



PUBLIC BANK BERHAD

(Company No. 6463-H)
(Incorporated in Malaysia)

INFORMATION MEMORANDUM

ISSUANCE OF UP TO RM10.0 BILLION IN NOMINAL VALUE OF SUBORDINATED MEDIUM TERM NOTES PURSUANT TO A SUBORDINATED MEDIUM TERM NOTES PROGRAMME

Joint Principal Advisers/Joint Lead Arrangers/Joint Lead Managers



**PUBLIC INVESTMENT BANK
BERHAD** (20027-W)

(A participating organisation of Bursa Malaysia Securities Berhad)
(Wholly-owned subsidiary of Public Bank Berhad)



CIMB Investment Bank Berhad
(Company No. 18417-M)

This Information Memorandum is dated 5 September 2013

RESPONSIBILITY STATEMENT

This Information Memorandum (“IM”) has been approved by the Directors of Public Bank Berhad (“PBB” or “Issuer”) and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement in this IM false or misleading and there is no material omission in this IM.

IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER

This IM is issued in connection with the RM10.0 billion in nominal value of subordinated medium term notes (“Sub-Notes”) pursuant to a subordinated medium term notes programme (“Sub-Notes Programme”) by the Issuer.

At the point of issuance of the Sub-Notes, the Sub-Notes shall not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor shall any document or other material in connection therewith, including this IM, be distributed, in Malaysia other than to persons who fall within any of the categories of persons specified under Schedule 6 (or Section 229(1)(b)); and Schedule 7 (or Section 230(1)(b)) read together with Schedule 9 (or Section 257(3)) of the Capital Markets and Services Act, 2007 (as amended from time to time) (“CMSA”).

Subsequent to the issuance of the Sub-Notes, the offer for purchase of, or invitation to purchase the Sub-Notes will be subject to the selling restrictions in that the Sub-Notes may not be offered or sold directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons who fall within any of the categories of persons specified under Schedule 6 (or Section 229(1)(b)) read together with Schedule 9 (or Section 257(3)) of the CMSA.

The Sub-Notes may be listed on Bursa Malaysia Securities Berhad under the Exempt Regime.

The Issuer has authorised Public Investment Bank Berhad (“PIVB” or “Joint Principal Adviser/Joint Lead Arranger” or “Facility Agent” or “Joint Lead Manager”) and CIMB Investment Bank Berhad (“CIMB” or “Joint Principal Adviser/Joint Lead Arranger” or “Joint Lead Manager”) to distribute this IM. This IM may not, in whole or in part, be reproduced or used for any other purpose, or shown, given or sent to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer or the Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers as required under any Malaysian laws, regulations and guidelines.

No representation or warranty, express or implied, is given or assumed by the Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers as to the authenticity, origin, validity, accuracy or completeness of information and data contained in this IM or that the information or data remains unchanged in any respect after the relevant date shown in this IM. The Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers have not accepted and will not accept any responsibility for the information and data contained in this IM or otherwise in relation to the Sub-Notes and shall not be liable for any consequences of reliance on any of the information or data in this IM, except as provided by Malaysian laws. No person is authorised to give any information or data or to make any representation or warranty in relation to the Sub-Notes Programme other than as contained in this IM and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by the Issuer, Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers or any other person. The Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the tenure of the Sub-Notes or to advise any investor of the Sub-Notes of any information coming to their attention.

The information in this IM supersedes all other information and material previously supplied (if any) to the recipients. By taking possession of this IM, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied (if any).

This IM has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia (the “Foreign Jurisdiction”), and has not been and will not be lodged, registered or approved pursuant to or under any legislation (or with or by any regulatory authorities or other relevant bodies) of any Foreign Jurisdiction and does not constitute an issue or offer of, or an invitation to apply for, the Sub-Notes or any other securities of any kind by any party in any Foreign Jurisdiction.

The distribution or possession of this IM in Malaysia or in any Foreign Jurisdiction may be restricted or prohibited by law. Each recipient is required by the Issuer and the Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. None of the Issuer, the Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers accepts any responsibility or liability to any person in relation to the distribution or possession of this IM in Malaysia or in any Foreign Jurisdiction. This IM is not and is not intended to be a prospectus and has not been registered or lodged under the laws of Malaysia or of any Foreign Jurisdiction as a prospectus.

In addition, recipients of this IM should note the selling restrictions in the Summary of the Principal Terms and Conditions as set out in Section 2.0 of this IM.

By accepting delivery of this IM, each recipient agrees to the terms upon which this IM is provided to such recipient as set out in this IM, and further agrees and confirms that (a) it will keep confidential all information and data in this IM, (b) it is lawful for the recipient to subscribe for or purchase the Sub-Notes under all jurisdictions to which the recipient is subject, (c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Sub-Notes, (d) the Issuer, the Joint Principal Advisers/Joint Lead Arrangers, the Joint Lead Managers and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription for or purchase of the Sub-Notes, and they shall not have any responsibility or liability in the event that such subscription for or purchase of the Sub-Notes is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Sub-Notes can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Sub-Notes, and is able and is prepared to bear the economic and financial risks of investing in or holding the Sub-Notes, (g) it is subscribing for or accepting the Sub-Notes for its own account, and (h) it is a person to whom an issue, offer or invitation to subscribe for or purchase the Sub-Notes would constitute an excluded issue, excluded offer or excluded invitation as defined in the CMSA. Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject. For the avoidance of doubt, this IM shall not constitute an offer or invitation to subscribe for or purchase the Sub-Notes in relation to any recipient who does not fall within item (h) above.

This IM is not, and should not be construed as, a recommendation by the Issuer, the Joint Principal Advisers/Joint Lead Arrangers or the Joint Lead Managers or any other party to the recipient to subscribe for or purchase of the Sub-Notes. This IM is not a substitute for, and should not be regarded as, an independent evaluation and analysis of the Sub-Notes or the risks associated therewith. Each recipient should perform and is deemed to have made its own independent investigation and analysis of the Issuer, the Sub-Notes and all other relevant matters, and each recipient should consult its own financial, legal and other appropriate professional advisers.

Neither the delivery of this IM nor the offering, sale or delivery of any Sub-Notes shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Sub-Notes is correct as of any time subsequent to the date indicated in the document containing the same.

This IM includes “forward looking statements”. All these statements are based on estimates and assumptions made by the Issuer that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of the Issuer to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any of such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of forward looking statements in this IM should not be regarded as a representation or warranty by the Issuer or any other person that the plans and objectives of the Issuer will be achieved.

STATEMENTS OF DISCLAIMER

A copy of this IM will be deposited with the Securities Commission Malaysia (“SC”) in accordance with the CMSA, who takes no responsibility for the contents.

The issue, offer or invitation in relation to the Sub-Notes in this IM or otherwise are subject to the fulfilment of various conditions precedent.

The SC had approved the Sub-Notes Programme via its letter dated 10 July 2013. The approval of the SC shall not be taken as a recommendation by the SC to invest in the Sub-Notes.

The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness or completeness of any statements made or opinions or reports expressed or contained in this IM.

Bank Negara Malaysia (“BNM”) had on 14 June 2013 approved the establishment of the Sub-Notes Programme and the classification of the Sub-Notes issued from time to time under the Sub-Notes Programme as Tier II capital for the computation of the regulatory capital of PBB and PBB Group in accordance with the Capital Adequacy Framework (Capital Components) issued by BNM on 28 November 2012 (“CA Framework”).

This IM is not an offer to sell securities and is not soliciting an offer to buy securities described herein in any jurisdiction where the offer for sale is not permitted.

PROSPECTIVE INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR INVESTING IN THE SUB-NOTES.

EACH ISSUANCE OF THE SUB-NOTES WILL CARRY DIFFERENT RISKS AND PROSPECTIVE INVESTORS ARE STRONGLY ENCOURAGED TO EVALUATE EACH ISSUANCE OF THE SUB-NOTES ON ITS OWN MERIT.

CONFIDENTIALITY

This IM and its contents are strictly confidential and are provided strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this IM and its contents, or any information, which is made available in connection with any further enquiries, must be held in complete confidence.

This IM is provided to prospective investors solely in relation to their own evaluation of the Sub-Notes.

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30 June 2013

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GLOSSARY OF DEFINITIONS & ABBREVIATIONS

The following definitions (in addition to the definitions contained in the body herein) and abbreviations shall apply throughout this Information Memorandum unless the context otherwise requires:

“Act”	: Companies Act 1965 (as amended from time to time).
“ATM”	: Automated teller machines.
“BNM”	: Bank Negara Malaysia.
“Board”	: Board of Directors of PBB.
“Bursa Securities”	: Bursa Malaysia Securities Berhad (Company No. 635998-W), being the securities exchange of Malaysia.
“CA Framework”	: The Capital Adequacy Framework (Capital Components) issued by BNM on 28 November 2012.
“CAR”	: Capital adequacy ratio.
“CET I”	: Common equity Tier I.
“CIMB” or “Joint Principal Adviser” or “Joint Lead Arranger” or “Joint Lead Manager”	: CIMB Investment Bank Berhad (Company No. 18417-M).
“CMSA”	: Capital Markets and Services Act 2007 (as amended from time to time).
“Facility Agent”	: PIVB.
“FSA”	: Financial Services Act 2013 (as amended from time to time).
“IFSA”	: Islamic Financial Services Act 2013 (as amended from time to time).
“Impaired loans(s)”	: Impaired loans, advances and financing.
“Joint Lead Arrangers”	: PIVB and CIMB.
“Joint Lead Managers”	: PIVB and CIMB.
“Joint Principal Advisers”	: PIVB and CIMB.
“Loan(s)”	: Loans, advances and financing.
“MyClear”	: Malaysian Electronic Clearing Corporation Sdn Bhd (Company No. 836743-D), a wholly owned subsidiary of BNM incorporated in October 2008.
“PBB” or the “Issuer”	: Public Bank Berhad (Company No. 6463-H).
“PBB Group”	: PBB and its subsidiaries and associated companies.
“PIVB” or “Joint Principal Adviser” or “Joint Lead Arranger” or “Joint Lead Manager” or “Facility Agent”	: Public Investment Bank Berhad (Company No. 20027-W).
“RAM Rating”	: RAM Rating Services Berhad (Company No. 763588-T).
“RENTAS”	: means the scripless book-entries securities trading and funds transfer system known as Real Time Electronic Transfer of Funds and Securities operated by BNM as varied, upgraded or substituted from time to time.
“Ringgit”, “RM” and “sen”	: Ringgit and sen respectively, the lawful currency of Malaysia.

“SC”	: Securities Commission Malaysia.
“SMEs”	: Small- and medium-sized enterprises.
“Sub-Notes”	: Subordinated medium term notes to be issued under the Sub-Notes Programme.
“Sub-Notes Programme”	: Sub-Notes Programme of up to RM10.0 billion in nominal value established by the Issuer with a tenure of up to thirty (30) years from the date of first issue of the Sub-Notes.
“Trustee”	: AmanahRaya Trustees Berhad (Company No. 766894-T).

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SECTION 1.0 EXECUTIVE SUMMARY

1.1 Background of PBB

PBB was incorporated as Public Bank Limited in Malaysia under the Companies Act, 1965 (the “Act”) on 30 December 1965 and had assumed its current name since 15 April 1966. PBB commenced operations on 6 August 1966 and has been listed on the Main Board (*now known as Main Market*) of Bursa Malaysia Securities Berhad (“Bursa Securities”) since 6 April 1967. The registered office of PBB is 27th Floor, Menara Public Bank, 146, Jalan Ampang, 50450 Kuala Lumpur.

PBB is principally engaged in all aspects of commercial banking and the provision of related financial services, which include credit card business, sales of trust units, bancassurance and general insurance products. PBB together with its subsidiaries and associated companies (“PBB Group”) are involved in banking, Islamic banking, investment banking, financing, credit card business, share broking, sale of trust units and management of unit trust funds, bancassurance, general insurance, family takaful, trustee and nominee services.

1.2 Brief Description of the Sub-Notes Programme and the Sub-Notes

The Sub-Notes Programme will involve the issuance of the Sub-Notes of up to RM10.0 billion in nominal value by PBB. Bank Negara Malaysia (“BNM”) had on 14 June 2013 approved the establishment of the Sub-Notes Programme and the classification of the Sub-Notes issued from time to time under the Sub-Notes Programme as Tier II capital for the computation of the regulatory capital of PBB and PBB Group in accordance with the Capital Adequacy Framework (Capital Components) issued by BNM on 28 November 2012 (“CA Framework”).

The Sub-Notes Programme shall be available for utilisation for a period of twenty-five (25) years from the first (1st) issuance of the Sub-Notes. The first (1st) issuance of the Sub-Notes under the Sub-Notes Programme shall be made within two (2) years from the date of the SC’s approval of the Sub-Notes Programme.

The Sub-Notes may be issued in series and each issuance shall have a tenure of not less than five (5) years. None of the Sub-Notes shall carry maturity date extending beyond the expiry of the tenure of the Sub-Notes Programme.

For further details, please refer to Section 2.0 – “The Principal Terms and Conditions of the Sub-Notes Programme”.

1.3 Details of Utilisation of Proceeds

The proceeds raised from the issuance of the Sub-Notes shall be made available to PBB, without limitation, for its working capital, general banking and other corporate purposes, including the refinancing of any existing subordinated debt issued by PBB, and any existing Sub-Notes issued under the Sub-Notes Programme.

For the avoidance of doubt, the existing subordinated debt issued by the Issuer and any Sub-Notes issued under the Sub-Notes Programme may or may not be refinanced from the proceeds of the Sub-Notes.

The first issuance of the Sub-Notes under the Sub-Notes Programme is scheduled to be within two (2) years from the date of the SC’s approval of the Sub-Notes Programme. Subsequently, the Sub-Notes Programme shall be available for utilisation over a period of twenty (25) years from the date of the first issuance of the Sub-Notes.

1.4 Rating of the Sub-Notes

RAM Rating Services Berhad (“RAM Rating”) has assigned a final rating of AA1 to the Sub-Notes to be issued under the Sub-Notes Programme.

