

PRESS RELEASE BY PUBLIC BANK BERHAD
2013 FINANCIAL PERFORMANCE

PUBLIC BANK GROUP EXCEEDED THE RM4 BILLION MARK IN NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS FOR 2013 AND DECLARES SECOND INTERIM DIVIDEND OF 30 SEN

Chairman's Review

The performance of the Public Bank Group continued to strengthen following another favourable set of financial results in 2013. The Founder and Chairman of Public Bank, Tan Sri Dato' Sri Dr. Teh Hong Piow is pleased to announce that *“The Public Bank Group recorded a pre-tax profit of RM5.31 billion in 2013, representing a growth of 5.2% as compared to 2012. The Group's net profit attributable to shareholders grew by 6.2% to RM4.06 billion, exceeding the RM4 billion mark for the first time.”*

Tan Sri Teh commented that *“We are deeply encouraged that the Group continued to be in the forefront amongst its banking peers in Malaysia, achieving the highest return on equity of 22.4% while maintaining the lowest gross impaired loan ratio of 0.7% and cost to income ratio of 30.7% in 2013.”*

Tan Sri Teh added that, *“In view of the Group's favourable performance in 2013, we are pleased to announce that the Board of Directors has declared a second interim single-tier dividend of 30 sen. Together with the first interim single-tier dividend of 22 sen which was paid in August 2013, the total dividend for 2013 is 52 sen.”* The total dividend paid and payable for 2013 amounts to RM1.82 billion and represents a total payout of 44.8% of the Group's net profit for 2013.

Sustaining Strong Double-Digit Growth in Loans and Customer Deposits

Tan Sri Teh commented that, *“Despite experiencing prolong external uncertainties, the Malaysian economy remained largely resilient throughout 2013, supported by strong domestic demand that continued to drive growth in the economy. From the perspective of the banking industry, intense competition amongst banks for market share and changes in the regulatory requirements continued to put pressure on pricing of products amid operating in a more regulated business environment.*

Against the backdrop, the Public Bank Group was not only able to record healthy double digit growth of 11.8% and 11.5% in loans and deposits respectively, but also sustaining its market share in its domestic core lending and deposit-taking business.”

In particular, the growth for domestic loans of 12.0% outpaced the domestic banking industry’s growth of 10.6%. Lending to the retail banking segment remained the main strategic focus of the Public Bank Group with extension of credit mainly to small and medium enterprises, purchasing of residential properties and passenger vehicles. As at the end of 2013, the Group’s retail loan portfolio collectively accounted for 86% of its total loans.

The Public Bank Group continued to sustain its market leadership position in domestic lending for residential mortgages, commercial property financing and passenger vehicles financing, with market shares for these key lending segments of 19.6%, 33.8% and 26.5% respectively. The Group’s lending to small and medium enterprises also recorded commendable growth of 19.2% in 2013.

The Public Bank Group’s funding position remained stable and healthy, supported by its strong retail deposit franchise of over five million customers. In tandem with its loan growth, domestic customer deposits grew by 11.6%, significantly higher than the domestic banking industry’s deposit growth of 8.5%, leading to an increased market

share of 15.6% as at the end of 2013. The strong domestic deposit growth was mainly attributed to the steady inflow of fixed deposits and low cost savings and current accounts, which grew by 14.2%, 8.3% and 17.0% respectively.

Maintaining Growth in Fee-Based Income

In 2013, the net fee and commission income of the Public Bank Group grew by 9.4% as the Group focused its efforts to increase fee income from unit trust, bancassurance, foreign-exchange related transactions and transactional banking services.

“The Group’s unit trust management business through its wholly-owned subsidiary, Public Mutual, recorded commendable performance with a 14.5% growth in pre-tax profit in 2013 as compared to 2012. As at the end of 2013, Public Mutual had 104 funds with total net asset value of RM62.5 billion under its management. Public Mutual remained as the market leader in the private unit trust business, capturing 41.2% of the overall market share as at the end of 2013, with 59.5% and 53.2% market share in the equity and Islamic unit trust fund sectors respectively.” remarked Tan Sri Teh.

