of a proactive customer relationship management initiative, the Group is leveraging on its large base of residential mortgage loan customers by offering its BAE Plus personal financing packages to existing residential mortgage loan customers.

A team of dedicated Islamic Banking marketing managers and executives has been set up to promote and market BAE personal consumer financing products. Marketing and promotion activities were carried out throughout the year to increase the awareness of such products and enhance take-up rates. These activities include participation in Islamic financing road shows, events organised by regulatory bodies, setting up of booths at the premises of government agencies and conducting direct marketing calls. As a result of such marketing activities, the Group's Islamic personal financing portfolio expanded by 52% to RM240 million at the end of 2005 as compared to RM158 million as at the end of 2004. The Group will continue to leverage on its extensive branch network in Malaysia and its superior service delivery, together with the focused marketing activities of its dedicated sales force to further grow its personal consumer financing business in Malaysia.

In Hong Kong, the personal consumer financing business of the Public Bank Group is carried out by Public Finance Limited with its large network of 40 branches in Hong Kong. The Hong Kong economy continued to strengthen in line with the improved property market, growth in tourism and related industries as well as the easing of the unemployment rate, resulting in a significant improvement in consumer confidence. The individual personal loans business of Public Finance Limited benefited from the favourable economic conditions and despite stiffer competition, achieved a strong growth of 11% in its individual personal loans business in 2005.



## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

### SME LENDING

The Public Bank Group has been consistently supportive of the development of SMEs with its commercial lending activities strongly focused on the financing needs of this customer segment. Total new loans approved to SMEs in 2005 amounted to RM6.51 billion, an increase of RM0.54 billion or 9% compared to RM5.97 billion approved in 2004. Loans to SMEs represented 28% of total new retail loans approved for the year. In tandem with the higher volume of loans approved to SMEs, the Group's SME loans portfolio grew by 13% to RM14.81 billion from RM13.06 billion as at the end of 2004 and accounted for 22% of the Group's loan portfolio as at the end of 2005.



The Public Bank Group's flagship commercial lending product, the SWIFT ("Shophouse, Warehouse, Industrial Factory and Trade Financing") Plan continued to be the main driver in the growth in financing to the SMEs. In 2005, a total of RM7.02 billion of loans under the SWIFT Plan was approved. Regular revision of interest rates and continuous enhancements of product features are carried out to meet the evolving and diversified needs of the SMEs and keep the SWIFT Plan at the forefront of an extremely competitive market place. Apart from term loan, overdraft and trade bills, the SWIFT Plan also provides industrial hire purchase at attractive rates for SMEs that wish to obtain financing for new machinery and equipment to expand their production capacity. In addition, benefits such as free credit cards issued to business owners and directors and free electronic credit payment services for EPF and Income Tax payments are packaged into the SWIFT Plan. Under the "Free Legal Documentation" packages for the SWIFT Plan, all legal expenses incurred are absorbed by the Group when customers refinance their credit facilities from other financial institutions with credit facilities of the Group.

Access to adequate and timely financial resources is a key success factor for SMEs. Apart from the SWIFT Plan, the Public Bank Group continued to play an active role as an intermediary to provide loans under various Government loan schemes such as the Fund for Small and Medium Industries 2 ("FSMI 2") and the New Entrepreneurs Fund 2 ("NEF 2"). The FSMI 2 was introduced to assist SMEs in the manufacturing and services sectors whilst the NEF 2 was implemented to assist the growth of Bumiputera entrepreneurs. In support of the Government's initiatives to drive the growth of domestic business enterprises, a competitive "Special Loan Package for Small and Medium Industries" was introduced by the Group to complement the existing FSMI 2 scheme. The special loan package provides SME borrowers with the option of longer loan tenures at competitive rates for working capital and cashflow support. The Group also capitalised on the various credit guarantee schemes offered by the Credit Guarantee Corporation such as the New Principal Guarantee Scheme, the Flexi Guarantee Scheme and Small Entrepreneur Guarantee Scheme to structure competitive and flexible credit lines for SMEs that need credit enhancement.



The Public Bank Group provides a wide range of trade bills facilities to support the financing needs of SMEs involved in import and export businesses. The Group's trade bills business grew by 15% to RM2.10 billion from RM1.83 billion in 2004. This resulted from aggressive marketing strategies and process re-engineering, such as the centralisation of trade bills processing at the Group's Trade Finance Centre. The centralised processing for trade finance activities resulted in improved operational efficiency and provided greater time and cost savings for customers. In addition to speedy service delivery, the Group also offers competitive foreign exchange rates for trade settlement. SMEs also have the option to open foreign currency accounts to retain their funds in foreign currencies in order to hedge against currency fluctuations.

The Public Bank Group is actively involved in participation and sponsorship of trade exhibitions and business events related to the promotion and development of SMEs. Promotional and business development activities such as conducting presentations on banking products and services are regularly carried out. The Group conducted training and extended advisory services on trade financing for SMEs to enhance their knowledge of

financing available and financing options for their business as well as to establish closer business relationships with trade associations and chambers of commerce. The Group actively participated in major trade exhibitions and seminars organised by various governmental bodies and trade associations such as the Malaysia External Trade Development Corporation, the SMI Association of Malaysia, the National SMI Consultative Centre, and the Federation of Malaysian Manufacturers to establish business relationships and obtain better understanding of the operations and financing requirements of SMEs.

With the Government's allocation of a further RM3.8 billion of expenditure for SME activities across the various economic sectors, the Public Bank Group, with the focus of its commercial lending activities on SMEs, is likely to continue to see strong growth in this part of its business. The Group is committed to continuing its support of the Government's efforts in making SMEs a key driver of economic growth and development.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

For the year, more than 531,000 savings accounts were opened, registering a growth rate of 21% whilst an additional 67,000 current accounts were opened. As part of the Public Bank Group's strategy to attract low cost savings and current account funds, the Group launched a 3 month promotional campaign in January 2005 for PB SaveLink and PB CurrentLink accounts. The campaign yielded a total of about 3,000 new accounts.

The Public Bank Group introduced the Basic Savings Account and the Basic Current Account in early 2005 to allow the banking public, especially the lower income groups, access to commonly used banking services to meet their banking needs at minimal cost. Close to 36,000 basic banking accounts were opened as at the end of 2005.

### CUSTOMER DEPOSITS

Increasing the Public Bank Group's share of the retail customer deposit market, particularly in lower cost current and savings accounts, remain a core business strategy of the Group. Capitalising on the superior service delivery at the front office of its branches and the extensive reach of its nationwide branch network, the Group's rate of growth of core customer deposits was higher than that of the banking industry in 2005.

In 2005, fixed deposits of the Public Bank Group expanded by 10%, savings deposits increased by 9% and demand deposits increased by 10% as compared to the banking industry's annual growth rate of 6%, 5% and 8% respectively for fixed deposits, savings deposits and demand deposits as at November 2005. The Group's strength in the retail individual deposit market was reflected in Public Bank's 17% market share in savings deposits.

The Public Bank Group continued to expand its wholesale customer deposits business in 2005. Negotiable instruments of deposit ("NID") outstanding as at the end of 2005 stood at RM18.49 billion, an increase of 48% compared to the end of 2004. The level of liquidity of Malaysian corporates remained high in 2005 and the issuance of NIDs provides the Group with the opportunity to tap the corporate deposit market to fund the strong lending growth of the Group, in addition to the strong growth in its core customer deposits.