1.5 Selling Restrictions

At the point of issuance of the Sub-Notes, the Sub-Notes shall not be offered, sold, transferred or otherwise disposed directly or indirectly, nor shall any document or other material in connection therewith including this IM be distributed in Malaysia other than to persons who fall within any of the categories of persons or in the circumstances specified under Schedule 6 (or Section 229(1)(b)); and Schedule 7 (or Section 230(1)(b)) read together with Schedule 9 or Section 257(3) of the CMSA.

Subsequent to the issuance of the Sub-Notes, the Sub-Notes may not be offered, sold, transferred or otherwise disposed directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons who fall within any of the categories of persons or in the circumstances specified under Schedule 6 (or Section 229(1)(b)) read together with Schedule 9 (or Section 257(3)) of the CMSA.

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Information Memorandum
Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes
1.6 Selected Financial Information

The following tables present a summary of the audited consolidated financial information of the PBB Group for the financial years ended ("FYE") 31 December 2012 and 2011 (save for certain of the financial ratios which have not been audited) and a summary of the unaudited consolidated interim financial information of the PBB Group for the financial half year ended 30 June 2013 and 2012. The financial information set out below should be read in conjunction with the unaudited interim financial statements of the PBB Group for the half year ended 30 June 2013 and the audited financial statements of the PBB Group for the FYE 2012, set out in Appendix I and Appendix II respectively as well as the footnotes below.

	Unaudited For Half Year Ended 30 June		Audited FYE 31 December	
	2013 (RM million)	2012 (RM million) (Restated)	2012 (RM million)	2011 (RM million)
INCOME STATEMENTS				
Operating revenue	7,476.1	6,839.3	14,058.1	12,756.4
Interest income	5,574.6	5,039.6	10,404.2	9,413.0
Interest expense	(2,838.9)	(2,471.3)	(5,149.6)	(4,438.1)
Net interest income	2,735.7	2,568.3	5,254.6	4,974.9
Net income from Islamic banking business	417.3	422.8	843.8	868.4
	3,153.0	2,991.1	6,098.4	5,843.3
Net fee and commission income	625.1	572.1	1,165.3	1,118.9
Net gains and losses on financial instruments	74.9	88.2	170.3	166.2
Other operating income	169.1	135.0	312.7	280.2
Net income	4,022.1	3,786.4	7,746.7	7,408.6
Other operating expenses	(1,261.5)	(1,216.2)	(2,360.9)	(2,208.7)
Operating profit	2,760.6	2,570.2	5,385.8	5,199.9
Allowance for impairment on loans, advances and financing	(157.7)	(113.6)	(279.3)	(326.8)
Writeback of impairment/ (impairment) on other assets	3.2	(1.4)	(6.6)	1.6
	2,606.1	2,455.2	5,099.9	4,874.7
Share of profit after tax of equity accounted associated companies	4.4	2.3	4.0	3.2
Profit before tax expense and zakat	2,610.5	2,457.5	5,103.9	4,877.9
Tax expense and zakat	(597.3)	(566.4)	(1,192.1)	(1,153.4)
Profit for the period/year	2,013.2	1,891.1	3,911.8	3,724.5
Attributable to:				
Equity holders of PBB	1,991.8	1,872.3	3,869.3	3,684.3
Non-controlling interests	21.4	18.8	42.5	40.2
Profit for the period/year	2,013.2	1,891.1	3,911.8	3,724.5
Earnings per RM1.00 share:				
- basic/diluted (sen)	56.9	53.5	110.5	105.2

Information Memorandum
Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 ^[1] (RM million)	2011 (RM million)
STATEMENTS OF FINANCIAL POSITION			
ASSETS			
Cash and balances with banks	28,159.4	18,636.0	18,633.8
Reverse repurchase agreements	8,602.8	8,158.5	9,287.3
Financial assets held-for-trading	13,222.4	16,617.1	10,656.8
Derivative financial assets	403.0	370.5	493.9
Financial investments available-for-sale	15,361.5	17,201.1	16,719.4
Financial investments held-to-maturity	6,777.3	6,257.8	7,629.2
Loans, advances and financing	207,711.3	196,051.6	175,952.8
Other assets	2,392.3	2,006.9	2,008.2
Statutory deposits with Central Banks	6,425.8	5,787.2	5,597.8
Deferred tax assets	65.6	63.2	46.1
Investment in associated companies	153.2	151.2	156.0
Investment properties	93.6	87.9	70.8
Property and equipment	1,307.1	1,309.6	1,341.9
Intangible assets	1,966.3	1,926.3	1,965.5
TOTAL ASSETS	292,641.6	274,624.9	250,559.5
LIABILITIES			
Deposits from customers	240,369.2	225,042.3	200,370.5
Deposits from banks	15,486.0	12,849.3	15,806.7
Bills and acceptances payable	2,304.5	3,048.8	2,095.4
Recourse obligations on loans and financing sold to Cagamas	500.7	501.5	11.8
Derivative financial liabilities	306.9	233.6	236.7
Debt securities issued and other borrowed funds	8,925.8	9,946.9	11,317.8
Other liabilities	4,091.4	3,570.5	3,467.6
Provision for tax expense and zakat	866.7	740.3	777.4
Deferred tax liabilities	62.1	47.9	55.6
TOTAL LIABILITIES	272,913.3	255,981.1	234,139.5
EQUITY			
Share capital	3,531.9	3,531.9	3,531.9
Reserves	15,669.6	14,627.6	12,406.2
Treasury shares	(215.6)	(215.6)	(215.6)
Equity attributable to equity holders of PBB	18,985.9	17,943.9	15,722.5
Non-controlling interests	742.4	699.9	697.5
TOTAL EQUITY	19,728.3	18,643.8	16,420.0
TOTAL LIABILITIES AND EQUITY	292,641.6	274,624.9	250,559.5
COMMITMENTS AND CONTINGENCIES	84,650.6	79,457.6	70,847.2
Net assets per share attributable to ordinary equity holders of PBB (RM)	5.42	5.12	4.49

Information Memorandum

Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes

Financial Ratios^[2]	As At		
	30 June 2013	31 December 2012	2011
The following financial ratios are unaudited:	(%)	(%)	(%)
Return on assets	1.8 ^(*)	1.9	2.0
Net return on equity	22.6 ^(*)	24.5	26.8
Net interest/financing margin	2.4 ^(*)	2.5	2.7
Gross impaired loan ratio	0.7	0.7	0.9
Loan loss reserve	123.2	126.0	113.8
Net loan to deposit ratio	86.4	87.1	87.8
Cost to income ratio	31.4	30.5	29.8
CET I capital ratio	9.0	N/A	N/A
Tier I capital ratio	10.8	11.4	11.2
Total capital ratio	13.2	14.6	15.6

(*) On an annualised basis.

Notes:

^[1] The summary of audited statements of financial position were extracted from the audited financial statements of the PBB Group for the FYE 2012 which excludes the financial effects of the adoption of the Malaysian Financial Reporting Standards ("MFRS") on Employee Benefits (as amended by International Financial Reporting Standards in June 2011) ("MFRS 119") which was adopted effective 1 January 2013. The adoption of MFRS 119 has been accounted for retrospectively and the financial effects of the adoption on the statements of financial position as at 31 December 2012 are disclosed in the unaudited interim financial statements for the half year ended 30 June 2013, as set out in Appendix I.

^[2] Financial ratios definitions:

Return on assets means pre-tax profit for the period/year as a percentage of the average of the beginning and year/period end of total assets.

Net return on equity means net profit for the period/year attributable to equity holders of PBB as a percentage of the average of the beginning and period/period end of shareholders' funds, net of proposed dividends.

Net interest/financing margin means net interest/financing income, including net financing income from PBB's Islamic banking business, as a percentage of the average of the beginning and period/year end of interest/financing earning assets.

Gross impaired loans ratio means gross impaired loans/financing as a percentage of gross loans, advances and financing.

Loan loss reserve means total collective assessment allowance and individual assessment allowance for impaired loans/financing as a percentage of impaired loans/financing.

Net loan to deposit ratio means net loans, advances and financing as a percentage of deposits from customers.

Cost to income ratio means operating expenses as a percentage of net income.

Common equity Tier I ("CET I") capital ratio means common equity Tier I capital to risk-weighted assets.

Tier I capital ratio means the ratio of Tier I capital to risk-weighted assets.

Total capital ratio means the ratio of the total capital base to risk-weighted assets.

SECTION 2.0 PRINCIPAL TERMS AND CONDITIONS OF THE SUB-NOTES PROGRAMME

2.01 BACKGROUND INFORMATION

(a) Issuer

- (i) **Name** : Public Bank Berhad (“**PBB**” or the “**Issuer**”).
- (ii) **Address** : 27th Floor, Menara Public Bank
146, Jalan Ampang
50450 Kuala Lumpur
Malaysia.
- (iii) **Business registration no.** : 6463-H.
- (iv) **Date and place of incorporation** : 30 December 1965 / Malaysia.
- (v) **Date of listing, where applicable** : 6 April 1967.
- (vi) **Status on residence** : Resident controlled company.
- (vii) **Principal activities** : PBB is principally engaged in all aspects of commercial banking and the provision of related financial services, which include credit card business, sales of trust units, bancassurance and general insurance products. PBB together with its subsidiaries and associated companies (“PBB Group”) are involved in banking, Islamic banking, investment banking, financing, credit card business, share broking, sale of trust units and management of unit trust funds, bancassurance, general insurance, family takaful, trustee and nominee services.
- (viii) **Board of directors** : The Board of Directors of PBB as at 30 April 2013 i.e. the latest practical date (“LPD”) are as follows:
 - (i) Tan Sri Dato’ Sri Dr. Teh Hong Piow
 - (ii) Tan Sri Datuk Seri Utama Thong Yaw Hong
 - (iii) Tan Sri Dato’ Sri Tay Ah Lek
 - (iv) Dato’ Sri Lee Kong Lam
 - (v) Dato’ Yeoh Chin Kee
 - (vi) Dato’ Haji Abdul Aziz bin Dato’ Dr. Omar
 - (vii) Quah Poh Keat
 - (viii) Tang Wing Chew
 - (ix) Lai Wan
 - (x) Lai Wai Keen

(ix) Structure of shareholdings and names of shareholders or, in the case of public company, names of all substantial shareholders

: The substantial shareholders of PBB (holding 5% or more in the issued and paid up capital of the Issuer) according to the Register of Substantial Shareholders as at the LPD are as follows:

Name	Direct Interest		Indirect Interest	
	No. of PBB Shares held	% ^{*4}	No. of PBB Shares held	% ^{*4}
Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	0.64	820,835,261 ^{*1}	23.44
Employees Provident Fund Board	479,782,681	13.70	-	-
Consolidated Teh Holdings Sdn Bhd	82,952,747	2.37	172,952,816 ^{*2}	4.94
Sekuriti Pejal Sdn Bhd	210,195,124	6.00	40,412,856 ^{*3}	1.15

*1 Deemed to have interests in the ordinary shares of RM1.00 each in PBB ("PBB Shares") held by other corporations by virtue of Section 6A(4) of the Companies Act, 1965 ("Act"). These other corporations are Sekuriti Pejal Sdn Bhd, Kepunyaan Perindustrian Sdn Bhd, Syarikat Kepunyaan Khas Sdn Bhd, Consolidated Teh Holdings Sdn Bhd, Securities Holdings Sdn Bhd, Selected Holdings Sdn Bhd, Moninvest Sdn Bhd, Kepunyaan Pejal Sdn Bhd, Selected Securities Sdn Bhd, Fairbanks Holdings (Pte) Ltd, Kayakita Corporation Sdn Bhd, Kepunyaan Chintamani Sdn Bhd, Kepunyaan Moden Sdn Bhd, LPI Capital Bhd, Lonpac Insurance Bhd, Luhur Management Sdn Bhd, Tong Meng Industries Ltd and Tong Meng Company (Malaya) Sdn Bhd.

*2 Deemed to have interests in PBB Shares held by Selected Holdings Sdn Bhd, Securities Holdings Sdn Bhd and Kayakita Corporation Sdn Bhd by virtue of Section 6A(4) of the Act.

*3 Deemed to have interests in PBB Shares held by Syarikat Kepunyaan Khas Sdn Bhd and Kepunyaan Perindustrian Sdn Bhd by virtue of Section 6A(4) of the Act.

*4 Excluding a total of 29,800,704 PBB Shares bought-back by PBB and retained as treasury shares as at LPD.

(x) Authorised, issued and paid-up capital

: Authorised capital as at the LPD:

RM10,000,000,000.00 comprising 10,000,000,000 ordinary shares of RM1.00 each.

Issued and paid-up capital as at the LPD:

RM3,531,925,834.00 comprising 3,531,925,834 ordinary shares of RM1.00 each.

(xi) Disclosure of the following:

- ***If the Issuer or its board members have been convicted or charged with any offence under the securities law, corporation laws or other laws involving fraud or dishonesty in a court of law, for the past five years prior to the date of the application.*** : None.
- ***If the Issuer has been subjected to any action by the stock exchange for the breach of the listing requirements or rules issued by the stock exchange, for the past five years prior to the date of the application.*** : None.
- ***Where the issuer is a special purpose vehicle and is a conduit to another entity which receives proceeds from the proposed issue or offer, the information as set out in sub-paragraph 2.01(a) must also be provided on the said entity.*** : Not applicable.

2.02 PRINCIPAL TERMS AND CONDITIONS

(a) *Names of parties involved in the proposed transaction (where applicable)*

- | | | |
|--------|---|--|
| (i) | Joint principal advisers | : Public Investment Bank Berhad (Company No. 20027-W) (“ PIVB ”) and CIMB Investment Bank Berhad (Company No. 18417-M) (“ CIMB ”). |
| (ii) | Joint lead arrangers | : PIVB and CIMB. |
| (iii) | Co-arranger | : Not applicable. |
| (iv) | Solicitors | : Messrs Adnan Sundra & Low. |
| (v) | Financial adviser | : Not applicable. |
| (vi) | Technical adviser | : Not applicable. |
| (vii) | Trustee | : AmanahRaya Trustees Berhad (Company No. 766894-T). |
| (viii) | Guarantor | : Not applicable. |
| (ix) | Valuer | : Not applicable. |
| (x) | Facility agent | : PIVB. |
| (xi) | Primary subscriber (under a bought-deal arrangement) and Amount subscribed | : To be determined prior to each issuance in respect of issuance via bought deal arrangement only.

