



**PUBLIC BANK**

**Morgan Stanley**

**Seventh Annual Asia Pacific Summit**

**Singapore**

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# AGENDA

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# 1. OPERATING ENVIRONMENT

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## ❖ Supportive but challenging economic environment

- > GDP growth : 1Q08: 7.1% 2Q08: 6.3%
- > Growth in 1H08 – broadbased, led by services and domestic demand
- > Accommodative fiscal and monetary policy

## ❖ Ample liquidity

- > LD-ratio : 2007: 74.1% Aug 2008: 75.8%
- > Large current account surplus (% of GDP): 2007: 15.6 1H08: 16.7
- > High international reserves : 2007: US\$101.3 billion  
Aug 2008: US\$122.6 billion  
Sep 2008: US\$109.7 billion



## OPERATING ENVIRONMENT - cont'd

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- ❖ Preemptive/ precautionary measures to maintain stability and confidence of depositors:
  - > BNM stands ready to provide liquidity
  - > Government provides full guarantee to all ringgit and foreign currency deposits in financial institutions regulated by BNM
  
- ❖ Strong banking sector
  - > Capital Adequacy:

Risk Weighted Capital Ratio (%):	2007: 13.2	Aug 2008: 13.2
Core Capital Ratio (%):	2007: 10.2	Aug 2008: 10.6



## OPERATING ENVIRONMENT - cont'd

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> Asset Quality:

Net NPL Ratio (%): 2007: 3.2 Aug 2008: 2.5

Gross NPL Ratio (%): 2007: 5.6 Aug 2008: 4.5

> Annual loan growth (%): 2007: 8.6 Aug 2008: 11.0

> Annual deposits growth (%): 2007: 7.0 Aug 2008: 12.5

> Negligible exposure to sub-prime related securities and other affected financial institutions of other countries



## OPERATING ENVIRONMENT - cont'd

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### Challenges:

- ❖ High risk of global recession
- ❖ Softening domestic demand
- ❖ High fiscal deficit:
  - > 2008: 4.8% of GDP
  - > 2009: 3.6% of GDP
- ❖ Rising unemployment (4Q07: 3%, 1Q08: 3.6%, 2Q08: 3.5%)
- ❖ Political uncertainties
- ❖ Soft RM exchange rate



## 2. INTRODUCTION TO PUBLIC BANK

- ❖ Commenced operations in 1966 with one branch
- ❖ Listed in April 1967
- ❖ Geographical Contribution

	Profit Before Tax			Total Assets		
	YTD Sep 2008	2007	2006	Sep 2008	2007	2006
<b>Malaysia</b>	89%	85%	86%	91%	91%	92%
<b>Overseas</b>	11%	15%	14%	9%	9%	8%



## Group Structure – Main Companies

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	<u>No. of Branches</u>
<b>❖ Malaysian Operations</b>	
> Public Bank Berhad	<b>242</b>
	<b>5</b> (one each in Sri Lanka & Hong Kong and 3 in Laos)
> Public Mutual Berhad	<b>26</b>
> Public Investment Bank Berhad	<b>1</b>
<b>❖ Hong Kong Operations</b>	
> Public Finance Limited	<b>42</b>
> Public Bank (HK) Limited	<b>26</b>
	<b>2</b> (China)
<b>❖ Indo-China Operations</b>	
> Cambodian Public Bank	<b>11</b>
> VID Public Bank (Vietnam)	<b>7</b>



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- ❖ Growth strategy
    - > Organic growth
  
  - ❖ Retail business focus
    - > Lending
      - Consumer financing: home mortgages, vehicle financing, credit cards, personal financing
      - Lending to SMEs: working capital, purchase of business premises, trade finance and microfinance



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- Deposits
    - Retail deposits: Fixed, savings and demand deposits
    - Wholesale deposits
    - Foreign currencies deposits
    - Structured deposit products
  
  - Financial planning/wealth management products: unit trusts, bancassurance and structured investment products

### 3. FINANCIAL RESULTS AND HISTORICAL PERFORMANCE



#### A) Profit Contribution By Business Segment

	2007		YTD Sep 2008	
	RM million	%	RM million	%
Retail operations	2,308	73	2,089	77
Treasury & capital market operations	390	12	394	15
Fund management	183	6	137	5
Investment banking	166	5	35	1
Corporate lending	105	3	24*	1
Others	19	1	21	1
	3,171	100	2,700	100
Unallocated expenses	(167)	-	(134)	-
Profit before tax	3,004	-	2,566	-

