

PRESS RELEASE BY TAN SRI DATO' SRI DR. TEH HONG PIOW,  
CHAIRMAN OF PUBLIC BANK

**PUBLIC BANK POSTS RECORD PROFIT OF RM2.42 BILLION AND  
PAYS TOTAL DIVIDEND OF 60 SEN FOR 2006**

I am pleased to announce that the Public Bank Group posted another year of record profits in 2006 with pre-tax profit increasing by 17% to reach RM2.42 billion. The Group's net profit attributable to shareholders rose by RM268 million or 18% to RM1.73 billion whilst net return on equity was higher at 21.9% compared to 19.1% in 2005.

The higher profit was contributed by growth in net interest income and net income from Islamic Banking operations as well as higher other operating income, partially offset by an increase in other operating expenses and higher loan loss allowances.

The Group's revenue grew by 34% to RM7.84 billion in 2006. Net interest income and net income from Islamic Banking operations expanded by 16% to RM3.30 billion in 2006, driven by the continued strong growth in both the lending and deposit-taking businesses, as well as the strong asset quality, of the Group. Other operating income grew by 21% or RM189 million, mainly from higher gains on sales of trust units due to the launch of eight new trust funds in 2006, increase in unit trust fund management fees from higher net asset value of unit trust funds under management, higher foreign exchange income as well as higher fees and transaction income from retail banking operations.

The increase in loan loss allowances by RM84 million included an increase in general allowances of RM44 million set aside due to higher loan growth achieved and RM14 million additional specific allowances made due to the adoption of a

more stringent provisioning policy on non-performing loans which are less than 6 months in arrears.

In view of the Public Bank Group's strong performance, the Board of Directors is proposing a final dividend of 30 sen and a special dividend of 10 sen, totaling 40 sen less 27% taxation. Together with the interim dividend of 20 sen less 28% taxation, which was paid in October 2006, the dividend paid and payable for 2006 amounts to 60 sen per Public Bank share or RM1.45 billion in total. The Group's and the Bank's risk-weighted capital ratio remain strong, at 14.6% and 14.0% respectively, after the payment of the proposed final and special dividends.

### **Highlights of the Public Bank Group's Performance in 2006**

- Earnings per share jumped by 17% to 52.1 sen from 44.5 sen in 2005.
- Productivity and efficiency improved further as reflected by the lower cost to income ratio of 34.8% compared to 35.5% in 2005 and the improved cost to average assets ratio of 1.2% compared to 1.3% in 2005.
- Total assets expanded by 32% in 2006 to stand at RM147.8 billion, which was more than three times that of the Group's asset size of RM45.3 billion at the end of 2000.
- Public Bank Group achieved an organic loan growth rate of 17.5% in 2006, excluding the effects of the acquisition of Public Bank (Hong Kong) Limited (formerly known as Asia Commercial Bank Limited) ("PB(HK)"). This led to an expanded loan market share of 13.2% as compared to 12.0% at the end of 2005.

- Net non-performing loan ratio improved to 1.6% as at the end of December 2006 as compared to 1.7% at the end of 2005, with loan loss coverage standing at almost 100% which is the highest and most prudent in the region.
- Total customer deposits grew by 33% to stand at RM111.8 billion as at the end of 2006.

### **Enhancement of Capital Efficiency**

Public Bank issued USD200 million Innovative Tier-I Hybrid Capital in the international capital market in August 2006 and RM1.2 billion Innovative Tier-I Hybrid Capital in the Malaysian bond market in December 2006.

The two issues of Innovative Tier-I Hybrid Capital Securities in 2006, together with the gearing up of the Group's core capital with Tier 2 subordinated debt and the share buy backs carried out by Public Bank in 2004 and 2005 have resulted in a more efficient capital structure, significantly lower weighted cost of capital and improved return on equity. The net return on equity of the Public Bank Group has risen from 12.1% in 2002 to 21.9% in 2006.

The Public Bank Group's capital base stood at RM13.0 billion at the end of 2006 as compared to RM11.8 billion at the end of 2005. The Group's risk-weighted capital ratio of 14.6% as at 31 December 2006, after taking into account of the proposed final and special dividend for 2006, was well above the statutory minimum requirement of 8%.

