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PUBLIC BANK POSTS BEST EVER RESULTS WITH PROFIT OF RM2.05 BILLION

I am pleased to announce that Public Bank Group posted a record pre-tax profit of RM2.05 billion for 2005, which for the first time surpassed the RM2 billion mark. The results represented an 11% improvement compared to RM1.85 billion in 2004, despite an additional RM92 million set aside for general allowance in tandem with the Group's continuing robust loan growth. Meanwhile, net profit attributable to shareholders improved by 14% to RM1.45 billion.

Despite the pressure on lending margins, the Group's net interest income and net Islamic Banking financing income expanded by 7% to RM2.89 billion in 2005, underpinned by strong loan growth and further improvement in asset quality. Other operating income grew by 24% to RM918 million mainly as a result of higher sales of trust units due to the strong interest in the Group's seven new unit trust funds launched, increase in fees from higher net asset value of unit trust funds under management, and higher fees and transaction income from retail banking operations. Other operating income accounted for 24% of total income compared to 22% in 2004. Meanwhile, the increase in other operating expenses was capped at 7%.

The Public Bank Group's overseas operations, based primarily in Hong Kong, achieved a 25% improvement in pre-tax profit on the back of stronger loan growth, lower loan loss provisioning and overheads. Public Bank's domestic operations registered an 8% increase in pre-tax profit, and accounted for 85% of the Group's profit before taxation.

In view of the Public Bank Group's improved performance, the Board of Directors is proposing a final dividend of 20 sen and a special dividend of 15 sen, totalling 35 sen less 28% taxation. Together with the interim dividend of 20 sen less 28% taxation, which was paid in August 2005, the total dividend paid and payable for 2005 totalled 55 sen or would amount to RM1.30 billion. The Group's and Bank's risk-weighted capital ratio remain strong, at 15.9% and 13.6% respectively, after payment of the proposed dividend.

Financial Highlights of the Public Bank Group

- Earnings per share improved by 12% to 44.2 sen from 39.5 sen in 2004.

- Net return on equity improved to 21.4% compared to 18.2% in 2004

- Productivity continued to rise with the cost income ratio improving to 36.7% from 37.9% in 2004.

- Total assets surpassed the RM100 billion mark to stand at a record RM111.6 billion, which was two and a half times the Group's asset size of RM45.3 billion at the end of 2000.

- Return on assets stood at 2% as at end of 2005.

- Loans grew by 20% to RM68.1 billion in 2005 compared to the 8% increase recorded by the banking industry for the first eleven months of 2005.

- Net non-performing loan ratio improved to 1.7% in December 2005 as compared to 2.1% a year ago, and was 72% lower than the banking industry's ratio of 6.0% as at November 2005.

- Demand deposits grew by 10% and savings deposits increased by 9%.

Improving Earnings and Dividends

The Public Bank Group has continued to deliver a rising trend in profitability over the years. The Group's net profit has doubled in the past 5 years from RM720 million in 2001 to RM1.45 billion in 2005, whilst earnings per share rose by 69% from 26.2 sen per share to 44.2 sen per share over the same period. Net return on equity has also improved from 12.8% in 2002 to 21.4% in 2005. The Group's strong profit performance is positively reflected in Public Bank's share price. At the end of 2005, Public Bank's market capitalisation stood at RM22.23 billion compared to RM7.04 billion at the end of 2000. In terms of ranking by market capitalisation, Public Bank has leaped from 10th position in 2000 to 5th in 2005, making it the largest non-government-linked company in Malaysia.

Public Bank's dividend payout has also been on an uptrend, with a dividend payout ratio of 90% for 2005 compared to an average of 44% for the 3 years from 2001 to 2003. Public Bank's dividends in respect of 2004, which included the payment of 2 special dividends, was even higher at RM2.12 billion and was 167% of the Group's net profit for the year. The liberal dividend payout policy in the last two years is an integral part of the Group's initiatives to improve its capital efficiency.