Not applicable for issuance via private placement and book building. |
| (xii) | Underwriter and amount underwritten | : In respect of the first issuance, the subordinated medium term notes (“Sub-Notes”) will not be underwritten. For subsequent issuances, PBB may consider appointing underwriters for the Sub-Notes. |
| (xiii) | Central depository | : Bank Negara Malaysia (“ BNM ”). |
| (xiv) | Paying agent | : BNM. |
| (xv) | Reporting accountant | : Not applicable. |

Information Memorandum
Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes

- (xvi) **Calculation agent** : Not applicable.
- (xvii) **Others (please specify)** : Joint Lead Managers
 PIVB and CIMB and/or such other party(ies) as may be appointed by the Issuer for any particular issuance.
Rating Agency
 RAM Rating Services Berhad (Company No: 763588-T) ("RAM Rating").
- (b) **Facility description** : A subordinated medium term notes programme involving the issuance of Sub-Notes of up to RM10.0 billion in nominal value ("Sub-Notes Programme").
 The Sub-Notes issued under the Sub-Notes Programme will qualify as Tier II capital of PBB for purposes of the BNM guidelines on Capital Adequacy Framework (Capital Components) ("CA Framework").
- (c) **Issue/debt programme size** : Up to RM10.0 billion in nominal value.
 The total outstanding Sub-Notes issued under the Sub-Notes Programme shall not at any time exceed the nominal value of RM10.0 billion.
- (d) **Tenure of issue/debt programme** : Tenure of the Sub-Notes Programme
 Thirty (30) years from the date of the first issuance of the Sub-Notes under the Sub-Notes Programme.
Tenure of the Sub-Notes
 Each Sub-Note issued under the Sub-Notes Programme shall have a tenure of not less than 5 years from its issue date, provided that the Sub-Notes shall mature on or prior to the expiry of the Sub-Notes Programme and shall, if applicable, be callable on the Call Date (as defined in item 2.02(u) below).
- (e) **Availability period of debt programme** : The Sub-Notes Programme shall have an availability period of twenty five (25) years from the date of first issuance under the Sub-Notes Programme.
 The date of the first issuance under the Sub-Notes Programme shall not be later than two (2) years from the date of approval and authorisation by the SC.
- (f) **Interest/coupon rate** : The coupon rate is to be determined prior to the issue date of each issuance of Sub-Notes. The coupon rate herein is applicable throughout the tenure of the relevant Sub-Notes (i.e. there shall be no step-up coupon rate after the Call Date).

Information Memorandum
Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes

- (g) **Interest/coupon payment frequency** : Payable semi-annually in arrears from the issue date (“Coupon Payment Date”) with the last coupon payment to be made on the maturity date or upon the date of Early Redemption (as defined in item 2.02(u) below), whichever is the earlier.
- (h) **Interest/coupon payment basis** : Actual number of days elapsed on a 365-day basis.
- (i) **Security/collateral, where applicable** : None.
- (j) **Details on utilisation of proceeds** : The proceeds of the Sub-Notes shall be made available to the Issuer, without limitation, for its working capital, general banking and other corporate purposes, including the refinancing of any existing subordinated debt issued by the Issuer and any existing Sub-Notes issued under the Sub-Notes Programme.
- For the avoidance of doubt, the existing subordinated debt issued by the Issuer and any Sub-Notes issued under the Sub-Notes Programme may or may not be refinanced from the proceeds of the Sub-Notes.
- (k) **Sinking fund and designated account, where applicable** : Not applicable.
- (l) **Rating**
- **Credit rating(s) assigned** : Long-term rating of AA1.
 - **Name of credit rating agency** : RAM Rating.
- (m) **Mode of issue** : The Sub-Notes may be issued via direct placement on a best effort basis or a bought deal basis or book running on a best effort basis.

Issuance of the Sub-Notes shall be in accordance with:

- (i) The Participation and Operation Rules for Payments and Securities Services issued by Malaysian Electronic Clearing Corporation Sdn Bhd (“**MyClear Rules**”); and
- (ii) The Operational Procedures for Securities Services issued by Malaysian Electronic Clearing Corporation Sdn Bhd (“**MyClear Procedures**”); or
- (iii) Their replacement thereof (collectively referred to as “**MyClear Rules and Procedures**”) as applicable from time to time.

- (n) ***Selling restriction, including tradability*** : Selling Restrictions At Issuance
- The Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Sub-Notes and to whom the Sub-Notes are issued would fall within:
- (i) Schedule 6 (or Section 229(1)(b)); and
 - (ii) Schedule 7 (or Section 230(1)(b)) read together with
 - (iii) Schedule 9 (or Section 257(3))
- of the Capital Markets and Services Act, 2007, as amended from time to time ("CMSA").
- Selling Restrictions After Issuance
- The Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Sub-Notes and to whom the Sub-Notes are issued would fall within:
- (i) Schedule 6 (or Section 229(1)(b)); read together with
 - (ii) Schedule 9 (or Section 257(3))
- of the CMSA.
- Tradability
- The Sub-Notes are transferable (but subject to the Selling Restrictions described above) and tradable under the Rules on Scripless Securities under the Real Time Electronic Transfer of Funds and Securities System operated by Malaysian Electronic Clearing Corporation Sdn Bhd.
- (o) ***Listing status and types of listing*** : The Sub-Notes may be listed under the Exempt Regime maintained by Bursa Malaysia Securities Berhad. The SC will be notified accordingly in the event of such listing.
- (p) ***Other regulatory approvals required in relation to the issue, offer or invitation to subscribe or purchase PDS, and whether or not obtained*** : Approval from BNM for the following:
- (i) To establish the Sub-Notes Programme; and
 - (ii) To classify the Sub-Notes issued from time to time under the Sub-Notes Programme as Tier II capital of PBB in accordance with the CA Framework.
- BNM's approval was obtained via its letter dated 14 June 2013.
- (q) ***Conditions precedent*** : To include but not limited to the following (all of which shall be in form and substance acceptable to the Joint Lead Arrangers):

A Main Documentation

- (i) The Transaction Documents (as defined in paragraph 2.02(v)(C) below) have been signed and, where applicable, stamped and presented for registration.

B The Issuer

- (i) Certified true copies of the Certificate of Incorporation, Form 13 and the Memorandum and Articles of Association of the Issuer.
- (ii) Certified true copies of the latest Forms 24, 44 and 49 of the Issuer.
- (iii) A certified true copy of a board resolution of the Issuer authorising, among others, the execution of the Transaction Documents.
- (iv) A list of the Issuer's authorised signatories and their respective specimen signatures.
- (v) A report of the relevant company search of the Issuer.
- (vi) A report of the relevant winding up search or the relevant statutory declaration of the Issuer (in form and substance acceptable to the Joint Lead Arrangers) signed by a director of the Issuer declaring that the Issuer is not wound up and that no winding up petition has been presented against the Issuer.

C General

- (i) The approval from the SC and, where applicable, all other regulatory authorities.
- (ii) The approval and authorisation from BNM for the Sub-Notes to be issued from time to time under the Sub-Notes Programme as Tier II capital and to establish the Sub-Notes Programme of PBB.
- (iii) A favourable legal opinion from the Solicitors addressed to the Joint Lead Arrangers and the Trustee advising with respect to, among others, the legality, validity and enforceability of the Transaction Documents and a confirmation addressed to the Joint Lead Arrangers that all the conditions precedent have been fulfilled.
- (iv) Evidence that the Sub-Notes under the Sub-Notes Programme have been assigned a final long-term rating of AA1 by RAM Ratings.
- (v) Such other conditions precedent as may be advised by the Solicitors for the Joint Lead Arrangers (if any).

(r) *Representations and warranties* : Representation and warranties will include such representation and warranties customary and standard for a facility of this nature and shall include, but not limited to the following:

- (i) The Issuer has been duly established, valid in existence and has the power and authority to carry out its business;

- (ii) The Issuer has the power to enter into the Transaction Documents and exercise its rights to perform its obligations under the Transaction Documents;
- (iii) Entry into and the exercise of the Issuer's rights and obligations under the Transaction Documents do not violate any existing law or regulation;
- (iv) The Transaction Documents are valid, binding and enforceable;
- (v) All necessary actions, authorisations and consents required under the Transaction Documents and the Sub-Notes have been obtained and remain in full force and effect;
- (vi) The audited financial statements of the Issuer are prepared in accordance with generally accepted accounting principles and standards and represent true and fair view;
- (vii) Save as disclosed in the Information Memorandum, there is no litigation which would have a material adverse effect on the Issuer's ability to perform its obligations under the Transaction Documents; and
- (viii) Any other representation and warranties as may be advised by the Solicitors.

(s) Events of default and enforcement event, where applicable

: Events of Default shall encompass the following:

- (i) The Issuer defaults in payment of any principal or coupon under the Sub-Notes on the due date and the Issuer does not remedy such default within a period of seven (7) days after the Issuer became aware or having been notified by the Trustee of the default; or
- (ii) An order is made for the winding-up of the Issuer and such order is not stayed or set aside within sixty (60) days of such order being made or, where so stayed, such stay lapses, or an effective resolution is passed for winding-up of the Issuer except where such order is made or such resolution is passed for the purpose of a reconstruction or amalgamation the terms of which have been approved by the holders of the Sub-Notes by way of special resolution.

Upon the occurrence of item (i) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the holders of the relevant Sub-Notes) institute proceedings to enforce the payment obligations under the relevant Sub-Notes and may institute proceedings in Malaysia for the winding up of the Issuer, provided that neither the Trustee nor any of the holders of relevant Sub-Notes shall have the right to accelerate payment of the relevant Sub-Notes in the case of default in the payment of amount owing under the relevant Sub-Notes or any non-performance of any condition, provision or covenant under the Trust Deed.

Upon the occurrence of item (ii) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the holders of the Sub-Notes) declare (by giving written notice to the Issuer) that the Sub-Notes together with all other sums payable under the Sub-Notes shall immediately become due and payable and payable at its nominal value together with the accrued but unpaid coupon (if any) notwithstanding the stated maturity of the Sub-Notes.

For the avoidance of doubt, the occurrence of event of default (i) above for any tranche of the Sub-Notes will not trigger the event of default for other tranches of the Sub-Notes outstanding. However, occurrence of event of default (ii) above will trigger event of default for all tranches of the Sub-Notes outstanding.

(t) Covenants

: The positive covenants shall include but not limited to the following:

- (i) The Issuer shall, at all times perform all its obligations and promptly comply with all provisions of the Trust Deed and the Transaction Documents and the terms and conditions of the Sub-Notes (including but not limited to redeeming the Sub-Notes on the relevant maturity dates or any other dates on which the Sub-Notes are due and payable) and immediately notify the Trustee in the event that the Issuer is unable to fulfill or comply with any of the provisions of the Trust Deed or any of the other Transaction Documents;
- (ii) The Issuer shall deliver to the Trustee:
 - (a) A copy of its annual audited financial statements within one hundred and eighty (180) days after the end of its financial year; and
 - (b) Any other accounts, balance sheet, report, notice, statement, circular or other documents issued by the Issuer to its shareholders;
- (iii) The Issuer shall no later than one hundred eighty (180) days after the end of each financial year, deliver to the Trustee a certificate signed by an authorised signatory of the Issuer, certifying that the Issuer has complied with and performed its obligations under the Trust Deed and the terms and conditions of the Sub-Notes and the other Transaction Documents and that there did not exist and there had not at any time existed, from the issue date of the Sub-Notes or the date of the previous certificate, as the case may be, any event of default and if such is not the case, the certificate should specify the same;
- (iv) The Issuer shall promptly provide to the Trustee any information relating to its affairs to the extent permitted by law or as stipulated in the Trust Deed as the case may be, as the Trustee may from time to time require in order to discharge its duties and obligations as Trustee under the Trust Deed and the other Transaction Documents;

- (v) The Issuer shall immediately notify the Trustee in writing in the event that the Issuer becomes aware of the following:
 - (a) Upon the occurrence of any event of default, the Issuer shall take reasonable steps and/or such other steps as may be reasonably requested by the Trustee to remedy and/or mitigate the event of default;
 - (b) Any circumstance that has occurred or any other matter that may materially prejudice the ability of the Issuer to perform its obligations under the Transaction Documents or in respect of the Sub-Notes;
 - (c) Any substantial change in the nature of the business of the Issuer;
 - (d) Any change in the utilisation of the proceeds from the Sub-Notes from that set out in the submission to the SC, the Information Memorandum or any of the Transaction Documents which sets out the purpose for which proceeds are to be utilised;
 - (e) Any change in the Issuer's withholding tax position or tax jurisdiction; and
 - (f) Any other matter that may materially prejudice the interests of the holders of the Sub-Notes.
- (vi) The Issuer shall keep proper books and accounts at all times on a basis consistently applied in accordance with the laws of Malaysia and generally accepted accounting principles and standards in Malaysia;
- (vii) The Issuer shall comply at all times with any and all requirements and rules, regulations and guidelines as may be issued and/or imposed by the SC and BNM, from time to time and the applicable provisions of the CMSA;
- (viii) The Issuer shall at all times maintain its corporate legal existence and exercise reasonable due diligence in carrying out its business and affairs in a proper and efficient manner and in accordance with sound financial and commercial standards and practices and will ensure, amongst others, that all necessary approvals and relevant licences required for it to carry on its business are obtained other than where the failure to obtain such licences or approvals, would not have a material adverse effect on the ability of the Issuer to comply with its obligations under the Transaction Documents;
- (ix) The Issuer shall at all times maintain a paying agent with a specified office in Malaysia;

- (x) The Issuer shall procure that the paying agent shall notify the Trustee in the event that the paying agent does not receive payment of principal or coupon in respect of the Sub-Notes from the Issuer on the due dates and in the manner as required under the Trust Deed and the terms and conditions of the Sub-Notes; and
- (xi) Such other covenants as may be advised by the Solicitors for the Joint Lead Arrangers (if any).