## **Improved Shareholder Value and High Dividend Payments**

The Public Bank Group's strong profit performance is reflected in Public Bank's share price. Public Bank (Local) share price and Public Bank (Foreign) share price rose from RM6.55 and RM6.40 respectively at the start of 2006 to RM7.75 and RM7.85 respectively at the end of 2006. Public Bank's market capitalisation has increased by 21% from RM22.23 billion to RM26.94 billion during the same period. Public Bank maintained its position as the largest non-government-linked company in Malaysia by market capitalisation.

The Public Bank Group continued to pursue a high dividend payout policy as an integral part of the Group's initiatives to improve its capital efficiency. Its dividend payout ratio for 2006 remained high at 84%.

## **Strong Growth in Retail Loans**

The Public Bank Group's loans and advances increased by RM16.3 billion or 24% to stand at RM84.4 billion at the end of 2006, including RM4.3 billion arising from the acquisition of PB(HK). The Group's lending activities continued to be focused on the retail sector, with consumer loans for the financing of residential properties and transport vehicles as well as commercial lending to SMEs accounting for 71% of the Group's total loan portfolio at the end of 2006.

The strong loan growth has led to loans for residential properties growing by 28% to RM23.0 billion at the end of 2006. Meanwhile, loans for the purchase of transport vehicles increased by 18% to RM23.3 billion and loans to SMEs expanded by 17% to RM17.7 billion at the end of 2006.

## **Further Improvement in Asset Quality**

The Public Bank Group has sustained its strong asset quality even as the Group achieved strong lending growth averaging 20% per year over the last 6 years. The Group's gross non-performing loans ("NPL") and net NPL ratios stood at 1.9% and 1.6% respectively at the end of 2006 compared to 2.1% and 1.7% respectively at the end of 2005. The Group's net NPL ratio of 1.6% is less than one-third of the banking industry's net NPL ratio of 4.9% as at the end of November 2006.

The Public Bank Group also maintained a high level of provisioning with its ratio of general allowance to net loans of 1.6% and its loan loss coverage ratio of 100% as at the end of 2006 as compared to 58% coverage for the banking industry at the end of November 2006. At the end of 2006, the Group's general allowance was almost sufficient to cover the Group's NPLs despite that more than 90% of the NPLs are secured.

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

## **Accelerated Growth in Customer Deposits**

The Public Bank Group continued to expand its core deposit funding as well as its wholesale deposit-taking business in the issuance of negotiable instruments of deposits. The Group's customer deposits increased by 33% to stand at RM111.8 billion at the end of 2006.

Excluding the deposits arising from the acquisition of PB(HK), the Group's customer deposits grew by RM21.4 billion or 25%, which was about two times that of the growth recorded by the banking industry. The growth was contributed significantly by the increase in the issue of negotiable instruments of deposits of

RM12.8 billion or 69%. Demand deposits, fixed deposits and savings deposits grew by 15%, 13% and 10% respectively.

With the strong growth in customer deposits, the Group's market share of customer deposits increased to 13.4% at the end of 2006 from 12.0% at the end of 2005. The Group's liquidity has also improved with loans to deposits ratio standing at 74.1% as at the end of 2006 as compared to 79.4% as at the end of 2005.

### **Indo China and PB(HK) Operations**

The Group's operations in Indo China performed well, registering loan growth of 89% whilst pre-tax profit increased by 50% in 2006. Cambodian Public Bank Limited, Public Bank's wholly-owned subsidiary in Cambodia, was the main contributor to the strong performance.

The pre-tax profit of PB(HK), which was acquired in May 2006, improved by 71% in 2006, supported by its annualised loan growth of 17% since the date of acquisition.

### **Group Prospects**

The Malaysian economy is expected to remain resilient in 2007, boosted by economic activities with the rollout of the 9<sup>th</sup> Malaysia Plan. While the positive economic conditions will provide a supportive environment for the banking industry, the intense competition in the banking sector coupled with the liberalisation of the industry and the addition of the three newly established Islamic banks, will continue to put more pressure on interest margins.

To sustain its profitability growth in this challenging environment, the Public Bank Group will continue to pursue its strategy of high organic loan and deposit growth, improved cost efficiency and maintaining strong asset quality. Barring unforeseen circumstances, the Public Bank Group is expected to continue to record satisfactory performance in 2007.

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

Chairman

Dated 22 January 2007

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