Continued Strong Growth in Retail Loans

In 2005, the Group's loans and advances increased by 20% or RM11.2 billion to stand at RM68.1 billion at the end of 2005. With loan growth rates close to or in excess of 20% annually since 2001, the Group has become the second largest lender in Malaysia with 12% market share of the lending business at the end of 2005, more than double the 5% market share in 2001. The Group's lending activities continued to be focused on the retail sector, with consumer loans for the financing of residential properties and vehicle hire purchase as well as commercial lending to SMEs accounting for 72% of the Group's total loan portfolio and 76% of total new loans approved of RM27 billion in 2005.

Loans for residential mortagages grew by 27% to RM17.8 billion in December 2005. Meanwhile loans for the purchase of transport vehicles increased by 18% to RM16.7 billion, and loans to SMEs expanded by 13% to RM14.8 billion at the end of 2005.

Further Improvement in Asset Quality

The non-performing loans ("NPL") of the Public Bank Group has charted an improving trend for the past 5 years, both in terms of the NPL ratios as well as the absolute amount of NPLs, despite the doubling of the Group's loan size over the same period. The Group's gross NPL of RM1,406 million as at the end of 2005 was RM104 million or 7% lower compared to December 2004. As a result, the Group's gross and net NPL ratios, based on a 3-month classification, improved to 2.1% and 1.7% respectively, from 2.7% and 2.1% respectively at the end of December 2004. The Group's net NPL ratio of 1.7% is less than one-third of the banking industry's net NPL ratio of 6.0% as at November 2005.

The Group also maintained a high level of provisioning with its ratio of general allowance to net loans standing at 1.6% and its loan loss coverage ratio of 92% at the end of 2005 as compared to 52% for the banking industry at the end of November 2005.

Public Bank continues to be ranked the best amongst all banks in Malaysia in terms of asset quality as well as loan loss coverage.

Strong Growth in Lower-Cost Customer Deposits

The Public Bank Group continued to build a long-term core deposit funding base to mitigate the squeeze in net interest margins. Customer deposits expanded by RM11.9 billion to stand at RM84.1 billion in December 2005. The Group's market share of domestic customer deposits stood at 12% in December 2005 compared to 7% five years ago.

The Group's savings deposits grew by 9% while current accounts and fixed deposits both recorded 10% growth in 2005, significantly outpacing the industry's growth rates for these deposits of 1%, 5% and 4% respectively for the first 11 months of 2005. 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.

Capital Position Remains Strong

The Public Bank Group further geared up on its strong core capital position with a second issue of Subordinated Notes amounting to USD400 million in June 2005. This issue was named the Best Bank Bond for 2005 in The Asset Triple A Regional Awards for Best Deals.

The Group's capital base stood at RM11.6 billion as at 31 December 2005 compared to RM10.1 billion at the end of 2004. The Group's risk-weighted capital ratio of 15.9% as at 31 December 2005 was about twice the statutory minimum requirement of 8% and well above the banking system's risk-weighted capital ratio of 13.8% at the end of November 2005.

Group Prospects

The Malaysian economy is expected to maintain its growth momentum in 2006, with GDP growth forecast of 5.5%, driven by private domestic demand. Domestic interest rates are expected to rise in 2006, which will provide some respite to the financial industry's declining interest margins. The Public Bank Group's strong lower-cost deposit structure will provide it with the capacity to remain competitive in the lending business. Rising interest rates will also be positive for interest margins as loans reprice faster than deposits in the rising interest rate environment.

The year 2006 will also see significant changes in the financials for companies in Malaysia with the implementation of new and revised Malaysian Financial Reporting Standards ("FRS") from 1 January 2006. Although the implementation of the new and revised FRS will generally lead to greater volatility in profitability, however, the Public Bank Group expects the implementation of the FRS to have a positive impact on its bottom line.

In the challenging environment ahead, the Public Bank Group will continue to pursue its strategy of high organic loan growth and improved cost efficiency, whilst maintaining strong asset quality by keeping to the Group's uncompromising prudent credit standards and practices. Public Bank will continue to enhance returns to shareholders through operational and capital efficiency, and maintain a liberal dividend payout ratio. Barring unforeseen circumstances, the Public Bank Group is expected to continue to record satisfactory performance for 2006.

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