(u) Provisions on buy-back and early redemption

: Early Redemption

For each tranche of the Sub-Notes issuance where Call Option (as defined below) is applicable, the Issuer may, at its sole discretion, and subject to the prior approval of BNM, redeem the Sub-Notes in part or in whole on the Call Date at their nominal amount. The optional redemption by the Issuer of the Sub-Notes of one tranche does not trigger the redemption of the Sub-Notes in other tranches.

Buyback

The Issuer or any of its subsidiaries may at any time purchase, subject to the prior approval of BNM where applicable (but which approval shall not be required for a purchase done in the ordinary course of business) the Sub-Notes at any price in the open market or by private treaty provided no Non-Viability Event (as defined in item 2.02(v)(H) below) has occurred prior to the date of such purchase. If purchase is made by tender, such tender must (subject to any applicable rules and regulations) be made available to all holders of the Sub-Notes equally.

The Sub-Notes purchased by the Issuer or its subsidiaries (other than in the ordinary course of business) shall be cancelled. The Sub-Notes purchased by other related corporations (other than its subsidiaries) or any interested person of the Issuer, which includes the directors, major shareholders and chief executive officer, need not be cancelled but they will not entitle such related corporations or interested person of the Issuer to vote under the terms of the Sub-Notes subject to any exceptions in the Trust Deeds Guidelines.

For the avoidance of doubt, the Sub-Notes held by related corporations and the interested person of the Issuer shall not be counted for the purposes of voting subject to any exceptions in the Trust Deeds Guidelines. The Subordinated Notes purchased and cancelled shall not be available for reissuance by the Issuer.

For the purpose of this clause, the term “ordinary course of business” includes those activities performed by the Issuer or any related corporation of the Issuer for third parties and excludes those performed for the funds of the Issuer or such related corporation. Third parties herein refer to the Issuer’s, its subsidiaries’ and related corporations’ clients.

Call Option

Each issuance of Sub-Notes under the Sub-Notes Programme may have a callable option ("Call Option") (to be determined prior to each issuance). Under the Call Option, if applicable for the relevant Sub-Notes, the Issuer shall have the option to redeem such Sub-Notes on the Call Date(s), which shall be no earlier than five years after the issuance of the Sub-Notes.

Call Date is defined as "the Coupon Payment Date falling no earlier than five years after the issuance of the Sub-Notes and/or any Coupon Payment Date thereafter as may be applicable to a particular issuance of Sub-Notes that the Issuer and the Joint Lead Managers agree prior to the issuance of such Sub-Notes".

Tax Redemption

If there is more than an insubstantial risk that the Issuer will be required to pay any additional amounts or will no longer be able to deduct interest in respect of the relevant Sub-Notes for taxation purposes as a result of a change in any applicable law or regulation which comes into effect on or after the issue dates of the relevant Sub-Notes and the Issuer cannot, by taking reasonable measures available to it, avoid the payment of any additional amounts or deduct interest in respect of the relevant Sub-Notes, the Issuer may, at its option, redeem the relevant Sub-Notes in full, subject to the prior approval of BNM.

Regulatory Redemption

If the relevant Sub-Notes issued no longer fully qualify as Tier II capital of the Issuer (whether due to a change in accounting or tax policies or BNM's regulations or otherwise) for the purposes of BNM's capital adequacy requirements under any regulations applicable to the Issuer or at any time there is more than an insubstantial risk that the relevant Sub-Notes will no longer fully qualify as such, the Issuer may at its option, redeem the relevant Sub-Notes in full, subject to the prior approval of BNM.

(v) Other principal terms and conditions

- A. Redemption at maturity** : Unless previously redeemed on the Call Date or redeemed pursuant to a Tax Redemption (as defined above) or a Regulatory Redemption (as defined above) or purchased from the market and cancelled, the Sub-Notes will be redeemed at their nominal amount on the maturity date.
- B. Status of Sub-Notes** : The Sub-Notes will constitute direct and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Sub-Notes, ranking *pari passu* among themselves. The Sub-Notes will, in the event of a winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those

liabilities which by their terms rank equally in right of payment with or are subordinate to the Sub-Notes.

- C. Transaction Documents** : The Sub-Notes shall be evidenced by, inter alia, the following:
1. Programme Agreement;
 2. Securities Lodgement Form; and
 3. Trust Deed.
- D. Trustee's reimbursement account** : The Trustee shall open and maintain, throughout the tenure of the Sub-Notes an account to be named the "Trustee's Reimbursement Account for the Public Bank Berhad Sub-Notesholders' Actions" (the "Account") with PBB a sum of RM30,000.00 which amount is to be obtained from the proceeds of issuance of the Sub-Notes.
- The Account shall be operated solely by the Trustee and the money shall be used strictly by the Trustee in carrying out its duties in relation to the declaration of an Event of Default in the manner as provided in the Trust Deed.
- The monies in the Account may be invested in bank deposit or instrument or securities in the manner as provided in the Trust Deed, with profit from the investment to be accrued to the Issuer. The monies in the Account shall be returned to the Issuer upon full redemption of the Sub-Notes in the event there is no declaration of Event of Default.
- E. Taxation** : All payments by the Issuer shall be made subject to withholding or deductions for or on account of any present or future tax, duty, or charge of whatsoever nature imposed or levied by or on behalf of Malaysia, or any authority thereof having power to tax, and the Issuer shall not be required to gross up in connection with such withholding or deduction on these payments or distributions.
- F. Voting rights** : The holders of the Sub-Notes shall have no voting rights in PBB.
- G. Other conditions** : The Sub-Notes shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and/or any other authority having jurisdiction over matters pertaining to the Sub-Notes.
- H. Non viability loss absorption** : Following the occurrence of the following trigger events (each a "**Non-Viability Event**"), whichever is the earlier:
- (i) BNM and the Malaysia Deposit Insurance Corporation ("PIDM") have notified the Issuer in writing that they are of the view that the principal write off of the Sub-Notes, together with the conversion or write off of any other Tier II Instruments and Tier I Instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, is an

essential requirement to prevent the Issuer from becoming non-viable; or

- (ii) BNM and PIDM publicly announces that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Issuer, without which the Issuer would cease to be viable.

BNM shall have the option to require the entire principal outstanding, or a part thereof, and all other amount owing under the Sub-Notes Programme be written off, and if BNM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event (as defined above), each of the holders of the Sub-Notes hereby irrevocably waives its right to receive repayment of the principal amount of the Sub-Notes so written off and also irrevocably waives its right to any interest (including interest accrued but unpaid up to the date of the occurrence of a Non-Viability Event).

For the avoidance of doubt, upon the occurrence of a Non-Viability Event as described under (i) or (ii) above, where the Issuer is required by BNM to write off or convert a portion of all the Tier II Instruments and Tier I Instruments of the Issuer which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, the Issuer shall first convert or write off the relevant Tier I Instruments, to be followed by the write off or conversion of the relevant Tier II Instruments on a pari passu basis.

For avoidance of doubt, such write off shall not constitute an event of default or enforcement event, nor would it trigger any cross-default under the Sub-Notes.

A Non-Viability Event shall be deemed to have occurred on the day on which the Issuer received the notification from the BNM as per the clause herein where the Issuer shall immediately inform the Trustee and the Rating Agency of the same.

I. Governing laws : Laws of Malaysia.

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SECTION 3.0 INVESTMENT CONSIDERATIONS

The business of the PBB Group is subject to a number of risks, many of which are beyond its control. Prior to making an investment decision, prospective investors should carefully consider, along with other information in this IM, the following risks. The risks below are not an exhaustive list currently faced by the PBB Group as at the date of this IM or that may develop in the future. Additional risks whether known or unknown, may in the future have a material adverse effect on the PBB Group and/or the Sub-Notes.

3.1 Risks Relating to the PBB Group

3.1.1 *Political and Economic Factors*

Political and economic conditions and developments in Malaysia as well as abroad could have an impact on the financial performance of the PBB Group. Adverse political and economic conditions or developments, such as an unstable political environment, severe fluctuation in interest and currency exchange rates, create uncertainty and could discourage the free flow of investment capital and affect international trade, ultimately resulting in adverse developments in national economic activity. As a result of globalisation, economic or market instability in a single country or region are increasingly affecting other markets generally. A continuation of these situations could adversely affect global economic conditions and markets. This far reaching effect could adversely affect the PBB Group's business and financial performance.

3.1.2 *Credit Risks*

Credit risks arising from adverse changes in the credit quality and recoverability of loans, advances and amounts due from counterparties are inherent in the PBB Group's businesses. Credit risks could arise from a deterioration in the credit quality of specific counterparties of the PBB Group, from a general deterioration in local or global economic conditions or from systemic risks within the financial systems, all of which could affect the recoverability and value of the PBB Group's assets and require an increase in the PBB Group's provisions for the impairment of its assets and other credit exposures. See "Risk Management" of Section 8.0 for a description of the PBB Group's approaches in managing credit risks.

3.1.3 *Impaired Loans, Allowances and Write-Offs*

Loans, advances and financing ("loan(s)") of the PBB Group are classified as impaired ("Impaired Loan(s)") when they fulfill any of the following criteria:

- Principal or interest or both are past due for three (3) months or more;
- Where a loan is in arrears for less than three (3) months, the loan exhibits indications of significant credit weaknesses; or
- Where an Impaired Loan has been rescheduled or restructured, the loan will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

The PBB Group first assesses individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk

characteristics and collectively assessed for impairment, where applicable. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment of loans is performed via grouping of loans on the basis of similar credit risk characteristics. Future cash flows of each of these groups of loans are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment impairment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

There is no assurance that the number and value of Impaired Loans of the PBB Group will not increase in the future.

There is no assurance that the level of allowances for Impaired Loans made by the PBB Group will prove to be adequate, that the PBB Group will not have to make additional allowances for possible loan losses in the future, or that the PBB Group would be able to realise adequate proceeds from collateral disposals to cover the amount of Impaired Loans net of loan loss allowances.

3.1.4 Operational Risks

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, failure of internal systems, equipment and external systems (e.g., those of the PBB Group's counterparties or vendors) and occurrence of natural disasters. Although the PBB Group has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to entirely eliminate any of the operational risks.

In addition, the PBB Group seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the PBB Group's increased use of the internet. Computer break-ins and power disruptions could affect the security of information stored in, and transmitted through, these computer systems and network infrastructure. The PBB Group employs security systems, including firewalls and password encryption, designed to minimise the risk of security breaches.

There can be no assurance that these security measures will be adequate or successful. A significant fraud, system failure, calamity or failure in security measures could have a material adverse effect on the PBB Group's business, financial condition, results of operations and prospects. In addition, the PBB Group's reputation could be adversely affected by significant frauds committed by employees, customers or other third parties. See "Risk Management" of Section 8.0 for a description of the PBB Group's approaches in managing operational risks.

3.1.5 *Liquidity and Short-Term Funding Sources*

The funding requirements of Malaysian banks are primarily met by short-term funding sources, namely deposits from customers and from other financial institutions. Although the PBB Group considers, based on the behavioural characteristics of its depositors, that a substantial portion of its core customers' deposits, comprising demand, savings and fixed deposits, will continue to be deposited with the PBB Group, therefore providing a stable source of funding for the PBB Group, no assurance can be given that this will continue in the future. If a substantial number of depositors, or a certain number of large depositors, fail to roll over deposited funds upon maturity, the PBB Group's liquidity position could be adversely affected and the PBB Group may be required to seek alternative sources of short-term, or long-term funding, which may be more expensive than deposits, to finance its operations. There can be no guarantee that the PBB Group will be able to obtain such funds. See "Funding and Capital Adequacy" of Section 6.0 on the PBB Group's funding mix and "Risk Management" of Section 8.0 on the PBB Group's approaches in managing liquidity and funding risk.

3.1.6 *Interest Rate Risk*

The PBB Group's exposure to interest rate risk arises from its balance sheet positions where yields are referenced to interest rates such as loans, securities, interbank placements and deposits. When market interest rates decline, the PBB Group's net interest margin generally decreases due to the immediate repricing of its base lending rate ("BLR") based loans as compared with repricing of its customers' deposits which is on maturity of the deposits. On the other hand, part of the PBB Group's loan comprises fixed rate loans (including hire purchase loans), are protected in a declining interest rate environment.

Measures to manage the interest rate risk of the PBB Group have been put in place and are set out in Section 8.0 - "Risk Management" below. Notwithstanding the measures put in place, there is no assurance that such approaches will remain effective or adequate in the future. The actual effect on net interest income due to changes in interest rates will depend on the degree and timing of changes in interest rates, the behavioural characteristics of its deposits and contractual repricing dates of the PBB Group's assets and liabilities as well as the ability of the PBB Group to respond to changes in Bank Negara Malaysia ("BNM")'s overnight policy rates.

3.1.7 *Dependency on Directors and Key Senior Management*

The PBB Group relies on its directors and key senior management for its business direction and business strategy. The loss and/or eventual retirement of directors or members of the key senior management team could adversely affect its ability to operate its business or to compete effectively, and in turn, affect its financial performance and prospects. Appropriate succession plans, training and development programmes have been put in place to ensure continuity of key senior management members within the PBB Group. However, there can be no assurance that such measures will be sufficient to prevent any impact from the loss of directors, or members of the key senior management team.

3.1.8 Potential Pressure on Capital and Liquidity Requirements Due to Basel III

PBB Group is subject to capital adequacy guidelines issued by BNM, which provide for the minimum capital ratios, as further described below. Failure by PBB Group to maintain its capital ratios may result in administrative actions or sanctions against it which may impact the PBB's ability to fulfil its obligations under the Sub-Notes.

On 28 November 2012, BNM issued the CA Framework under which banking institutions are to, at all times in the periods specified under CA Framework, maintain at entity and consolidated levels the following minimum capital adequacy ratio ("CAR") requirements:

- (a) A CET I capital ratio of at least 3.5% in 2013, 4.0% in 2014 and 4.5% from 1 January 2015 onwards;
- (b) A Tier I capital ratio of at least 4.5 % in 2013, 5.5% in 2014 and 6.0% from 1 January 2015 onwards; and
- (c) A total capital ratio of at least 8.0% from 1 January 2013 onwards.