To provide value-added services to increasingly knowledgeable and demanding customers' savings and investment needs, the Public Bank Group has developed and extended financial planning services to meet the long term savings, investment and risk management planning needs of customers. The financial planning services are provided by dedicated sales personnel known as Personal Financial Executives ("PFEs") who are continuously trained to upscale their skills and knowledge in order





to respond to the complexities of customers' savings and investment needs. Financial planning advisory services in the areas of unit trust funds, bancassurance, credit cards and other financial products are offered for the benefit of customers.

Financial planning services provides the Public Bank Group with an additional avenue of generating fee income. In the near term, the Group's line of financial services will be expanded to include trust services, will writing and estate planning, in line with the Group's quest of developing a comprehensive suite of financial planning products and wealth management services for customers. A financial planning software and a customer management system will be installed at branches to enable the PFEs to conduct financial planning and portfolio management and offer a full range of wealth management solutions to customers. The Group will continue to increase the number of PFEs to drive the growth of this source of fee income and to meet customers' needs and expectations.

In addition to the unit trust funds offered by the agents of Public Mutual, the branches of Public Bank offer the "PB Series of Unit Trust Funds" to customers seeking higher returns in the current low interest rate environment. Total sales of the PB Series of Unit Trust Funds in 2005 amounted to RM311 million and total asset under management of this series of funds as at the end of 2005 was RM537 million.

In support of the Public Bank Group's strategy to reduce high cost fixed deposit funding and to generate fee income, the Group launched a 5-year single premium endowment plan known as the "Guaranteed Income Plus Plan" ("GIPP") which was underwritten by Great Eastern Life Assurance (M) Berhad. The GIPP was specifically designed to provide customers aged between 19 and 65 years an alternative investment that enables customers to enhance investment returns whilst enjoying capital protection. At the same time customers also enjoy insurance protection based on the amounts invested. To further expand the range of insurance products sold by the PFEs, the Group launched the "PB Assurance-50 Care Plan" targeted at senior citizens aged 50 years and above.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

### CASH MANAGEMENT SERVICES

The Public Bank Group's Cash Management Services ("CMS") solutions offered through its branch network and electronic banking channels such as internet banking and direct debit continued to be enhanced in 2005 to provide value-added, convenient and user friendly services to corporate and individual customers. Corporations which subscribe to the Group's CMS solutions are able to leverage on the reach of the extensive branch network and multiple electronic delivery channels of the Group as well as having immediate access to funds and updated accounts receivables information promptly through the efficient and robust information reporting system which delivers account transactions data electronically to these corporate customers.

In 2005, the Public Bank Group introduced electronic tax payments via its internet banking platform which is available to all retail and corporate customers who are PBeBank.com registered users. The service, which is the first of its kind to be implemented

by a bank for the Inland Revenue Board, allows taxpayers to pay their taxes online. Tax payments can be effected online by way of funds transfer from customers' savings or current accounts and credit or debit cards and is available to all PBeBank.com customers free-of-charge. The online tax payment via PBeBank.com complements the tax collection arrangement via Public Bank branches. Employers can also make PCB payments to the Inland Revenue Board at Public Bank branches as well as online via PBeBank.com.

2005 also witnessed the Public Bank Group's participation in the Financial Process Exchange ("FPX"), an e-commerce portal promoted by Bank Negara Malaysia. The FPX provides internet-based online payments for corporations at a minimal service fee. With the introduction of the FPX, suppliers enjoy immediate funds availability and payment record reconciliation besides being able to reach out to a wide segment of customers. The payment transactions

available through FPX ranges from utility bill payments, payments to suppliers or vendors, stockbroking payments, insurance premium payments and unit trust investments. Public Bank is the only bank that has successfully implemented the full range of payment models for the FPX.

The Public Bank Group has also developed a comprehensive line of payables solutions offered as part of its CMS services which manages outsourcing of payables by corporations. With the electronic payment system, paperwork and operating costs are significantly reduced besides allowing for better management of funding and cash holding requirements. The CMS solutions also offer sophisticated reporting and delivery of timely and accurate information. In 2005, the Group posted a 10% increase in transactional income from its CMS business as compared to 2004.





## capital market operations

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





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW



### TREASURY

The Public Bank Group's treasury business focuses on the sale and distribution of foreign exchange related services to retail and corporate customers of Public Bank, the acceptance of short-term deposits in the form of repurchase agreements from corporate and institutional customers, the issuance of negotiable instruments of deposit and the trading of Ringgit denominated securities. The Treasury Division of Public Bank also manages the short-term liquidity requirements of Public Bank's operations and runs a prudent proprietary book in the foreign exchange and interest rate markets.

The Public Bank Group had been able to generate a steadily growing stream of foreign exchange income from its strategy of concentrating resources on non-proprietary trading activities in the foreign exchange markets, thus avoiding

the risk of volatility in profitability of the Public Bank Treasury business usually associated with proprietary foreign exchange trading activities. In 2005, the Group continued to benefit from this strategy, generating a growth of 11% in foreign exchange income over that of 2004. The better performance in 2005 can be attributed to the liberalisation of foreign exchange administration rules by Bank Negara Malaysia and the un-pegging of the Ringgit to the USD in mid-2005, which resulted in more foreign exchange hedging requirements by the Group's retail and corporate customers.

Deposits from repurchase agreements and the issuance of negotiable instruments of deposit, primarily from corporate and institutional customers, supplement the core retail deposits of the Public Bank Group. As at 31 December 2005, these deposits accounted for 22% of the Group's total deposits from customers. The Group continues to commit resources to market for such deposits to further widen its deposit customer base, whilst at the same time providing a comprehensive range of services to its corporate and institutional customers.

Another major treasury business activity of the Public Bank Group is the trading of Ringgit denominated securities in the domestic bond market. As a Principal Dealer, Public Bank provides market liquidity for securities specified by Bank Negara Malaysia. In November 2005, the Malaysian financial market witnessed the first rise in domestic short-term interbank interest rates since 2000. Although this rise in short-term interest rates resulted in a rise in yields of long-term securities, the Group's strategy in recent years to invest mainly in short and medium tenured securities sheltered the Group in 2005 from losses in its securities portfolio in an environment of rising interest rates.







A significant event in the Public Bank Group's 2005 corporate calendar was the issuance of Public Bank's second offering of Subordinated Notes as Tier 2 capital. This issuance of USD400 million of 12 years Non-Call 7 years Subordinated Notes enabled the Group to further enhance its risk-weighted capital adequacy ratio to support the fast growing lending business and balance sheet of the Group. Proceeds of the Subordinated Note issued were mainly invested in bonds denominated in USD issued by Malaysian borrowers.

### CORPORATE LENDING

As at 31 December 2005, the Public Bank Group's corporate lending stood at RM4.85 billion as compared to RM3.98 billion a year ago. Despite the growing preference by large corporates to access the debt capital market, the Group was able to achieve strong loan growth due to its active marketing for new corporate customers and flexibility in meeting the increasingly diverse financing requirements of corporate customers.

For 2005, the majority of corporate lending was in the form of direct advances and trade financing lines to business enterprises engaged in financial services, manufacturing, construction, property development, and wholesale trade activities.

A total of RM39.3 million was recovered from corporate non-performing loans in 2005. This, coupled with stringent credit risk management policies and proactive credit control, contributed to the improvement in the gross non-performing loans ratio of corporate loans from 3.2% at the end of 2004 to 2.0% at the end of 2005.

The competition in corporate lending is expected to persist as corporate customers are likely to gravitate to the debt capital market for financing in view of expectations of higher interest rates. Public Bank's AAA rating will enhance its capacity to participate in the private debt securities market by allowing issuers of private debt securities guaranteed by Public Bank to tap lower cost funds.



## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

- Foreign equity participation limit for investment bank of 49%
- An investment bank will hold a merchant banking licence and a dealer's licence issued by BNM and the SC respectively. Where the investment bank undertakes futures activities, it will need to hold the necessary futures licences
- An investment bank will also be allowed to undertake fund management and unit trust businesses. Lending activities will be restricted to that necessary to complement fee-based activities and to offer comprehensive investment banking packages to clients as well as share margin financing facilities
- The minimum capital requirements of an investment bank that is part of banking groups will be determined by the minimum capital funds unimpaired by losses of the banking group of RM2 billion whilst the minimum capital requirement of an investment bank that is not part of a banking group is RM500 million
- An investment bank must maintain a minimum risk-weighted capital ratio of 8% under the Investment Bank Capital Adequacy Framework

### INVESTMENT BANKING

A significant development in 2005 in the domestic capital markets was the issue of the Guidelines on Investment Banks jointly by Bank Negara Malaysia ("BNM") and the Securities Commission ("SC") on 1 July 2005. This is an integral part of the Financial Sector Masterplan and the Capital Markets Masterplan to further enhance the capacity and capabilities of domestic capital market players to compete meaningfully in an increasing dynamic and globalised environment. The key areas covered by the Guidelines on Investment Banks are:

- The merchant bank, stockbroking company which has complied with the SC's Framework on Consolidation of Stockbroking Companies and discount house within the same banking group to be merged into an investment bank. Stand-alone discount houses that are not part of a banking group could also merge with another discount house to become a merchant bank and be transformed into an investment bank upon a further merger with a stockbroking company which has complied with the SC's Framework on Consolidation of Stockbroking Companies

In October 2005, BNM and the SC further announced that universal brokers are allowed to be transformed into investment banks if a universal broker merged with a discount house.

The merchant banking business and the stockbroking business of the Public Bank Group, which are carried out by Public Merchant Bank and PB Securities respectively, fulfil the requirements of the Guidelines on Investment Banks. As such the Public Bank Group will be able to transform its merchant banking business and stock broking business into an investment bank. This is expected to be completed in 2006.

Public Merchant Bank turned in pre-tax profits of RM9 million in 2005, which is RM6 million below the pre-tax profit achieved in 2004. Whilst the Malaysian merchant banking industry remains very competitive, Public Merchant Bank will continue to expand its fee-based income. In 2005, Public Merchant Bank acted as the adviser in respect of a number of initial public offerings ("IPOs") and corporate restructuring exercises. During the year, Public Merchant Bank completed 34 corporate exercise mandates, including 3 IPOs and 2 bond issues.

In the light of the Government's push for further mergers and acquisitions as outlined in its Budget 2006, Public Merchant Bank will also intensify its efforts to tap into opportunities arising from this growth area in addition to its existing focus on securing new mandates for IPOs and corporate restructuring exercises.

To further leverage on the extensive customer base of the Public Bank Group, Public Merchant Bank will focus on the Group's existing and well-established middle market business customers, which have the capacity and desire to access the capital market for either domestic equity or debt capital.





## FUND MANAGEMENT

The private unit trust industry recorded a lower asset growth rate of 17% compared to the 32% growth rate achieved in 2004 as a result of the bearish stock market performance, increasing its total assets under management to RM43.79 billion as at the end of 2005. However, the ratio of total assets under management of the private unit trust industry to the total market capitalisation of Bursa Securities rose to 6.3% at the end of 2005 from 5.2% at end of 2004 due to brisk sales of new funds and heightened investor interest in newly introduced foreign-invested funds.

Public Mutual maintained its high asset growth rate of recent years with a 22% growth in assets under management in 2005. Total assets under management of Public Mutual grew by RM2.20 billion in 2005, to reach RM12.08 billion as at the end of 2005, strengthening its position as the market leader with a further increase in market share of assets of the private unit trust industry to 28%. More significantly, in the face of bearish stock market conditions and intense competition, Public Mutual managed to expand its market share of equity assets in the industry to 32% as at the end of 2005. This has been achieved through the launch of 7 new unit trust funds, including a foreign fund in 2005 and the better performance of Public Mutual's unit trust funds compared to its competitors' funds. In addition, Public Mutual remained



the largest recipient of fund inflows from the EPF Members Investment Scheme in 2005. As a result of the strong sales performances, the total units in circulation of Public Mutual's unit trust funds increased by 40% to 23.59 billion units at the end of 2005.

### Number of Funds, Units in Circulation and Number of Fundholders

Year	2000	2001	2002	2003	2004	2005
No. of Funds	11	13	15	18	19	<b>26</b>
Net Asset Value (RM'Billion)	4.11	5.03	5.80	8.23	9.88	<b>12.08</b>
Units in Circulation (Billion)	7.02	9.10	11.32	14.77	16.91	<b>23.59</b>
No. of Account Holders	438,875	485,977	514,060	539,059	568,852	<b>730,655</b>



**CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW**

Despite a lacklustre stock market performance in 2005, all of Public Mutual's equity funds outperformed their respective benchmarks for the year with total returns ranging between 0.1% and 6.9% for the year. In the small cap equity fund category, Public SmallCap Fund outperformed with a decline of 5.1% compared to the benchmark KL SmallCap Index's decline of 22.4%. Public Mutual's balanced funds, Public Balanced Fund and PB Balanced Fund, outperformed the benchmark Public Balanced Equity Index ("PBEIX") with returns of 6.4% and 5.0% respectively against the PBEIX's return of 0.7% over the same period. On the fixed income front, Public Mutual's bond funds for retail investors achieved competitive returns of above 5% against the 12-months fixed deposit rate of 3.7% in 2005.

In 2005, Public Mutual again received the highest number of fund performance awards amongst private unit trust management companies in Malaysia for fund performances up to 31 December 2004. Public Mutual won 9 Lipper Fund Awards and 9 Standard & Poor's Fund Awards, making it a grand total of 18 awards.





## PUBLIC MUTUAL BERHAD AWARD WINNING FUNDS IN 2004

			Total Awards
Lipper Fund Awards	1 Year Category	1) Equity Growth – PB Growth Fund 2) Equity Income – Public Industry Fund 3) Equity Small Companies – Public SmallCap Fund 4) Mixed Asset Growth – PB Balanced Fund 5) Bond Islamic/Syariah – Public Islamic Bond Fund	9
	3 Year Category	1) Bond General – Public Bond Fund	
	5 Year Category	1) Equity Islamic/Syariah – Public Ittikal Fund 2) Mixed Asset Growth – PB Balanced Fund 3) Bond General – Public Bond Fund	
S & P Fund Awards	1 Year Category	1) Equity Malaysia – PB Growth Fund 2) Smaller Companies – Public SmallCap Fund 3) Islamic/Syariah – Public Islamic Equity Fund 4) Asset Allocation Malaysia Neutral – PB Balanced Fund	9
	3 Year Category	1) Islamic/Syariah – Public Ittikal Fund 2) Fixed Income – Public Bond Fund	
	5 Year Category	1) Islamic/Syariah – Public Ittikal Fund 2) Asset Allocation Malaysia Neutral – PB Balanced Fund 3) Fixed Income – Public Bond Fund	
Total of Best Performing Funds Awards			18



## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW



In response to new investment opportunities resulting from the new guidelines issued by the Securities Commission and robust demand for new unit trust fund offerings by investors, Public Mutual launched 7 new unit trust funds in 2005 with a total initial approved fund size of 8.5 billion units. These new unit trust funds included three Islamic funds and a foreign invested fund, the Public Far-East Select Fund, which was launched after the relaxation of the foreign exchange controls on 1 April 2005 by Bank Negara Malaysia which allowed unit trust companies to invest up to 30% of their total net asset value ("NAV") overseas. The Public Far-East Select Fund has a fund size of 1.5 billion units and invests up to 70% of its NAV in selected regional markets of South Korea, China, Hong Kong, Taiwan, Singapore, Philippines, Thailand and Indonesia. The successful launch of Public Mutual's first foreign invested fund will help to lay the foundation for the introduction of global fund products and innovative unit trust funds in 2006.