\* Decrease in profit due to high general provision resulting from higher loan growth and SP made on certain corporate loan accounts secured by properties exceeding 7 years whereby full provision is made with zero value assigned to collateral



## B) Loans & Deposits Growth Since 2001

	2001	2002	2003	2004	2005	2006	2007	Sep 2008 (Annualised)
<b>Loans Growth (%)</b>	11.8*	22.3	21.3	22.4	19.9	17.5*	20.2**	22.0
<b>Core Customer Deposits Growth (%)</b>	5.1*	19.3	6.3	20.4	9.8	13.1*	20.1	14.5

\* Excluding acquisition of Hock Hua Bank in 2001 and Public Bank (Hong Kong) in 2006

\*\* Including Islamic financing sold to Cagamas

CAGR (2001 – 2007)

Loans : **21.3%**

Core Customer Deposits : **16.1%**



## C) Domestic Market Share Gains Since 2001

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	2001	2002	2003	2004	2005	2006	2007	Aug 2008
<b>Loans Market Share (%)</b>	6.4	8.2	9.6	11.1	12.0	13.2	14.4	14.8
<b>Deposits Market Share (%)</b>	8.2	9.3	9.5	12.4	13.2	14.1	14.8	14.6



## D) Profit Track Record

- ❖ 42 years of unbroken profitability
- ❖ Strong profit growth in past 5 years

	RM million						y-o-y growth (%)				
	2003	2004	2005	2006	2007	YTD Sep 2008	2004	2005	2006	2007	YTD Sep 2008 vs YTD Sep 2007
<b>Profit before tax</b>	1,435	1,884	2,059	2,416	3,004	2,566	31.3	9.3	17.3	24.3	17.6
<b>Net profit</b>	989	1,294	1,459	1,727	2,124	1,927	30.8	12.8	18.4	23.0	24.8



## E) Balance Sheet Highlights

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Sep 2008</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>
Total assets	116,689	147,790	174,155	190,730
Gross loans and advances	68,102	84,365	101,005**	117,760**
Domestic gross loans and advances	65,199	76,326	90,540	104,274
Deposits from customers	84,130	111,793	138,765	155,818
Shareholders' funds	8,564	9,034	9,342	9,182
<b>Net assets per share (RM)</b>	<b>2.60</b>	<b>2.71</b>	<b>2.79</b>	<b>2.74</b>

\*\* Excluding Islamic financing sold to Cagamas



## F) Key Financial Ratios

	2005	2006	2007	YTD Sep 2008 (Annualised)
Net Return on Equity (%)*	19.1	21.9	26.3	29.7
EPS (sen)	44.5	52.1	63.3	76.5
Return on Assets (%)	2.0	1.9	1.9	1.9
Net Interest Margin on Yielding Assets (%)**	3.6	3.4	3.2	3.2
Cost Income Ratio (%)	33.8	32.7	33.1	30.7
Cost/ Average Assets (%)	1.3	1.2	1.1	1.0
Net Loans to Deposits ratio (%)	79.4	74.1	71.6	74.4

\* Based on average equity after deducting proposed dividend

\*\* Excluding Negotiable Instrument of Deposits and Money Market Deposits which are on-lent to interbank



## G) Asset Quality Track Record

	2005 (%)	2006 (%)	2007 (%)	Sep 2008 (%)
Net NPL Ratio	1.7	1.6	1.2	0.87
Gross NPL Ratio	2.1	1.9	1.4	0.99
Industry Gross NPL Ratio	8.4	7.4	5.6	4.5*
Gross NPL Ratio for Key Lending Sectors :				
- Housing Loans	3.3	3.1	2.4	1.7
- SME Loans	1.8	1.6	1.3	1.1
- Hire Purchase	1.0	1.1	0.9	0.6

\* As at Aug 2008



## H) Sustaining Strong Asset Quality

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- ❖ Focus on lower risk customer segments
  - > traditional urban/ suburban mortgages
  - > passenger vehicle hire purchase
  - > middle market business enterprises
- ❖ Sound credit appraisal and approval process
- ❖ Strong credit risk culture
- ❖ Loan restructuring and rescheduling



## I) Public Mutual

	2003	2004	2005	2006	2007	YTD Sep 2008
No. of Funds	18	19	26	34	55	67
Net Asset Value (RM' Bil)	8.23	9.88	12.08	16.19	28.39	24.17
Market Share (%)	28.9	26.3	27.6	33.5	40.0	38.4*
Gross New Sales (RM' Bil)	2.36	2.06	3.07	4.10	13.12	5.66