In addition to complying with the minimum CAR requirements, banking institutions are to, at all times in the periods specified under the CA Framework, maintain at both the entity and consolidated levels, a capital conservation buffer above the minimum CAR requirements. The capital conservation buffer will begin at 0.625% in 2016, increasing by an additional 0.625% in each subsequent year, to reach 2.5% in 2019.

The below table summarises the above requirements:

1 January (all in %)	2013	2014	2015	2016	2017	2018	2019
Minimum CET I ratio	3.5	4.0	4.5	4.5	4.5	4.5	4.5
Capital conservation buffer	-	-	-	0.625	1.25	1.875	2.5
Minimum CET I plus conservation buffer	3.5	4.0	4.5	5.125	5.75	6.375	7.0
Minimum Tier I capital	4.5	5.5	6.0	6.0	6.0	6.0	6.0
Minimum Tier I capital plus conservation buffer	4.5	5.5	6.0	6.625	7.25	7.875	8.5
Minimum total capital	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Minimum total capital plus conservation buffer	8.0	8.0	8.0	8.625	9.25	9.875	10.5

BNM may specify an additional buffer requirement for a banking institution, having regard to the specific risk profile of the banking institution.

In addition to complying with the minimum CAR and the capital conservation buffer, banking institutions are to, at all times in the periods specified under the CA Framework, maintain, at both entity and consolidated levels, a countercyclical buffer ranging from 0% and 2.5% above the minimum CET I capital ratio, minimum Tier I capital ratio and minimum total capital ratio. As at the date of this IM, BNM has not specify the level of countercyclical buffer required.

In addition, the CA Framework provides for the gradual phasing out of the regulatory capital recognition of outstanding non-common equity Tier I and Tier II capital instruments that no longer meet, in full, the requirements set out in the CA Framework. Fixing the base at the nominal amount of such instruments outstanding (such base being the outstanding amount as at 1 January 2013) that is eligible to be included in the relevant tiers of capital under the previous

iterations of Capital Adequacy Framework, their recognition is capped at 90% with effect from 1 January 2013, with this cap being reduced by 10 percentage points in each subsequent year.

While BNM has, through the CA Framework, provided clarity on the capital adequacy requirements in Malaysia, BNM has yet to publish any guidance on the Basel III liquidity standards. Therefore, there is still uncertainty as to how BNM will adopt the Basel III liquidity standards in Malaysia.

If the regulatory capital and/or liquidity requirements applied to the PBB Group continue to increase in the future, the PBB Group's return on equity and profitability could be adversely affected. Any failure by PBB Group to satisfy such increased regulatory capital and/or liquidity requirements within the applicable timeline could result in administrative actions or sanctions, which in turn may have a material adverse effect on the PBB Group's business, financial condition and results of operations. As at 30 June 2013, the PBB Group was in compliance with the prevailing regulatory capital and liquidity requirements of each of the jurisdictions in which it and its subsidiaries and associated companies operate.

3.2 Risks Relating to the Malaysian Banking Industry

3.2.1 *Regulatory Environment*

PBB is regulated by BNM and is also subject to the relevant securities and other laws of Malaysia. At present, BNM has extensive powers to regulate the banking industry under the Financial Services Act 2013 ("FSA") and the Islamic Financial Services Act 2013 ("IFSA"). This includes the power to limit the interest rates charged by banks on certain types of loans, establish caps on lending to certain sectors of the economy and establish priority sector lending guidelines in furtherance of certain social and economic objectives and establish measures requiring maintenance of certain level of reserves and minimum capital adequacy requirements. BNM also has broad investigative and enforcement powers. Accordingly, potential investors should be aware that BNM could, in the future, set interest rates at levels or restrict credit in a way which may be adverse to the operations, financial condition or asset quality of banks and financial institutions, including PBB, and may otherwise restrict the activities of PBB and banks and financial institutions generally.

3.2.2 *Financial Services Act 2013 and Islamic Financial Services Act 2013*

At the time of publication of this IM, the FSA and the IFSA have just come into force on 30 June 2013. In view that the FSA and the IFSA have just come into force and the full implications of their application are not yet known, no assurance can be given as to the impact of the FSA and the IFSA, on the policies or regulations governing PBB and certain entities within the PBB Group, including policies, regulations, or legal interpretations of existing regulations, relating to or affecting interest rates or exchange controls, nor can any assurance be given as to whether the FSA and the IFSA could have a material adverse effect on the PBB Group's business, financial condition, results of operations or prospects or which could adversely affect the market price and liquidity of the Sub-Notes.

3.2.3 *Change of Law*

The Sub-Notes and the transaction documents are based on, and subject to, Malaysian law, practices and regulations in effect as at the date of this IM. The Sub-Notes is also based on, and subject to all other applicable tax law, practice and/or regulations in effect as at the date of this IM, having regard to the expected tax treatment of all relevant statutes under such law, practices and/or

regulations. No assurance can be given as to the impact of any possible judicial decision or change to Malaysian law, practices and regulations and/or to any other applicable tax law, practice and/or regulations after the date of this IM, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Sub-Notes, the structure of the transaction and/or the tax treatment of the Sub-Notes and/or the proposed financing structure.

3.2.4 Competition

The banking industry's transformation through a deregulation process as part of BNM's implementation of its first Financial Sector Master Plan has resulted in the liberalisation of the banking industry to allow greater presence of foreign and Islamic banks as well as providing greater opportunities for banks to widen their scope of business beyond traditional commercial banking.

This liberalisation has also brought about greater competition among banking institutions which trend is expected to continue.

As a result, banking institutions are forced to become more efficient in order to serve the customers better and to explore greater usage of technology for further efficiency, and to explore cost effective solutions.

The PBB Group faces competition from other domestic banking groups, as well as foreign banks operating in Malaysia. The increased competition may adversely impact the business, financial conditions and results of operations of the Issuer and the PBB Group.

BNM's second Financial Sector Master Plan (2011-2020) focuses more on strengthening the competition and efficiency of the banking sector.

3.2.5 Deposits in Malaysia are Insured Up to RM250,000 Per Depositor Per Member Institution

In general, BNM is not required to act as lender of last resort to meet liquidity needs in the banking system or for specific institutions. In the past, BNM has on a case-by-case basis provided assistance to individual banks with an isolated liquidity crisis. However, there can be no assurance that BNM will provide such assistance in the future.

Effective from 1 September 2005, BNM introduced a deposit insurance system ("Deposit Insurance System"). The Deposit Insurance System is administrated by PIDM, an independent statutory body. All banks licensed under FSA and all Islamic banks licensed under the IFSA, including foreign banks operating in Malaysia, are member institutions of PIDM.

Under the Deposit Insurance System, eligible deposits are insured up to a prescribed limit of RM250,000 (inclusive of principal and interest) per depositor, per member institution. There is also separate coverage of up to RM250,000 per depositor, per member institution for Islamic deposits (i.e. those accepted under Shariah principles), accounts held under joint ownership, trust accounts and accounts in the name of sole proprietorships and partnerships.

However, the fact that deposits exceeding the prescribed limit are not insured could lead to or exacerbate liquidity problem, which, if severe, could have an adverse effect on the PBB Group's business, financial condition, results of operations or prospects, or on the Malaysian financial markets generally.

3.3 Risks Relating to the Sub-Notes

3.3.1 *Non-Viability Loss Absorption*

In the event of an occurrence of a Non-Viability Event of PBB as determined by BNM and PIDM, the Issuer may be required, irrevocably (without the need for the consent of the holders of such Sub-Notes) to effect either a write-off in whole or in part of the outstanding principal and accrued and unpaid interest in respect of such Sub-Notes of PBB.

Paragraph 32 of the CA Framework requires that the terms and conditions of all Tier I and Tier II capital instruments to contain provisions which ensure their loss absorbency at the point of non-viability. In this regard, the terms and conditions of all Tier I and Tier II capital instruments, issued from 1 January 2013 onwards, shall have a provision that requires such instruments, at the discretion of BNM and PIDM, irrevocably (without the need for the consent of the holders of such Sub-Notes), to either be written-off in whole or in part or converted in whole or in part into ordinary shares upon the occurrence of the Trigger Event (as defined below). The Trigger Event would be the earlier of:

- (i) BNM and PIDM have notified PBB in writing that they are of the view that the principal or partial write off of the Sub-Notes, together with the conversion or write off of any other Tier II capital instruments and Tier I capital instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, is an essential requirement to prevent PBB from becoming non-viable; and
- (ii) BNM and PIDM publicly announce that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to PBB, without which PBB would cease to be viable.

(for the purposes of this IM, each a “Trigger Event” or a “Non-Viability Event”).

Upon the occurrence of a Trigger Event relating to PBB as determined by BNM and PIDM, PBB may be required, subject to the discretion of BNM and PIDM, irrevocably (without the need for the consent of the holders of such Sub-Notes) to effect either a write-off in whole or in part of the outstanding principal and accrued and unpaid interest in respect of such Sub-Notes of PBB.

To the extent relevant in the event that such Sub-Notes are written-off, any written-off amount shall be irrevocably lost and holders of such Sub-Notes will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off.

For the avoidance of doubt, upon the occurrence of a Non-Viability Event as described under (i) or (ii) above, where the Issuer is required by BNM to write off or convert a portion of all the Tier II Instruments and Tier I Instruments of the Issuer which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, the Issuer shall first convert or write off the relevant Tier I Instruments, to be followed by the write off or conversion of the relevant Tier II Instruments on a pari passu basis. Such write off shall not constitute an event of default or enforcement event, nor would it trigger any cross-default under the Sub-Notes. A Non-Viability Event shall be deemed to have occurred on the day on which the Issuer received the notification from the BNM where the Issuer shall immediately inform the Trustee and the Rating Agency of the same.

Holders of any Sub-Notes that are written-off in whole or in part shall have no claim against PBB for any tax loss or any other similar losses which may be incurred by any holder as a result of any such write-off.

A potential investor should not invest in such Sub-Notes unless it has the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Sub-Notes will perform under changing conditions, the resulting effects on the likelihood of a write-down and the value of such Sub-Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this IM or incorporated by reference herein.

3.3.2 Status of the Sub-Notes

The Sub-Notes are unsecured and accordingly the Sub-Notes holders shall not have recourse to the assets of the Issuer to satisfy payment obligations of the Issuer under the Sub-Notes.

3.3.3 No Restriction on Further Borrowings

There is no limitation imposed on the Issuer under the Sub-Notes to incur further borrowings/indebtedness. Any such further borrowings, bonds or securities may reduce the amount recoverable by the Sub-Notes holders in the event of dissolution or winding-up of the Issuer.

3.3.4 Liquidity of the Sub-Notes

The Sub-Notes comprise a new issue of securities for which there is currently no established trading market. There can be no assurance that an active or liquid trading market for the Sub-Notes will develop or if a trading market develops, that it will provide investors with liquidity of investments or that the liquidity continues for the entire tenure of the Sub-Notes. In addition, the Sub-Notes could trade in the secondary market at prices that may be higher or lower than the face value of the Sub-Notes depending on many factors, including prevailing market interest rates, the Issuer's results of operations, and the market for similar securities.

The holders of the Sub-Notes should also take note that the Ringgit denominated Sub-Notes may be listed on Bursa Securities under the Exempt Regime and there are selling restrictions governing the Sub-Notes as described under "Selling Restrictions" under item (n) of The Principal Terms and Conditions in Section 2.0 of this IM.

Accordingly, the purchase or subscription of the Sub-Notes is suitable only for investors who can bear the risks associated with a lack of liquidity in the Sub-Notes apart from the financial and other risks associated with an investment in the Sub-Notes.

3.3.5 Subordinated Obligations

The Sub-Notes will be subordinated obligations of PBB. If PBB defaults on the payment of principal or interest on the Sub-Notes, the holders of the relevant Sub-Notes will have no right to accelerate payment of the Sub-Notes other than by Winding-Up Proceeding (as defined below). Rights of acceleration are limited to the circumstances in which a Winding-Up Proceeding has occurred (see Section 2.0 – "Principal Terms and Conditions of the Sub-Notes Programme – Paragraph 2.02(s): Events of default and enforcement event, where applicable" above).

Upon the occurrence of any Winding-Up Proceeding, payments on the Sub-Notes will be subordinated in right of payment to the prior payment in full of all deposits and other liabilities of PBB, except those liabilities which rank equally with and junior to the Sub-Notes. In a Winding-Up Proceeding, the holders of the Sub-Notes may recover less than the holders of deposit liabilities or the holders of other unsubordinated liabilities of PBB, which rank senior to the Sub-Notes. As there is no precedent for the winding-up of a major financial institution in Malaysia, there is uncertainty as to the manner in which such proceeding would occur and the results thereof.

“Winding-Up Proceeding” means an order is made for the winding-up of the Issuer and such order is not stayed or set aside within sixty (60) days of such order being made or, where so stayed, such stay lapses, or an effective resolution is passed for winding-up of the Issuer except where such order is made or such resolution is passed for the purpose of a reconstruction or amalgamation the terms of which have been approved by the holders of the Sub-Notes by way of a special resolution.

3.3.6 Downgrade in Ratings May Affect the Market Price of the Sub-Notes

The Sub-Notes have been assigned a final rating of AA1 by RAM Rating. A rating is not a recommendation to buy, sell or hold the Sub-Notes and may be subject to revision, suspension or withdrawal at any time by RAM Rating. A downgrade of the Sub-Notes by RAM Rating (due either to the credit profile of the Issuer or the rating methodology on the Sub Notes) may have an adverse effect on the liquidity and trading price of the Sub-Notes.

3.4 Potential Conflict of Interest Situation

PIVB has been appointed as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme. Save as disclosed below, after making enquiries as were reasonable in the circumstances, PIVB is not aware of any circumstances that would give rise to a conflict of interest in their capacity as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent in relation to the Sub-Notes Programme.