The new unit trust funds launched by Public Mutual during the year received very positive and strong response from the investing public, with the Public Dividend Select Fund, Public Islamic Opportunities Fund and Public Islamic Balanced Fund being fully subscribed during their respective offer periods or shortly after their launches.

In 2005, Public Mutual increased its sales agency force to over 11,000 agents, an increase of 34% from the end of 2004. The rapid expansion in the sales agency force is a result of Public Mutual's proactive agency recruitment and agency support programmes, backed by the strong Public Bank Group branding and Public Mutual's excellent fund management reputation.

Public Mutual has the largest number of Financial Planning Association of Malaysia registered Certified Financial Planners amongst unit trust fund companies and institutional unit trust agents, to meet the broadening demand for sophisticated financial planning services among the investing public and to keep Public Mutual at the forefront of a rapidly developing industry.

As part of a long standing customer relationship management programme aimed at building investor trust and loyalty, additional benefits were introduced and several investment and

financial planning-type seminars were organised for high-end Mutual Gold members, including some in regional towns.

Infrastructural improvements were made to increase operational and transactional efficiencies of Public Mutual. In addition to continued branch refurbishment and relocation activities to upgrade and extend Public Mutual's unit trust management services and financial planning facilities to unitholders and investors throughout the country, groundwork has been laid for the establishment of new branches in selected new growth areas in 2006. As part of the branch refurbishment improvements, 6 Public Mutual branches were equipped with "tm-net" hotspot wireless broadband internet access to facilitate, amongst others, the increased use of sophisticated in-house developed client service and financial planning services software by the agency force to improve their client servicing capabilities and boost agency sales productivity. In order to keep up with the continued expansion of its business and to enhance its strong branding and reputation, Public Mutual acquired a piece of land to build its new headquarters in Jalan Raja Chulan, which is strategically located in the heart of the banking and commercial district of Kuala Lumpur.



## SHARE BROKING

The performance of Bursa Securities in 2005 was lacklustre with the Kuala Lumpur Composite Index ("KLCI") closing at 899.79 points on 30 December 2005, down 7.64 points from 907.43 points on 31 December 2004, and down 54.09 points from the 2005 peak of 953.88 points reached on 8 April 2005. Total value of transactions on Bursa Securities also decreased from RM244 billion in 2004 to RM201 billion in 2005. Total market capitalisation also decreased from RM722 billion as at the end of 2004 to RM695 billion as at the end of 2005.

In line with the market liberalisation measures set out in the Securities Commission's Capital Market Masterplan, the Government announced in March 2005 that five foreign brokers and one foreign fund manager were allowed to operate in Malaysia to help accelerate the growth of the Malaysian capital markets. All five foreign brokers commenced business in 2005.

Amidst the challenges of a weaker stock market, increasingly competitive business conditions and further liberalisation, PB Securities achieved a pre-tax profit of RM21 million for 2005 compared to RM32 million in 2004. The lower profit was due to lower turnover, lower interest income and lower recoveries in 2005.

Despite the challenging environment, PB Securities was able to maintain its market share by focusing on growing the retail stock broking business, further developing its institutional business and leveraging on the Public Bank Group's large branch network and retail customer base. PB Securities has also been sensitive to changes in market conditions and focused its efforts in tailoring its products and businesses to meet the needs of its clients.



# CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

## islamic banking



### ISLAMIC BANKING BUSINESS

The Public Bank Group's Islamic banking and financing business continued to register another year of profitable operations. For 2005, the profit before tax and zakat of RM293 million accounted for 14% of the Group's pre-tax profit. The healthy profitability performance was driven by higher financing growth and maintaining sound asset quality.





The Public Bank Group's Islamic financing expanded from RM6.31 billion in 2004 to RM7.35 billion as at end of 2005, an increase of RM1.04 billion or 16%. Islamic financing constitutes 11% of the Group's total loans, advances and financing. The key strategy to drive Islamic financing growth was to continue expanding the core business of retail-based financing, in particular Al-Ijarah Thumma Al Bai ("AITAB") Hire Purchase-i, Al Bai Bithaman Ajil ("ABBA") Financing-i and Bai Al Einah ("BAE") Personal Financing-i.

In 2005, AITAB Hire Purchase-i recorded an increase of RM762 million from RM4.41 billion to RM5.17 billion or a 17% increase over the previous year. ABBA Financing-i which comprise of ABBA House Financing-i and ABBA Term Financing-i, recorded an increase of RM182 million from RM1.74 billion at the end of 2004 to RM1.92 billion at the end of 2005. BAE Financing-i recorded an increase of 52% from RM158 million at the end of 2004 to RM240 million at the end of 2005. These achievements were the result of the aggressive promotion and marketing approach adopted by Public Bank's branches.

The Public Bank Group's Islamic deposits continued to show strong growth by recording an increase of 75% or RM2.60 billion from RM3.49 billion at the end of 2004 to RM6.09 billion at the end of 2005. Wadiah Savings Account-i ("WSA-i") of RM2.12 billion and Wadiah Current Account-i "WCA-i" of RM1.02 billion account for approximately 52% of the Group's total Islamic deposits.

In sustaining the strong Islamic banking business performance, the Public Bank Group will continue to grow the Islamic financing business by providing innovative and competitive products and services to its customers. Continuous efforts will be made to leverage on the Group's 251 branches, its sales and marketing force and superior service delivery standards of the Group to drive higher Islamic financing and customer deposits growth.

In 2005, the Public Bank Group participated in the Islamic Banking and Takaful Road Show 2005 at four different locations, namely in Shah Alam, Alor Setar, Johor Bahru, and Putrajaya. The Islamic Banking and Takaful Road Show was organised by the Association of Islamic Banking Institutions in Malaysia and has helped to enhance and create greater awareness and knowledge of Islamic banking and takaful products and services.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW



To meet its social obligations, the Public Bank Group has paid zakat of RM128,000 for its Islamic banking operations ended 31 December 2004 as compared to RM100,000 paid in the previous year. The zakat was paid to seven state zakat collection centres, namely, Pusat Pungutan Zakat Wilayah Persekutuan, Pusat Zakat Selangor, Pusat Kutipan Zakat Pahang, Majlis Agama Islam dan Adat Melayu Terengganu, Pusat Zakat Melaka, Tabung Baitulmal Sarawak and Majlis Ugama Islam Sabah.

Effective from 1 April 2005, the Public Bank Group has adopted the Guidelines on the Governance of Shariah Committee for Islamic Financial Institutions ("BNM/GPS 1") issued by Bank Negara Malaysia and has appointed 3 Shariah scholars as the Group's new Shariah Committee members in compliance with BNM/GPS 1.

Moving forward, the Public Bank Group expects to see strong growth in Islamic banking and financing with the progressive implementation of the Financial Sector Masterplan which accords a high priority to the development of Islamic banking and financing both in Malaysia and internationally.