The strategic bancassurance partnership with AIA Group Ltd, following the acquisition by AIA of the ING’s insurance operations in Malaysia has also proven to be successful as it enables the Group to continue to provide life, health and investment-linked insurance products to its large customer pool in Malaysia and Hong Kong. In 2013, the Group achieved sales of bancassurance products, measured in terms of Annualised Premium Equivalent (“APE”) of RM121.1 million.

Observing Prudent Cost Discipline

Tan Sri Teh highlighted that, *“The Public Bank Group remained as the most cost-efficient bank in Malaysia with its cost to income ratio of 30.7% in 2013 as compared to the banking industry’s average cost to income ratio of 46.6%.*

To ensure cost sustainability amid the challenging operating business environment, the Public Bank Group will continue to observe prudent cost discipline, deploy adequate resources to review and improve its business processes, and ensure optimum utilisation of infrastructure to further enhance efficiency and productivity while ensuring strict compliance with internal operating standards and procedures.”

Preserving Asset Quality

“The Public Bank Group takes pride in being the Malaysian banking group with the lowest impaired loan ratio, despite recording consistent double-digit growth in its loan portfolio year after year and amid such challenging operating business environment.

The strong asset quality in the Group’s loans portfolio is demonstrated with the Group recording a low gross impaired loan ratio of 0.7% as at the end of 2013, significantly lower as compared to the Malaysian banking industry’s gross impaired loan ratio of 1.9%. Net credit charges for 2013 also remained low at 0.17%.” commented Tan Sri Teh.

Tan Sri Teh added that, *“The Public Bank Group’s loan loss coverage ratio stood at 118.5%, which was higher and more prudent than the banking industry’s average loan loss coverage ratio of 107.6%.”*

The strong asset quality is a result of the Group’s consistency in adopting a combination of both preventive and proactive measures in its lending activities, such as setting strict and prudent credit policies, advocating strong discipline and “know your customer”

culture in the credit assessment and approval process, and ensuring effective and efficient recovery processes.

Overseas Operations

For the year ended 2013, the Public Bank Group's overseas operations contributed 6.6% of the Group's overall pre-tax profit. Cambodian Public Bank Plc ("Campu Bank"), a wholly-owned subsidiary of Public Bank, reported a commendable growth in pre-tax profit of 8.0% to RM117.2 million in 2013, amid the challenging business environment, and remains as one of the top three largest banks in Cambodia.

Ensuring Healthy Capital Position

The Public Bank Group's capital position remained healthy, with its common equity Tier I capital ratio, Tier I capital ratio and total capital ratio standing at 8.8%, 10.5% and 13.8% respectively as at the end of 2013.

Tan Sri Teh emphasised that ***“Public Bank will continue to be proactive in its capital management in order to ensure an optimum level of capital is maintained in support of the Group's business growth strategies and maximising its shareholder value while balancing the need for higher capital retention as required by the Basel III standards.*”**

As part of its capital management plan, Public Bank, had in 2013, issued a total of RM1.95 billion of Basel III-compliant subordinated medium-term notes which qualify as Tier II capital in support of the Group's continued business growth.

Outlook

The outlook of the Malaysian economy, in which the Public Bank Group largely operates, continues to be stable and supportive of growth despite uncertainties from the vulnerable external economic conditions, and signs of moderation from certain sectors domestically. Likewise, intense competition amongst financial institutions for market share as well as the need for higher capital conservation due to the requirements of Basel III capital framework, will continue to put pressure on pricing of products and return on equity.

However, the Public Bank Group is well positioned to weather any uncertainties in 2014 and beyond. Tan Sri Teh remarked that, ***“Our strategies remain unchanged. The Public Bank Group will continue to focus on its key strength in core retail banking and financing business, whilst maintaining its prudent credit policies, as well as upholding strong corporate governance to support long term sustainable growth. The Group will continue to leverage on its strong PB brand and its wide and efficient branch network as well as its excellent customer service to deliver continuous revenue growth.*”**

The Group is expected to maintain its earnings momentum and record satisfactory performance in 2014.”

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