\* As at Aug 2008

- ❖ Total % of equity funds to total funds: RM17.67b/ 73.12% (As at Sep 2008)
- ❖ Largest private unit trust management company in Malaysia
- ❖ Number of agents: 41,722 (As at end-September 2008)



## J) Capital Adequacy Ratios

	RM million			
	2005	2006	2007	Sep 2008
<b>Equity Capital</b>	7,885.3	7,151.0	7,626.7	6,816.9
<b>Hybrid Capital</b>	-	1,262.0	1,345.9	1,203.0
<b>Total Tier 1 Capital</b>	7,885.3	8,413.0	8,972.6	8,019.9
<b>Total Tier 2 Capital</b>	3,873.0	4,587.1	4,505.1	6,343.5
<b>Total Capital Base</b>	11,758.3	13,000.1	13,477.7	14,362.4
<b>Risk-Weighted Assets</b>	68,008.9	82,425.4	99,092.4	108,705.1
<b>Risk-Weighted Capital Ratio (%)</b>	17.3	15.8	13.6	13.2
<b>Core Capital Ratio (%)</b>	11.6	10.2	9.1	7.4



## K) Dividend Track Record

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	2003 (%)	2004 (%)	2005 (%)	2006 (%)	2007 (%)
Gross dividend yield	3.9	12.7	8.4	7.7	6.8
Dividend payout ratio	51.7	163.6	89.6	84.5	87.3

❖ Paid dividends annually since 1970



## L) Improving Capital Efficiency

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- ❖ High dividend payout ratio
- ❖ Gearing up of equity capital
  - > Subordinated debt capital
  - > Innovative hybrid Tier- 1 capital
- ❖ Potential for Non-innovative hybrid Tier-1 capital
- ❖ Basel II Capital improved by about 0.7% effective 2008
- ❖ Another 0.5% Basel II IRB in year 2010
- ❖ Further capital improvement under FRS 139



## 4. BUSINESS STRATEGIES

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### Strategies for Business Growth

- ❖ Significant management resources to drive growth
- ❖ Competitive pricing and competitive packages and bundling
- ❖ Strong credit culture
- ❖ Strong brand franchise



## ❖ Strong performance driven culture

- performance related remuneration system
- stable employment and good career opportunities
- high staff morale
- strong staff performance culture through
  - commitment
  - employees' sense of belonging
  - one focus/ Group goal congruence
  - good career prospects/ sense of life-long career  
(demonstrated in the past)



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## Strategies to address narrowing net interest margins

- ❖ Continued high volume growth
- ❖ Increase non-interest income
  - > high growth in Unit Trust business
  - > Bancassurance products with ING
  - > affluent customer base with good potential for wealth management products
  - > structured deposit products



- ❖ Improve productivity
  - > highest pre-tax profit per average employee
  - > highest gross operating profit per average employee
  - > highest gross loans and deposits per employee
  - > highest asset per employee
  - > low staff cost per employee
- ❖ Maintain best asset quality – lowest NPL ratio
- ❖ Make positive spread on term deposits instead of negative spread in the past



## 5. MARKET CAPITALISATION AND ANALYSTS POLL

❖ Market capitalisation (as at 20 October 2008) : RM30.94 billion

❖ Average daily value traded in 2007 : RM48 million

	<u>Avg Daily Vol</u>	<u>Avg Daily Val</u>
2007	5.0 million	RM 48.2 million
YTD 20 October 2008	5.6 million	RM 58.8 million

❖ Consensus net profit estimates (RM'mil):

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	2,470.7	2,557.7	2,838.0

❖ Poll of analysts Buy/ Hold/ Sell recommendations on PBB Shares as at 20 October 2008

	<u>Buy</u>	<u>Hold</u>	<u>Sell</u>	<u>No. of Analysts</u>
PBB	17	8	1	26

Source: Bloomberg, Reuters and Analyst Reports



## 6. SUMMARY

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- ❖ Profitable retail franchise
  - > domestic and Indo-China market
  - > growing market share
  - > affluent and quality retail customer base for lending and wealth management business
- ❖ Unbroken profit track record
- ❖ Sustained strong asset quality



## SUMMARY – cont'd

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- ❖ Strong brand
- ❖ Proactive capital management
- ❖ Big market capitalisation
  - > high liquidity and high free-float
- ❖ Proven management record in execution
- ❖ Strong working commitment and excellent career environment



*Thank you*