The Public Bank Group has obtained approval-in-principle from Bank Negara Malaysia to carry out its Islamic banking business through an Islamic subsidiary. The name of the Islamic subsidiary and the draft Memorandum and Articles of Association of the Islamic subsidiary have been submitted to Bank Negara Malaysia for approval. The Islamic subsidiary is expected to be set up in 2006. The existing Islamic banking window business carried on by Public Bank will be transferred to and be carried on by the new Islamic subsidiary. The operations of the Islamic subsidiary will be governed by the Islamic Banking Act, 1983 instead of the Banking and Financial Institutions Act, 1989. Among the advantages of the incorporation of the Islamic subsidiary are the running of interest-bearing and Islamic banking business separately whereas the operations of an Islamic banking window under one roof currently may invite ambiguity (gharar) concerning the legitimacy of profits generated from the business and the Group will be able to undertake a wider variety of products and services including investment banking and asset management.





### ROLE AND AUTHORITY OF SHARIAH COMMITTEE

The Shariah Committee was established under BNM/GPS 1 with effect from 1 April 2005, to advise Public Bank on the operations of its Islamic banking business in order to ensure that it is devoid of any element not approved by Islam. The roles of the Shariah Committee in monitoring Public Bank's Islamic banking activities include:-

- To advise the Board of Directors on Shariah matters in its business operations
- To endorse Shariah Compliance Manuals which specify the manner in which a submission or request for advice is to be made to the Shariah Committee, the conduct of meetings of the Shariah Committee and the manner of compliance with any Shariah decision
- To endorse and validate relevant Islamic banking documentation for Islamic banking products and services to comply fully with Shariah principles
- To assist parties such as legal advisors, auditors or consultants who may seek advice on Shariah matters
- To advise on matters to be referred to the Shariah Advisory Council of Bank Negara Malaysia
- To provide written Shariah opinions on Islamic banking operational matters

### ZAKAT OBLIGATIONS

This represents business zakat payable by Public Bank to comply with the principles of Shariah. Zakat is calculated using the Profit and Loss method at a zakat rate of 2.5% and based on the percentage of estimated Muslim individual shareholders.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

### serving the customer

#### CUSTOMER SERVICE

The Public Bank Group has long recognised the need to provide excellent customer service that sets it apart from its competitors. In an increasingly liberalised market place where products and service offerings are progressively being commoditised, differentiating the Group in how the products and services are delivered will keep the Group ahead of the competition. The Group has continued to implement customer service improvement initiatives in 2005 to further improve on its already high level of customer service.





The multi-phased Customer Care Campaign ("CCC") of the Public Bank Group with the theme "Doing It Right For You" was initiated in 1999. Phase I of the CCC was the introduction of the Group's special 'GUEST' treatment of all customers. Service quality was further improved with the introduction of Phase II of the CCC, "We Listen We Care", which emphasised on obtaining customers' feedback and turning it into opportunities for improvement. Phase III of the CCC, "Our Service Commitment Continues", reinforced the Group's service standards with the establishment of customer service focus groups at branches to drive customer service improvement. Phase IV of the CCC,

"First in Quality Service", focused on reducing the Standard Waiting Time for customer service at branch counters to 2 minutes and the Standard Processing Time to 1 minute for core banking transactions.

A sum of RM1.5 million was invested in Phase V of the CCC, "Your Needs Our Focus" which comprised two major initiatives. The first involved soliciting feedback via a survey questionnaire which was sent to 600,000 customers over 6 months. A Mystery Customer project was launched as the second initiative to conduct independent evaluation of front-line staff of branches in delivering the high standards of customer service set by the Public Bank Group. The response from customers throughout the duration of the survey was encouraging with a 14% response rate as compared to a normal response rate of 5% or less for direct mail surveys. About 96% of respondents expressed satisfaction with the Group's overall service delivery. The Mystery Customer project assessors graded the Group's overall service delivery as desirable in terms of staff attitude, staff knowledge, staff skill and speed of service. These anonymous assessors had unanimously agreed that the Group's strength laid in its speedy processing of transactions and short waiting time. The top 20 branches with excellent service delivery were recognised with awards which come with a cash prize of RM5,000 each.

The continued delivery of the high standards set by the Public Bank Group in the provision of customer service at the front office and in loan service delivery is reinforced by the bank-wide ISO 9001:2000 certification of these key areas of customer service. The quantitative service standards such as its 2-minute Standard Waiting Time and 1-minute Standard Processing Time for core banking transactions provide benchmarks to monitor counter service standards. In loan service delivery, the Standard Turnaround Time for credit processing of retail loans, corporate loans and credit cards, as well as loan disbursement benchmarks provide the basis of an accurate and transparent measure of achievement of customer service delivery standards.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW



The tri-annual re-certification by SIRIM QAS Sdn Bhd, the authorised ISO certification party for the Public Bank Group's bank-wide ISO 9001:2000 standards is a key component of the quality management systems and processes to sustain the level of customer service delivery excellence of the Group. The re-certification process and findings also provide the Group with feedback to further improve on its customer service delivery infrastructure and standards. In addition, in preparation for the tri-annual re-certification, proactive steps are taken to reassess procedures and processes, training requirements and further improvements to the quality management system. The successful re-certification of the Group's ISO 9001:2000 certification in 2005 of

both the provision of customer service at the front office and in loan service delivery is a reaffirmation of the high level of customer service delivery achieved by the Group and its long-term commitment to serving the customer better.

### LOAN SERVICE DELIVERY

The Public Bank Group achieved bank-wide ISO 9001:2000 certification in "Provision of Customer Service in Loan Delivery" in 2003. This customer service initiative encompasses the processing, approval and disbursement of retail loans, corporate loans, credit cards and hire purchase facilities by providing customer service in loan delivery that exceeds customers' expectations.

Central to the Public Bank Group's customer service in loan delivery is its electronic Loan Delivery System ("eLDS"). The eLDS is a system which enables loan applications to be input electronically at branches and routed to different approving authorities on a real-time basis. Relevant information submitted electronically include scanned copies of supporting documents and digital photographs of properties and business premises relevant to the loan application. Decisions in respect of loan applications are also routed electronically back to branches. The eLDS therefore obviates the need for submission of physical copies of loan applications and supporting documents. All loan applications, supporting documents, records of communication with branches and decisions are stored electronically in the server to be retrieved when needed. Apart from functioning as a loans processing and approval system, the eLDS also tracks the turnaround time for security documentation and disbursement of loans.



The eLDS allows the Public Bank Group to track benchmarks for service delivery, process a high volume of loan applications and achieve more than 90% conformance level bank-wide for standard turnaround times. With the eLDS, the Group has succeeded in achieving standard turnaround time for consumer loans of 2 to 3 working days while commercial loans are approved within 6 to 7 working days, depending on the approving level at branches or in Head Office.

Other benefits of the eLDS include enhancement of productivity through efficient interfacing with other systems, automation of the collation and submission of statutory and management reports and improvement in accuracy of reporting, reduction in administrative costs through savings in mailing and courier charges, printing and stationery costs and storage space for filing of records. Transmission of eLDS information electronically also results in improvement in response time in the communication of information and decisions between branches and Head Office as well as improvement in the efficiency and speed of retrieval of loan application files which are stored digitally for subsequent loan reviews.



In its continuous commitment to providing a consistently high level of customer service in loan delivery, the Public Bank Group further enhanced the eLDS to achieve a high level of conformance of the standard turnaround times. Such enhancements included shortening the turnaround time for all types of loan applications by one to two days, mandatory input of reasons for non-conformance of standard turnaround time and routing of online loan applications submitted via the PBeBank website to the eLDS to facilitate speedy processing and approval.