In view of PIVB being a wholly-owned subsidiary of PBB, there is a potential conflict of interest situation arising from PIVB's roles as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme, in terms of PIVB's obligations to the prospective investors of the Sub-Notes under the Sub-Notes Programme and PIVB's relationship as a wholly-owned subsidiary of PBB.

PIVB, in relation to its roles as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme, has considered the factors involved in the preparation of the submissions, IM and other information/document as may be required and that its objectivity and independence in carrying out its roles have been and would be maintained at all times for the following reasons:

- (i) PIVB is a licensed investment bank and its appointment as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme is in its ordinary course of business;
- (ii) The role of PIVB will be governed by relevant agreements and documentation which shall clearly set out the rights, duties and responsibilities of PIVB in its capacity as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme;
- (iii) The conduct of PIVB is regulated strictly by the FSA and by its own internal controls and procedures;

- (iv) The role of PIVB as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme is guided by the Guidelines on Private Debt Securities issued by the SC on 28 December 2012 and the Guidelines on Due Diligence Conduct for Corporate Proposals issued by the SC on 1 February 2008; and
- (v) Save for the professional fees charged in relation to its roles as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme, PIVB will not be deriving any other monetary benefits from the Sub-Notes Programme outside its aforesaid capacities.

In order to further mitigate any such potential conflict of interest, the following measures have been and would be taken:

- (i) PIVB has obtained confirmation from PBB wherein the Board has acknowledged that it is fully aware of the potential conflict of interest situation arising from PIVB's role as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager and Facility Agent for the Sub-Notes Programme, in terms of PIVB's obligations to the prospective investors of the Sub-Notes under the Sub-Notes Programme and PIVB's relationship as a wholly-owned subsidiary of PBB and the mitigating measures and also confirmed that the Board has no objection and is agreeable to PIVB undertaking the abovementioned roles;
- (ii) PBB has also appointed other external advisers/parties for the following roles for the Sub-Notes Programme:
 - (a) CIMB as the Joint Principal Adviser/Joint Lead Arranger/Joint Lead Manager;
 - (b) Messrs. Adnan Sundra and Low as the solicitors for the Joint Principal Advisers/Joint Lead Arrangers;
 - (c) AmanahRaya Trustees Berhad as the trustee for the holders of the Sub-Notes under the Sub-Notes Programme; and
- (iii) The disclosure of the potential conflict of interest situation in this IM.

3.5 Forward Looking Statements

Certain statements in this IM are forward-looking in nature. These statements include, among other things, discussions of the PBB Group's business strategy and expectation concerning its position in the Malaysian economy, future operations, profitability, liquidity, capital resources and financial position. All forward looking statements are based on estimates and assumptions made by the PBB Group that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of the PBB Group to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any of such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of forward looking statements in this Information Memorandum should not be regarded as a representation or warranty by the PBB Group that the plans and objectives of the PBB Group will be achieved.

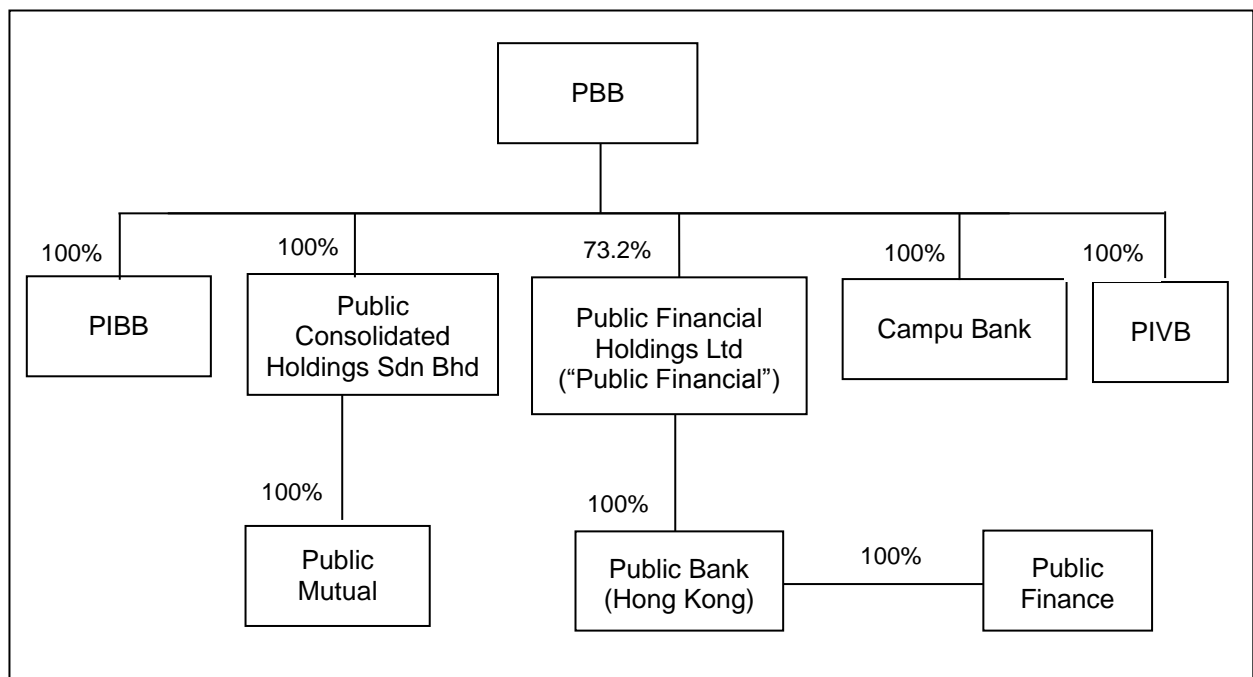
SECTION 4.0 BACKGROUND INFORMATION OF THE PBB GROUP

4.1 Introduction

The PBB Group is the third (3rd) largest banking group in Malaysia in terms of total assets. As at 30 June 2013, the PBB Group had total assets of RM292.6 billion and customer deposits of RM240.4 billion. The PBB Group recorded net profit after non-controlling interests of RM2.0 billion for the financial half year ended 30 June 2013. As at 30 June 2013, the PBB Group had 17,581 employees.

As at 30 June 2013, the PBB Group had a domestic branch network in Malaysia of 256 branches, 527 ATMs, 207 bi-functional cash recycling machines, 535 cheque deposit machines and 394 cash deposit machines. PBB also offers comprehensive telephone banking, internet banking and mobile banking facilities.

PBB is principally engaged in all aspects of commercial banking and the provision of related financial services which include credit card business, sales of trust units, bancassurance and general insurance products. PBB, together with its subsidiaries and associated companies ("PBB Group") are involved in banking, Islamic banking, investment banking, financing, credit card business, share broking, sale of trust units and management of unit trust funds, bancassurance and general insurance and other related financial services such as trustee and nominee services. Its principal subsidiaries are Public Islamic Bank Berhad ("PIBB"), Public Mutual Berhad ("Public Mutual"), Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), Public Finance Limited ("Public Finance"), Cambodian Public Bank Plc ("Campu Bank") and PIVB. The following diagram shows the relationship between PBB and its principal subsidiaries:



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The following table shows the contribution to the PBB Group's profit before tax for the financial half year ended 30 June 2013 and for the FYE 31 December 2012; and the total assets of the PBB Group as at 30 June 2013 and as at 31 December 2012 by PBB and its principal subsidiaries:

	Profit Before Tax ^[1]		Total Assets ^[2]	
	Unaudited For Half Year Ended 30 June 2013	Audited For The FYE 31 December 2012	Unaudited As At 30 June 2013	Audited As At 31 December 2012
PBB	72.8%	74.9%	83.1%	83.2%
PIBB	9.1%	10.7%	10.5%	10.7%
Public Mutual	7.8%	7.3%	0.3%	0.3%
Public Financial	3.7%	3.6%	5.6%	5.8%
Campu Bank	2.0%	2.1%	1.3%	1.3%
PIVB	0.9%	0.9%	1.9%	1.6%

^[1] Excluding dividend income from related companies.

^[2] Before intercompany elimination.

A more detailed description of PBB's principal subsidiaries is set out under Section 4.5 - "Principal Subsidiaries" below.

4.2 History

PBB was incorporated as Public Bank Limited in Malaysia under the Act on 30 December 1965 and had assumed its current name since 15 April 1966. PBB commenced business on 6 August 1966 and it was listed on the Main Board (now known as Main Market) of Bursa Securities on 6 April 1967.

PBB completed the acquisition of the former Hock Hua Bank Berhad and the finance company business of the former Advance Finance Berhad on 31 March 2001 and 31 December 2000 respectively. These acquisitions were in line with BNM's restructuring and consolidation of the Malaysian domestic controlled banking and financial services industry into ten (10) domestic banking groups. The PBB Group went through further rationalisation with the merger of the finance company business of its subsidiary, PBFIN Berhad (formerly known as Public Finance Berhad) with the banking business of PBB on 4 September 2004; and the transfer of the Islamic banking business carried out by PBB to PIBB, a wholly-owned subsidiary of PBB, on 1 November 2008.

PBB acquired the former Sime Merchant Bankers Berhad in October 2000 (which subsequently changed its name to Public Merchant Bank Berhad in November 2000) thereby expanding the PBB Group's business into the Malaysian merchant banking industry. The merger of the merchant banking business of Public Merchant Bank Berhad with the stock broking business of PB Securities Sdn Bhd, PBB's wholly-owned stock broking company, was completed on 18 December 2006 whereupon PB Securities Sdn Bhd was transformed into an investment bank and changed its name to PIVB. PBB completed the acquisition of the entire issued and paid-up share capital of PIVB from Public Consolidated Holdings Sdn Bhd, its wholly-owned subsidiary on 23 July 2007, whereupon PIVB became a wholly-owned subsidiary of PBB.

The PBB Group ventured into unit trust business with the acquisition of 55% interest in Public Mutual on 26 May 1993 before it became a fully owned subsidiary on 12 July 2006.

On its overseas footprint, the PBB Group expanded into Hong Kong with the setting up of a representative office on 1 July 1985. The representative office was eventually upgraded to a full licensed bank branch in 2003. In January 1990, the PBB Group acquired Public Finance. Public Financial, the holding company of Public Finance, was listed on the Stock Exchange of Hong Kong Limited in October 1991. In May 2006, Public Financial acquired the former Asia Commercial Bank Ltd (which subsequently changed its name to Public Bank (Hong Kong)), an authorised institution under the Hong Kong Banking Ordinance providing banking and related

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services. As part of its initiative to streamline its operations in Hong Kong, the PBB fully licensed branch in Hong Kong was closed in 2009 upon voluntary revocation of its banking licence and its operations being transferred to Public Bank (Hong Kong).

In Cambodia, PBB established a joint venture bank, Campu Bank with the National Bank of Cambodia on 20 February 1992 before Campu Bank became a wholly-owned subsidiary of PBB with effect from 9 December 1997. The PBB Group then established Campu Lonpac Insurance Plc, a 55% owned-subsubsidiary of Campu Bank, in 2007 to provide general insurance business in Cambodia and Campu Securities Plc, 100% wholly-owned subsidiary of Campu Bank in 2010 to provide securities underwriting, dealing and share broking.

The PBB Group also established VID Public Bank, a 50:50 joint-venture bank with Bank for Investment and Development of Vietnam in 1992 and established its overseas branches in Laos in 1995 and Sri Lanka in 1992.

4.3 Share Capital and Substantial Shareholders

Share Capital

The authorised, issued and paid-up capital of PBB as at 30 June 2013 are as follows:

	Number of Shares	Par Value	Total
Authorised share capital	10,000,000,000	RM1.00	RM10,000,000,000.00
Issued and paid-up share capital	3,531,925,834	RM1.00	RM3,531,925,834.00

Substantial Shareholders

The substantial shareholders of PBB (holding 5.0% or more of PBB's issued and paid-up capital excluding treasury shares) and their respective shareholding in PBB based on the Register of Substantial Shareholders as at 30 June 2013 are as follows:

Name	Direct Interests		Indirect Interests	
	No. Of PBB Shares Held	% ^[4]	No. Of PBB Shares Held	% ^[4]
Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	0.64	820,835,261 ^[1]	23.44
Employees Provident Fund ("EPF") Board	455,524,381	13.01	-	-
Consolidated Teh Holdings Sdn Bhd	82,952,747	2.37	172,952,816 ^[2]	4.94
Sekuriti Pejal Sdn Bhd	210,195,124	6.00	40,412,856 ^[3]	1.15

Notes:

^[1] Deemed to have interests in the ordinary shares of RM1.00 each in PBB ("PBB Shares") held by other corporations by virtue of Section 6A(4) of the Act. These other corporations are Sekuriti Pejal Sdn Bhd, Kepunyaan Perindustrian Sdn Bhd, Syarikat Kepunyaan Khas Sdn Bhd, Consolidated Teh Holdings Sdn Bhd, Securities Holdings Sdn Bhd, Selected Holdings Sdn Bhd, Moninvest Sdn Bhd, Kepunyaan Pejal Sdn Bhd, Selected Securities Sdn Bhd, Fairbanks Holdings (Pte) Ltd, Kayakita Corporation Sdn Bhd, Kepunyaan Chintamani Sdn Bhd, Kepunyaan Moden Sdn Bhd, LPI Capital Bhd, Lonpac Insurance Bhd, Luhur Management Sdn Bhd, Tong Meng Industries Ltd and Tong Meng Company (Malaya) Sdn Bhd.

^[2] Deemed to have interests in PBB Shares held by Selected Holdings Sdn Bhd, Securities Holdings Sdn Bhd and Kayakita Corporation Sdn Bhd by virtue of Section 6A(4) of the Act.

^[3] Deemed to have interests in PBB Shares held by Syarikat Kepunyaan Khas Sdn Bhd and Kepunyaan Perindustrian Sdn Bhd by virtue of Section 6A(4) of the Act.

^[4] Excluding a total of 29,800,704 PBB Shares bought-back by PBB and retained as treasury shares as at 30 June 2013.

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4.4 The Business of the PBB Group

The PBB Group's main business segments are the Retail Operations, Hire Purchase, Corporate Lending, Treasury and Capital Market Operations, Investment Banking, Fund Management and Overseas Operations.

The following tables show an analysis of the financial performance of the PBB Group's business segments for the financial half year ended 30 June 2013 and for the FYE 31 December 2012:

<u>PBB Group's</u> <u>– By Business Segments</u>	Unaudited For the Half Year Ended 30 June 2013		
	Operating Revenue (RM million)	Segment Profit Before Tax (RM million)	Assets Employed (RM million)
Hire purchase	1,157.7	272.0	41,439.6
Retail operations	4,148.6	1,593.3	176,798.9
Corporate lending	529.4	160.5	24,791.7
Treasury and Capital Market operations	1,308.4	178.7	68,635.8
Investment banking	109.8	23.3	4,775.4
Fund management	489.7	202.8	440.5
Others	17.2	6.0	2,641.2
Head office	810.3	(2.6)	19,865.3
Total Domestic	8,571.1	2,434.0	339,388.4
Total Overseas	530.7	176.5	21,130.4
	9,101.8	2,610.5	360,518.8
Inter-segment elimination and others	(1,625.7)	-	(67,877.2)
	7,476.1	2,610.5	292,641.6

<u>PBB Group's</u> <u>– By Business Segments</u>	Audited For the FYE 31 December 2012		
	Operating Revenue (RM million)	Segment Profit Before Tax (RM million)	Assets Employed (RM million)
Hire purchase	2,258.0	668.3	40,253.9
Retail operations	7,755.6	2,986.4	162,341.2
Corporate lending	978.6	322.3	23,210.4
Treasury and Capital Market operations	2,390.3	339.4	68,221.5
Investment banking	208.9	44.5	4,236.8
Fund management	882.8	372.2	309.4
Others	34.1	8.1	2,286.3
Head office	1,816.7	37.7	18,009.0
Total Domestic	16,325.0	4,778.9	318,868.5
Total Overseas	1,011.7	325.0	20,404.3
	17,336.7	5,103.9	339,272.8
Inter-segment elimination and others	(3,278.6)	-	(64,647.9)
	14,058.1	5,103.9	274,624.9

Hire Purchase

The domestic hire purchase operations focus on the provision of motor vehicle financing to all types of customers.

As at 30 June 2013, Domestic Hire Purchase Operations had total assets of RM41.4 billion, which was 14.2% of the total assets of the PBB Group.

Motor vehicle financing is the second (2nd) largest component of the PBB Group's consumer credit business. This type of financing, primarily for passenger vehicles, is offered mainly on a flat rate basis and is secured by the vehicle being purchased, with financing up to the permissible quantum of 90% of the value of the vehicle to be financed. This form of financing typically has a repayment term up to nine (9) years.

In the first half of 2013, PBB Group's domestic hire purchase financing registered an annualised growth of 6.1% or RM1.2 billion. The PBB Group maintained its market leader position with domestic vehicle hire purchase financing market share of 26.3% as at 31 May 2013.

PBB Group's marketing initiatives are driven from its large network of 256 branches nationwide and its twenty seven (27) Hire Purchase Centres in key locations which fully focus on providing and supporting the PBB Group's vehicle hire purchase financing business. The PBB Group has strengthened its relationships with car dealers by actively participating in joint sales promotion, car carnivals and roadshows. In 2012, the PBB Group participated in 1,082 joint sales promotions and sponsorship nationwide with the PBB Group's 8,400 car dealers.

Retail Operations

The principal business activities of the Domestic Retail Operations of the PBB Group are the provision of consumer loans (such as housing loans, credit cards, retail share margin financing and personal consumer loans), small- and medium-sized enterprise ("SME") loans, wealth management products (other than fund management) and cash management services. The PBB Group's main focus is on the banking and financing needs of retail consumers and middle market commercial enterprises, particularly SMEs.

As at 30 June 2013, Retail Operations had total assets of RM176.8 billion which was 60.4% of the total assets of the PBB Group.

Domestic Retail Operations comprise four (4) strategic business areas, namely consumer credit, SME lending, wealth management and cash management services.

(i) Consumer Credit

The consumer credit business comprises the following:

- Residential property financing;
- Credit and debit cards;
- Share margin financing; and
- Personal consumer loans.

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Outstanding loans extended under the consumer credit segment amounted to RM70.9 billion, representing 36.2% of the PBB Group's domestic gross loans as at 30 June 2013.

(a) *Residential property financing*

Residential property financing, comprising loans to the residential housing sector, represents the PBB Group's largest component of consumer credit. These loans are typically secured by the residential property being purchased or refinanced and are generally term loans or overdrafts (or a combination of both). The PBB Group's housing loans typically have repayment terms of ten (10) to thirty (30) years with a maximum tenure of up to thirty-five (35) years or up to the customer's age of seventy (70) years, whichever is the earlier. With the exception of low cost housing, the PBB Group's policy is to lend up to a maximum of 90.0% of the assessed market value of the property. The PBB Group has a range of housing loan products under the brand names of 5HOME Plan and MORE Plan, both of which offer various financing plans for customers including multi-tier interest rate options and Islamic financing.

The PBB Group's domestic lending to the residential property sector grew by an annualised rate of 16.3% or RM4.7 billion in the first half of 2013 to RM62.7 billion as at 30 June 2013. Residential property loans accounted for 32.1% of the PBB Group's total domestic loan as at 30 June 2013. The PBB Group continued to be the largest residential property financier in Malaysia with market share of 19.4% as at 31 May 2013.

For the six months period ended June 2013, the PBB Group's approved residential property loans totalling RM8.6 billion. The total residential property loans approved for the six months period ended June 2013 accounted for 28.6% of total domestic loans approved during the period.

(b) *Credit and debit cards*

The PBB Group commenced its credit card operations in May 1992. Revenues from the PBB Group's credit card operations consist principally of annual fees paid by cardholders, finance charges on outstanding balances, issuer reimbursement fees paid by the acquiring banks, cash advance fees and merchant discount rates payable by business establishments. The PBB Group is licensed to issue Visa and MasterCard credit and debit cards and also to conduct merchant acquiring business for both Visa and MasterCard.

As at 30 June 2013, domestic credit card receivables of the PBB Group stood at RM1.6 billion, amounting to 0.8% of PBB Group's domestic gross loans outstanding as at the same date.

The PBB Group's domestic credit card usage increased by an annualised rate of 4.0% in the first half of 2013.

(c) *Share margin financing*

The PBB Group's share margin financing and share trading services provide facilities for customers of PBB and PIVB to finance and trade in shares listed on Bursa Securities.

PBB's share margin financing and share trading services product, PB Sharelink, which provides share margin financing and cash or collateralised trading features, gives customers more flexibility to trade in shares through its Share Investment Units located at selected branches or PBeBank.com.

PIVB also provides share margin financing and share trading to their customers to trade via remisiers or publicinvestbank.com.

(d) Personal consumer loans

The PBB Group's domestic personal consumer financing business is mainly driven by its subsidiary, PIBB. PIBB's personal financing product, the Bai' Al-Einah ("BAE") Personal Financing-i is mainly offered to staff of government agencies, statutory bodies and large corporations. As at the end of 2012, PIBB has established agency arrangements with more than 290 entities.

As at the end of June 2013, total financing outstanding of BAE Personal Financing-i amounted to RM2.7 billion with a market share of 10.3%.

(ii) SME Lending

Lending to SMEs constitutes a major component of the PBB Group's commercial lending market segment. In the first half of 2013, the PBB Group approved RM9.5 billion commercial loans to domestic SMEs, which accounted for 31.6% of its total new domestic loans approved for the first half of 2013. Arising from higher volume of loans approved to SMEs, the PBB Group's SME loan grew by an impressive annualised rate of 22.0% from RM36.6 billion as at the end of 2012 to RM40.6 billion as at 30 June 2013. Loans to domestic SMEs accounted for 20.7% of the PBB Group's total domestic loan as at 30 June 2013. The lending to non-residential property forms a major portion of PBB's SME lending. PBB commands a market leadership in lending to non-residential property with a market share of 33.8% as at 31 May 2013.

A broad range of financial products and services are promoted to SMEs. The products are tailored to the needs of SMEs and include the SWIFT ("Shophouse, Warehouse, Industrial Factory and Trade Financing") Plan and the SMILAX ("Small, Medium Industries – Loan Assistance for eXpansion") Plan. Both the SWIFT Plan and the SMILAX Plan offer a combination of term loans, overdraft and trade financing facilities and are attractively priced with flexible repayment terms.

In addition to the above, PBB actively supports the Government of Malaysia promoted loan schemes such as the Fund for Small and Medium Industries 2 and the New Entrepreneurs Fund 2 as well as Credit Guarantee Corporation schemes such as the Credit Enhancer Scheme, Portfolio Guarantee for SMEs Scheme and SmallBiz Express Scheme. These loan schemes provide SMEs with access to loan facilities designed to assist SMEs to expand their business capacity and enhance their competitiveness.

For SMEs involved in import and export businesses, PBB also offers a range of trade bills facilities where trade bills processing has been centralised at PBB's Trade Finance Centre to enhance operational efficiency as well as to facilitate speedy service delivery. PBB also offers competitive foreign exchange rates for trade settlement and SMEs are given the option to open foreign currency accounts to retain funds in foreign currencies in order to hedge against currency fluctuations.

(iii) Wealth Management

(a) Customer deposits

Core deposit products offered by the PBB Group fall into 3 broad categories, namely fixed deposits, savings deposits and demand deposits.

In the first half of 2013, the PBB Group's domestic core customer deposits grew strongly by RM14.7 billion or 18.0% on an annualised basis, higher than the domestic banking industry's annualised growth rate of 12.7% as at 31 May 2013. This resulted in the PBB Group achieving a higher market share of core customer deposits of 17.2% as at 31 May 2013, as compared to 16.6% as at the end of 2012.

The strong deposit growth was contributed by expansion of domestic fixed deposits, low cost demand and savings deposits ("CASA") by an annualised rate of 20.3%, 15.1% and 10.7% respectively, outperforming the Malaysian banking industry's corresponding deposits growth rates of 18.5%, 0.3% and 9.6% respectively based on data as at 31 May 2013. The PBB Group's domestic CASA stood at RM55.9 billion as at 30 June 2013 and accounted for 31.5% of its domestic core customer deposit base.

Core customer deposits mobilised from individuals represented 53.6% of the PBB Group's domestic core customer deposits as at 30 June 2013. This accounted for 18.7% market share of core customer deposits by individuals as at 30 June 2013.

(b) Bancassurance

PBB Group and the ING Group had entered into a strategic bancassurance alliance agreement in 2008. With the sale of ING's insurance operations in Malaysia to AIA Group Limited in 2012 and the subsequent merger of the ING's insurance business and AIA's insurance business in Malaysia, the PBB Group's strategic bancassurance tie-up continues with the enlarged AIA.

Since 2008, the bancassurance business has grown steadily and is well positioned to serve the various needs of the PBB Group's customers. As at 30 June 2013, there are approximately 500 licensed sales staff distributing the investment-linked bancassurance products. The credit-related life insurance products are promoted by more than 2,000 credit personnel and sales and marketing executives whilst simplified life insurance products are distributed via the telemarketing channel to specific targeted customer segments. The Group's joint venture with AIA on the takaful insurance business will also further drive the bancatakaful business leveraging on the expertise of AIA and wide distribution channels available for the promotion of bancatakaful products.

(iv) Cash Management Services ("CMS")

The PBB Group's CMS are actively promoted to large corporations and government bodies and agencies. This business relies on access to the wide branch network and infrastructure of the PBB Group to facilitate value transfer activities of CMS customers with their customers and suppliers.

The wide range of CMS services promoted include the collection of bills and other receivables from consumers on behalf of large corporations, such as utilities and insurance companies; the undertaking of electronic credit payments for SMEs and large corporations; and the collection of income tax for the Inland Revenue Board from individuals and businesses as well as the collection of EPF and Pertubuhan Keselamatan Sosial or "PERKESO" contributions by employers.

Corporate Lending

The PBB Group's domestic corporate lending expanded by RM1.6 billion or 6.7% in the first half of 2013 to stand at RM24.9 billion as at 30 June 2013. The growth of loans was mainly driven by demand from commercial property sectors and financing for merger and acquisition as well as corporate exercises.

The profit before tax of the PBB Group's corporate lending operations increased by 2.3% to RM160.5 million in the financial half year ended 30 June 2013 compared to the corresponding period in 2012. The strong volume growth in corporate loans over the years have also translated to higher net interest income of RM163.5 million in the financial half year ended 30 June 2013 as compared to RM154.8 million in corresponding period in 2012 even as lending margins continued to be squeezed as a result of stiff competition.

As at 30 June 2013, domestic corporate loans accounted for 12.7% of the PBB Group's total domestic loans.

Treasury and Capital Markets Operations

The Treasury operations of the PBB Group are focused primarily on the management of the excess liquidity of the PBB Group, the sale and distribution of foreign exchange related products to meet the business requirements of its customers and the acceptance of deposits from corporate and institutional investors. The PBB Group is also engaged in proprietary trading in the Malaysian capital market for debt securities through PBB and PIVB, while PBB and Public Bank (Hong Kong) are engaged in limited proprietary trading in the foreign exchange market.

As a Principal Dealer, PBB actively participates in the primary and secondary market of BNM specified RENTAS securities. This principal dealership also requires PBB to play an active role in the daily BNM money market tenders which is undertaken by the funding desk. As at 30 June 2013, the volume of transactions traded by PBB for specified RENTAS securities accounted for 7.5% and 4.7% of the total volume traded in the primary and secondary market respectively.

As part of its liquidity management practices, the PBB Group invests in a portfolio of high quality liquefiable assets such as Malaysian Government Securities, Malaysian Government Treasury Bills and Bank Negara Monetary Notes.

Investment Banking

The investment banking business conducted by PIVB covers a range of investment banking services, including acting as an adviser on initial public offerings and other capital raising and debt restructuring exercises, as well as the stock broking business focusing on the retail market and by leveraging on the PBB Group's retail customer base and PBB's PB Sharelink service.