The steps taken in ensuring a high standard of customer service in loan delivery is a key factor in the very strong loan growth rates over the past 5 years.

## CHANNEL MANAGEMENT

The Public Bank Group continues to invest in a variety of self-service delivery channels as a value-added convenience to its customers, such as:

- Automatic Teller Machines
- Internet Banking
- TeleBanking via Interactive Voice Response ("IVR")
- Cheque Deposit Machines
- Cash Deposit Terminals

The Automated Teller Machines ("ATM") network remains the primary electronic delivery channel of the Group with a total of 332 in-branch ATMs and 26 off-branch ATMs throughout Malaysia.



## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

To further expand the Public Bank Group's self-service delivery channels, a number of Cheque Deposit Machines and Cash Deposit Terminals were installed at branches. As at the end of 2005, the Group had invested in a total of 164 Cheque Deposit Machines located at 110 branches and 7 Cash Deposit Terminals at 5 branches. These machines allow customers to directly credit their accounts in real-time, as well as providing greater convenience to customers to make various loan, credit card and bill payments. The use of these machines contribute to improved efficiency at branches by freeing up branch service counters and front-line staff, thereby enabling more staff resources to be allocated to providing services in other areas of the business.

The PBeBank.com Internet Banking channel has seen substantial growth in terms of users and utilisation rates in 2005. The number of registered users for PBeBank.com increased by 34% in 2005 whilst the volume of financial transactions executed through this channel increased by 64% over that of 2004 with total value of PBeBank.com transactions exceeding RM1.63 billion. The strong growth rates reflect a growing level of acceptance of the Public Bank Group's Internet Banking service by customers.

In a continuous effort to enhance the content of its non-transactional Web pages, the Public Bank Group successfully implemented online Loans and Credit Card applications via PBeBank.com. Customers can log on via Public Bank's website to apply for housing loans and credit card facilities. Approximately 11% of online applications were approved in 2005. Other features of PBeBank.com to enhance customer convenience have also been implemented in 2005. These include e-Statement, request for cheque books, linking of foreign currency account for enquiry purposes and enhancements to facilitate online customer enquiries.

While efforts to enhance the functionality of PBeBank.com is on-going, security of the channel remains of the highest priority. The Public Bank Group is constantly reviewing and implementing security mechanisms and improving the internal alert monitoring systems to detect fraud and unauthorised access. In 2005, a Multiple Alert Monitoring System with automated mechanism to flag suspicious transaction patterns was implemented.

### CUSTOMER LOYALTY PROGRAMMES

The Public Bank Group's strategy for developing and sustaining long-term customer relationships is supported by customer loyalty programmes which reward loyal customers.

Public Bank was the first commercial bank to participate in the BonusLink Reward Programme ("BonusLink"). Customers are rewarded with BonusLink points which can be accumulated and redeemed for attractive gifts. Public Bank's PB SaveLink Account and PB CurrentLink Account reward customers with BonusLink points based on deposit balances maintained in these accounts. As at the end of 2005, there were more than 118,500 PB SaveLink and PB CurrentLink accounts with total deposits amounting to RM615 million.

The Public Bank Group's PB PREMIUM Club is another loyalty programme aimed at rewarding loyal customers for their support. The PB PREMIUM Club provide customers with a sense of belonging to the Group which helps mitigate customer attrition. The PB PREMIUM Club has over 237,000 members. Membership of the PB PREMIUM Club is free. Members are provided with an array of privileges and benefits such as a free quarterly magazine, special promotions and discounts at participating merchant outlets, waiver of commission for the purchase of traveller's cheques and banker's cheques and participation in contests with attractive prizes.







Several initiatives were also implemented in 2005 to promote higher credit card usage by Public Bank Group's credit card holders. Loyal and frequent users of Public Bank credit cards were rewarded with either cash rebates in the form of the generous Cash MegaBonus of up to 1% or double loyalty points, MegaPoints and PremiumPoints, for PB Executive MasterCard card holders and RedPoints and MUPoints for PB Manchester United MasterCard card holders. Credit card members also had the opportunity to participate in 3 contests which offered, amongst highly attractive prizes, grand prize of cars and MPVs. Loyal credit card members are also accorded automatic credit line reviews and increases in credit limit in addition to automatic upgrade of Classic/Standard card membership to Gold card membership and from Gold to Platinum.

The Mutual Gold programme of Public Mutual is another initiative of the Public Bank Group which rewards customer loyalty. Unit trust investors who invest in or accumulate at least 100,000 Mutual Gold Qualifying Points ("MGQP") in an account or combination of accounts at any one time are accorded Mutual Gold membership. The benefits of Mutual Gold include, amongst others, preferential service and privileges, availability of repurchase cheques within one business day, free personal accident insurance coverage, regular updates through a quarterly magazine and will writing and trust services at special rates. In December 2005, Public Mutual launched the Mutual Gold Elite, an extension of the Mutual Gold programme. Mutual Gold members with 500,000 or more MGQP are accorded Mutual Gold Elite benefits in addition to the existing Mutual Gold privileges. The additional benefits offered to Mutual Gold Elite members include, amongst others, discounted health screening packages by participating hospitals and discounts for term, personal accident and critical illness insurance packages underwritten by participating insurance companies.



**CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW**

## information and communication technology

Having completed the integration of the operations of Public Finance with that of Public Bank in 2004, the Information and Communication Technology ("ICT") resources of the Public Bank Group had been focused on enhancing the Group's ability to deliver operational excellence in 2005. The Group continues to build on its existing robust ICT platform through the process of infrastructure building, enhancement and addition of systems, implementation of business continuity initiatives and setting of performance benchmarks. These activities are all geared towards ensuring that the ICT platform of the Group continues to meet the exacting business requirements and high standards of operational service delivery excellence of the Group.







In 2005, the Public Bank Group's ICT investment was dominated by spending on infrastructure to meet the challenges of an enlarged customer base. The Group invested RM23 million in major computer hardware and data storage upgrades. On the IBM mainframe platform, two of the latest zSeries 890 IBM mainframes were purchased to replace the existing zSeries 800 mainframes. As a result, processing capacity was increased by 70%. With the upgrade, the sub-second transaction response time was further improved. With the additional capacity, the Group's systems are capable of taking on significantly greater business volume. Storage technologies that support new levels of accessibility, availability and scalability were also introduced. The disparate archiving storage media used for customer statements, reports and loan documents were consolidated to a

common Write-Once-Read-Many (WORM) disk storage system called Centera. A centralised SAN-enabled (Storage Area Network) tape library system called ADIC Scalar was implemented to consolidate the backup for the many separate Unix and Windows platforms. Following the consolidation and centralisation of storage requirements, more effective use of resources was achieved and a reduced cost of ownership of the ICT assets can be expected in the medium term.

In the area of systems development, the Public Bank Group continued to be driven by internal skills and resources. One key application that was completed after more than a year of relentless research and development is the integrated electronic Loan Delivery System ("eLDS"). The functionalities incorporate both front-end and back-end loan processing activities from the point of customer application to approval, securities documentation, fund disbursement, review and automatic conformance tracking to predefined ISO benchmarks. Under the current phase of development, eLDS workflow encompasses all types of conventional loans, hire purchase and Bai Al Einah Personal Financing-i loans. Plans are presently underway to include other types of loans such as share margin financing, credit cards, and the processing of loans for the Group's overseas operations.

With the implementation of Bank Negara Malaysia's Guidelines on Management of IT Environment ("BNM/GPIS 1"), the issues of IT governance, significantly enhanced risk management and greater regulatory compliance have been the subject of greater attention by the ICT function of the Public Bank Group. The heightened level of oversight on Business Resumption and Contingency Planning ("BRCP")





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

under BNM/GPIS 1 have engendered a greater sense of urgency in the Group's provision for business continuity. The Group's investment in its ICT infrastructure for BRCP as well as the need to comply with regulatory and governance requirements has been increased significantly. For instance, to meet with the Recovery Time Objective, which was reduced from six hours to three hours, for the recovery of mission-critical applications, the Group invested in a state-of-the-art real-time data mirroring technology called Symmetrix Remote Data Facility that instantaneously makes a copy of an updated record to the remote backup database 30 km away. The communications link between the two locations was also upgraded to 2 Gigabits/sec with redundant fibre optic routes using TimedotCom's most advanced Dense Wavelength Division Multiplexing networking technology. With this real-time data mirroring facility, the Group's retail banking system can be fully resumed at the backup site in less than three hours. Altogether, the cost in computer upgrades and communication network links to build greater resiliency in the provision for business continuity amounted to RM10 million over a three year period.

To cater for disruption to the Public Bank Group's Head Office work environment arising from natural disasters, alternate office premises has been set up in the IT and Training Centre of Public Bank in Bangi. The fully furnished BRCP premises is maintained for immediate occupancy and is equipped with computer equipment that have the same level of access to the applications currently available in the Group's Head Office for the resumption of critical business functions in the event of a disaster at the Group's Head Office.

To keep ahead of the latest criminal and hacking techniques as well as computer virus attacks, more stringent processes were introduced in the area of information security management. In addition to enhanced change control and crisis management, the firewall infrastructure was upgraded for high availability and capabilities such as automatic fail-over and load balancing. PCs and servers throughout the Group were also upgraded with various types of anti-virus programmes including anti-spyware.

In line with another requirement of Bank Negara Malaysia's BNM/GPIS 1, the Public Bank Group has established a comprehensive set of measurable Key Performance Indicators ("KPI") to drive improvement in operational efficiency and individual accountability of the Group's ICT function. The areas covered by the KPIs include systems availability ratios, system response times, capacity utilisation, covering CPU, memory and disk storage utilisation, system security and application development/maintenance efficiency. These KPIs are benchmarked to international industry standards and the Group has consistently met and exceeded these KPIs.



## recognising top performers

### **BRANCH PERFORMANCE AWARDS**

As part of its performance-based reward structure and as motivation for delivery of excellent results, the Public Bank Group accords recognition of the top performing branches in the form of the Branch Performance Awards annually. Besides rewarding outstanding performance achieved by branches, these awards also incentivise and inspire other branches to strive for target topping performances not only for the attractive monetary prizes but also recognition as top performing branches.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW

For the purposes of assessment for the Branch Performance Awards, branches are segregated into groups based on certain criteria including branch size to facilitate appropriate assessment of performance of comparable peer groups of branches. However, the winner of the Chairman and Founder's Award for the Overall Best Branch of the year can come from any group.

Branches are assessed in the key areas of business performance, loan asset quality, cost and risk management and customer service for the Branch Performance Awards. In the key area of business performance, branches are assessed on specific measures such as increases in retail loans and hire purchase financing, profitability, Islamic Banking business, demand and savings deposits and sales of credit cards and unit trusts. These measures are based on both growth rates as well as on a per staff basis. The assessment of branch performance also assigns a significant weightage for maintenance of healthy loan asset quality at the branch with zero non-performing loans as a key criteria.

The Branch Performance Awards comprise 13 Special Awards covering specific areas of business performance such as loan growth and profitability as well as customer service delivery, 6 Best Branch Awards for each branch grouping and the coveted Chairman and Founder's Award for the Overall Best Branch for the Year.

The winner of the Chairman and Founder's Award for 2004 which carried a cash prize of RM50,000 was Taman Sentosa Branch. A total of 90 individual awards were awarded to branches for their 2004 performance, with cash prizes totalling almost RM1.0 million.





## international operations

### INTERNATIONAL OPERATIONS

The Public Bank Group has overseas operations in five countries with branches in Hong Kong, Sri Lanka and Laos, subsidiaries in Hong Kong and Cambodia and a joint venture bank in Vietnam. International operations contributed RM310 million or 15% of the Group's profit before tax in 2005.

The Hong Kong economy continued to grow strongly in 2005 with buoyant re-exports and robust consumer spending. The growing consumer confidence and the much improved economic conditions had contributed to improvements in the property and the taxi business. The Public Bank Group's branch and subsidiaries in Hong Kong continue to remain competitive in the banking sector despite the intense competition for residential mortgage and taxi loans. Public Finance Limited recorded a profit before tax of HKD504 million in 2005, an increase of 18% over that of 2004. Public Finance Limited's loans and advances stood at HKD3.55 billion as at 31 December 2005, a growth of 11% while deposits stood at HKD2.38 billion, a growth of 11% as compared to 2004. The Group's business in Hong Kong will continue to focus on consumer financing and trading of taxi licences and its related financing activities.





## CHAIRMAN'S REVIEW BUSINESS OPERATIONS REVIEW



Public Bank's Hong Kong Branch registered another year of strong growth in loans of 98% in 2005 and, along with Public Finance Limited and Winton Holdings (Bermuda) Limited, are well-positioned to capitalise on the opportunities arising from Hong Kong's growing economic activities as well as synergistic effects of the strong economic growth in the People's Republic of China.

Public Bank Group's wholly-owned subsidiary in Cambodia, Cambodian Public Bank Limited ("Campu Bank") expanded the scale of its business significantly as well as introduced new services in Cambodia. Campu Bank successfully implemented the first chip-based ATM card in Cambodia in May 2005 and significantly expanded its business in Cambodia with the opening of two new branches in Sihanoukville and Battambang provinces in June 2005 and November 2005 respectively, doubling the number of branches in Cambodia to four. Campu Bank continued with its impressive track record of strong growth and profitability,

recording a profit before tax of USD9.6 million for 2005, an increase of 78% over that of 2004, while loans and deposits stood at USD83 million and USD125 million, having grown by 125% and 12% respectively in 2005.

Despite the avian flu outbreak and high global commodity prices, the general economic performance of Vietnam remained encouraging in 2005 with major contributions from the industrial and service sectors. Foreign direct investments showed an improvement in tandem with the Vietnamese government's effort to improve the business environment in Vietnam. In 2005, the State Bank of Vietnam continued its comprehensive banking reforms and modernisation programme to create a market-oriented banking industry and to prepare for gradual integration into the regional and international financial markets.

The amendment of the banking laws is expected to create a more level playing field and favourable conditions for joint venture banks operating in Vietnam. Public Bank Group's joint venture bank, VID Public Bank, which has 5 branches recorded a profit before tax of USD3 million reflecting an increase of 60% in 2005 compared to the previous year. To capitalise on the strong economic growth and business opportunities in Ho Chi Minh City, VID Public Bank will open its second branch in the city in January 2006.

Despite the difficult operating environment in Sri Lanka and Laos, Public Bank's branches in these two countries continue to operate profitably in 2005.





## CHAIRMAN'S REVIEW

# OUTLOOK FOR 2006

[www.publicbank.com.my](http://www.publicbank.com.my)

The Malaysian economy is expected to maintain its growth momentum in 2006, despite the increasing challenges of high oil prices, wide global imbalances and high global interest rates. GDP growth for 2006 is expected to be 5.5%, driven by private domestic demand. In particular, private consumption is expected to remain strong due to higher disposable income, stable employment and modest inflation outlook. Private investment is also expected to gather greater momentum next year in line with expected sustained domestic investment and inflows of foreign direct investment in manufacturing and services sectors. External demand is expected to improve based on the projection that growth in the global economy will be sustained at 4.3%. The recovery in the global semiconductor industry in the second half of 2005 is also expected to further strengthen in 2006.

In line with the positive growth outlook, Malaysia's economic fundamentals are expected to remain healthy. Unemployment is expected to remain low, while inflation is expected to remain modest and manageable. Malaysia's external position, based on the projected large surplus in the current account of the balance of payments, is expected to remain strong. While the Government is expected to remain on course to consolidate its financial position, Bank Negara Malaysia is expected to continue to maintain its accommodative monetary policy to support growth.





## CHAIRMAN'S REVIEW OUTLOOK FOR 2006

Amid the positive growth outlook, the banking and financing sector is expected to continue to remain strong in 2006 with high levels of capitalisation and strong asset quality. The industry will continue to be the main source of financing for households and small- and medium-sized businesses. However, the competition in the lending business is expected to further intensify due to ample liquidity, continued disintermediation of bank lending and proactive marketing strategies by industry players. In addition, the liberalisation of the operating environment of foreign-controlled domestic banks in Malaysia, such as being allowed to open four new branches a year and access to the common ATM network is expected to add to the competitiveness of the industry. The establishment of new Islamic banks will also add to the competitive landscape.

In such an operating environment, industry players are expected to compete on competitive pricing, attractive terms, product innovation and higher service standards. To offset pressures on net interest margins, industry players are also expected to intensify their efforts to develop fee-based activity such as selling of unit trust funds, bancassurance and wealth management products.

The Public Bank Group will continue to capitalise on the growing economy to expand its core business activities, particularly consumer financing and retail commercial lending to mid-market SMEs without compromising on its strong asset quality. With a strategic network of 251 branches nationwide, a strong sales and marketing force and superior customer service delivery standards that is benchmarked against international standards, the Group is well positioned to further increase its market share, particularly in home mortgages, motor vehicle hire purchase financing and lending to SMEs. The recent announcement of a further allocation of RM3.8 billion to support the activities of SMEs by the Government will provide the Group with the opportunity to further expand its SME lending business and complement the Government's support of SMEs.

On liability management, the Public Bank Group will remain focused on growing its core customer deposits and also improve its deposit mix to reduce funding costs. The Group will continue to enhance its superior delivery standards, promote fee-based activity, promote its Internet banking channel and pursue greater cost efficiency and staff productivity by building on its successful business processes.

In its pursuit of business growth, the Public Bank Group will invariably adhere to good corporate governance practices, sound risk management policies and prudent credit policies and practices in order to support sustainable long-term growth and profitability of the Group for the benefit of all stakeholders. Given its strong performance in 2005, the Public Bank Group confidently looks forward to continue sharing its remarkable success in delivering superior shareholders' value. The Group is also committed to meeting its vital socio-economic responsibilities in line with its corporate social responsibility objectives. The Group will always be mindful of the need to meet the rising expectations of shareholders, customers, staff and regulators for long-term sustainable growth and profitable expansion in the years ahead.

**TAN SRI DATO' SRI DR. TEH HONG PIOW**

*Chairman*

*23 January 2006*





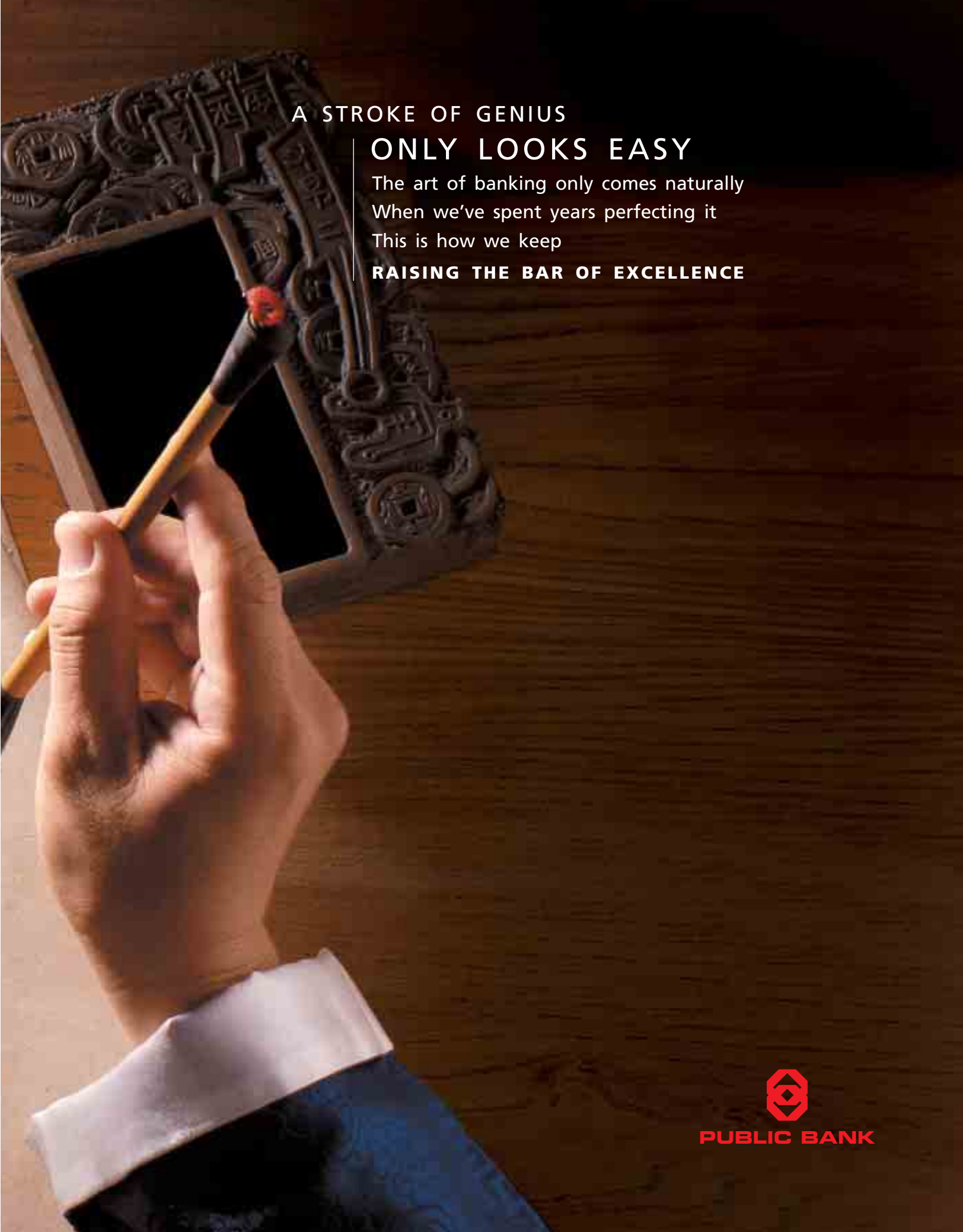
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A hand in a white shirt cuff and dark suit sleeve holds a traditional Chinese calligraphy brush with a red tassel. The brush is positioned over a dark, rectangular tablet with an ornate, carved border featuring circular motifs. The background is a dark, textured wooden surface.

A STROKE OF GENIUS

## ONLY LOOKS EASY

The art of banking only comes naturally  
When we've spent years perfecting it  
This is how we keep

**RAISING THE BAR OF EXCELLENCE**



**PUBLIC BANK**