Fund Management

The PBB Group's fund management business is carried out by PBB's wholly-owned subsidiary, Public Mutual. It is the largest private sector unit trust fund manager in Malaysia, managing a total of 102 funds with a total net asset value of RM58.9 billion as at 30 June 2013. Amidst the challenging market environment, Public Mutual continued to remain as the market leader in the private unit trust business, capturing 41.0% of the overall market share, with 59.3% and 53.8% market share in the equity and Islamic unit trust fund sectors respectively as at 31 May 2013. Public Mutual has an agency force of over 30,000 agents as at the end of June 2013.

Overseas Operations

The PBB Group has presence in five (5) overseas locations with subsidiaries in Hong Kong and Cambodia, a joint venture bank in Vietnam and PBB's branches in Sri Lanka and Laos. The overseas operations of the PBB Group contributed 6.8% of the PBB Group's profit before taxation for the financial half year ended 30 June 2013, primarily from the operations of Public Financial in Hong Kong and Campu Bank in Cambodia.

(a) Hong Kong

The PBB Group's operations in Hong Kong concentrate on two core businesses, namely retail and commercial banking, and stockbroking and wealth management.

The retail and commercial banking activities of the PBB Group in Hong Kong are mainly driven by Public Bank (Hong Kong) and Public Finance. As a result of intense competition coupled with weak demand arising from slowdown in the Hong Kong economy, Public Bank (Hong Kong)'s total loans decreased by HKD0.5 billion or 2.0% to HKD22.0 billion as at the end of June 2013 from HKD22.4 billion as at the end of 2012. However, the personal loans business undertaken by Public Finance which serves the middle- to lower- income households and overseas contract workers recorded a marginal increase to HKD4.7 billion as at the end of June 2013.

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As at 30 June 2013, the PBB Group has a combined network of eighty six (86) branches in Hong Kong and the People's Republic of China ("PRC"). Public Bank (Hong Kong) has thirty five (35) branches, comprising thirty two (32) branches in Hong Kong and three (3) branches in Shenzhen, PRC; Public Finance has forty two (42) branches and Winton (B.V.I) Group ("Winton") has nine (9) branches, respectively.

(b) Cambodia

PBB's wholly-owned subsidiary in Cambodia, Campu Bank, has a branch network of twenty five (25) branches in Cambodia as at 30 June 2013 and is one of the leading banks in Cambodia.

Campu Bank registered a pre-tax profit of USD16.8 million for financial half year ended 30 June 2013, as compared to USD20.7 million in the corresponding period in 2012. Loans grew by an annualised rate of 9.0% to USD709.7 million as at 30 June 2013 whilst customer deposits increased by an annualised rate of 7.7% to USD941.4 million for the same period.

In August 2007, Campu Lonpac Insurance Plc ("CLIP") commenced business in Cambodia. The PBB Group holds 55.0% equity interest in CLIP whilst Lonpac Insurance Bhd holds 45.0% equity interest. CLIP offers a wide range of general insurance products including fire insurance, motor insurance, engineering insurance, workmen's compensation insurance and personal accident insurance.

Campu Bank's wholly-owned subsidiary, Campu Securities Plc was incorporated in 2010. Campu Securities Plc offers services such as securities underwriting, dealing and share broking.

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4.5 Principal Subsidiaries

PIBB

PIBB, a wholly-owned subsidiary of PBB commenced business on 1 November 2008 upon the completion of the transfer of the Islamic banking business of PBB to PIBB. PIBB had 89 employees as at 30 June 2013.

	Unaudited As At 30 June 2013 (RM million, except %)
Total assets	30,800.9
Shareholder's funds	2,490.8
Percentage of total assets of the PBB Group	10.5%

	Audited As At 31 December 2012 ^[1] (RM million, except %)
Total assets	29,299.1
Shareholder's funds	2,287.3
Percentage of total assets of the PBB Group	10.7%

Public Mutual

Public Mutual is a wholly-owned subsidiary of Public Consolidated Holdings Sdn Bhd, which is a wholly-owned subsidiary of PBB. Public Mutual was incorporated in Malaysia on 21 July 1975 and became a subsidiary of PBB in May 1993. The principal activities of Public Mutual are the sale of trust units and the management of unit trust funds. Public Mutual had 814 employees as at 30 June 2013.

	Unaudited As At 30 June 2013 (RM million, except %)
Total assets	883.7
Shareholder's funds	134.8
Percentage of total assets of the PBB Group	0.3%

	Audited As At 31 December 2012 (RM million, except %)
Total assets	751.4
Shareholder's funds	125.3
Percentage of total assets of the PBB Group	0.3%

^[1] Exclude reinstatement of financial effects in relation to the adoption of MFRS 119, which was adopted effective 1 January 2013.

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Public Financial

Public Financial is a 73.2% owned subsidiary of PBB as at 30 June 2013 and is listed on the Stock Exchange of Hong Kong Limited. Public Financial was incorporated in Bermuda on 16 August 1991. Public Financial, through its three (3) main direct and indirect subsidiaries, which are Public Bank (Hong Kong), Public Finance and Winton (B.V.I.) Ltd, provide commercial banking, consumer finance services and taxi financing services and carry on the trading of taxi licenses respectively. Public Financial, together with its subsidiary companies, had 1,398 employees as at 30 June 2013.

**Unaudited
As At 30 June 2013
(HKD million, except %)**

Total assets	40,158.2
Shareholders' funds	6,675.6
Percentage of total assets of the PBB Group	5.6%

**Audited
As At 31 December 2012
(HKD million, except %)**

Total assets	40,535.8
Shareholders' funds	6,525.3
Percentage of total assets of the PBB Group	5.8%

Campu Bank

Campu Bank is a wholly-owned subsidiary of PBB. Campu Bank was incorporated in Cambodia on 20 February 1992. The principal activity of Campu Bank is banking. Campu Bank had 635 employees as at 30 June 2013.

**Unaudited
As At 30 June 2013
(USD million, except %)**

Total assets	1,220.0
Shareholder's funds	255.4
Percentage of total assets of the PBB Group	1.3%

**Audited
As At 31 December 2012
(USD million, except %)**

Total assets	1,184.7
Shareholder's funds	242.1
Percentage of total assets of the PBB Group	1.3%

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PIVB

PIVB is a wholly-owned subsidiary of PBB. PIVB was incorporated in Malaysia on 28 August 1974 under the name of G.P. Securities (Sendirian). It changed its name to G.P. Securities Sendirian Berhad on 10 July 1981 and upon acquisition by PBB, changed its name to PB Securities Sdn Bhd on 30 September 1987. On 18 December 2006, PB Securities Sdn Bhd was converted to a public company and changed its name to PIVB upon the completion of the merger of the merchant banking business of the former Public Merchant Bank Berhad with the stock broking business of PB Securities Sdn Bhd. PIVB had 181 employees as at 30 June 2013.

**Unaudited
As At 30 June 2013
(RM million, except %)**

Total assets	5,428.9
Shareholder's funds	328.4
Percentage of total assets of the PBB Group	1.9%

**Audited
As At 31 December 2012^[1]
(RM million, except %)**

Total assets	4,364.9
Shareholder's funds	322.2
Percentage of total assets of the PBB Group	1.6%

^[1] Exclude reinstatement of financial effects in relation to the adoption of MFRS 119, which was adopted effective 1 January 2013.

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4.6 Stature of PBB

PBB possesses a strong domestic franchise and has won many awards. The major awards and accolades accorded to PBB in 2012 and up to July 2013 include the following:

- Overall Best Managed Company in Malaysia (Large Cap) 2011 *by Asiamoney*
- BrandLaureate Award 2011-2012 for Best Brands in Financial Services - Banking *by Asia Pacific Brands Foundation*
- Best Retail Bank in Malaysia 2011 and Strongest Bank in Malaysia 2012 *by The Asian Banker*
- Top SMI Supporter Award 2011 under the Commercial Bank category *by Credit Guarantee Corporation*
- Best Bank in Malaysia 2012 and 2013 and Best Asian Bank 2012 *by FinanceAsia*
- Best Bank in Malaysia 2012 and 2013 *by Alpha Southeast Asia*
- Domestic Retail Bank of the Year – Malaysia 2012 and 2013 *by Asian Banking and Finance*
- Best Banking Group in Malaysia 2012 *by World Finance*
- Best Domestic Bank in Malaysia 2012 *by The Asset*
- Automotive Finance Company of the Year 2012 and Year 2013 *by Frost & Sullivan*
- 2nd Asian Excellence Recognition Awards 2012 for Best Corporate Social Responsibility; and Best Investor Relations by a Malaysian company *by Corporate Governance Asia*
- Corporate Governance Asia Recognition Award 2012 and 2013 for Malaysia *by Corporate Governance Asia*
- Institutional Investor Corporate Awards 2012 for Strongest Adherence to Corporate Governance *by Alpha Southeast Asia*
- The Asset Corporate Award 2012 for All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations – Platinum winner, *by The Asset*
- 3rd Asian Excellence Recognition Awards 2013 for Best Corporate Social Responsibility; and Best Investor Relations for Malaysia *by Corporate Governance Asia*
- Trusted Brands Gold Award 2013 under the Banks in Malaysia category and Credit Card Issuing Bank Gold Award 2013 *by Reader's Digest*
- Best SME Bank in Malaysia 2013 *by Alpha Southeast Asia*
- Ranked as one of the top 3 companies for Most Consistent Dividend Policy category in the Alpha Southeast Asia Institutional Investor Corporate Awards 2013
- BrandLaureate Signature Brand Award for the Banking category 2013 *by Asia Pacific Brands Foundation*

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4.7 Profile of Directors

The primary role of the Board is to approve the overall business strategies and policies of PBB.

PBB's Articles of Association provide that the number of directors shall not be less than five (5) and not more than eighteen (18), unless otherwise determined by its shareholders. The Board currently consists of ten (10) members, comprising eight (8) non-executive Directors, six (6) of whom are independent, and two (2) executive Directors. The independent non-executive Directors are independent of management and have no business or relationship connections in order to facilitate effective discharge of their duties and responsibilities, void of conflict of interest situations. The current Directors of PBB are as follows:

Name	Position
Tan Sri Dato' Sri Dr. Teh Hong Piow	Non-Executive Chairman Chairman of Board Executive Committee Chairman of the PBB Group Human Resource Committee
Tan Sri Datuk Seri Utama Thong Yaw Hong	Independent Non-Executive Co-Chairman Chairman of Audit Committee Chairman of Nomination Committee Chairman of Remuneration Committee Chairman of Risk Management Committee
Tan Sri Dato' Sri Tay Ah Lek	Managing Director/Chief Executive Officer Chairman of the Credit Committee Chairman of the IT Steering Committee Chairman of the Assets & Liabilities Management Committee Chairman of the Share Investment Committee
Dato' Sri Lee Kong Lam	Executive Director Chairman of the Operational Risk Management Committee Chairman of the Business Continuity Management Committee
Dato' Yeoh Chin Kee	Non-Independent Non-Executive Director Chairman of Credit Risk Management Committee
Dato' Haji Abdul Aziz bin Dato' Dr. Omar	Independent Non-Executive Director Co-Chairman of Audit Committee Co-Chairman of Risk Management Committee Co-Chairman of Credit Risk Management Committee

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Quah Poh Keat	Independent Non-Executive Director
Tang Wing Chew	Independent Non-Executive Director
Lai Wan	Independent Non-Executive Director
Lai Wai Keen	Independent Non-Executive Director

The Board meetings are chaired by Tan Sri Datuk Seri Utama Thong Yaw Hong and the Board meets on a scheduled basis at least once a month. PBB complies with BNM's "Guidelines on Corporate Governance for Licensed Institutions" and its governance structure also adheres to the principles and recommendations of the Malaysian Code on Corporate Governance 2012.

The Board has established the following Board committees, the main functions of which are shown below:

- The Audit Committee comprises seven (7) non-executive Directors of the Board of whom six (6) are independent non-executive Directors and is chaired by the Co-Chairman of PBB. The primary function of the Audit Committee is to review the financial condition of PBB, its internal controls, performance and findings of internal auditors and to propose appropriate remedial actions. It meets monthly to review audit reports and management actions. The Audit Committee meets with the external auditors at least twice a year to review PBB's financial statements and their audit findings.
- The Risk Management Committee is chaired by the Co-Chairman of PBB. The Committee's roles and responsibilities include the supervision and management of all risks and the formulation of risk management policies. In addition, the Committee also monitors the parameters for risk exposure, and sets risk limits (see Section 8.0 - "Risk Management" below).
- The Remuneration Committee is chaired by the Co-Chairman of PBB and its terms of reference include formalising the procedure for the remuneration of Directors. The Remuneration Committee carries out annual review of the overall remuneration policy for the Directors, Chief Executive Officer and key senior management officers whereupon recommendations are submitted to the Board for approval. It evaluates the performance of and proposes the levels of remuneration for the Chief Executive Officer and the Executive Director.

Tan Sri Dato' Sri Dr. Teh Hong Piow **(Non-Executive Chairman)**

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged eighty three (83), began his banking career in 1950 and has sixty three (63) years experience in the banking and finance industry. He founded PBB in 1965 at the age of thirty five (35). He was appointed as a Director of PBB on 30 December 1965 and had been the Chief Executive Officer of PBB since its commencement of business operations in August 1966. He was re-designated as Chairman of PBB and Chairman of the PBB Group with effect from 1 July 2002. He serves as Chairman of the Board Executive Committee and the Group Human Resource Committee.

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Tan Sri Teh had won both domestic and international acclaim for his outstanding achievements as a banker and the Chief Executive Officer of a leading financial services group. Awards and accolades that he had received include:

- Asia's Commercial Banker of the Year 1991
- The ASEAN Businessman of the Year 1994
- Malaysia's Business Achiever of the Year 1997
- Malaysia's CEO of the Year 1998
- Best CEO in Malaysia 2004
- The Most PR Savvy CEO 2004
- The Asian Banker Leadership Achievement Award 2005 for Malaysia
- Award for Outstanding Contribution to the Development of Financial Services in Asia 2006
- Lifetime Achievement Award 2006
- Award for Lifetime Achievement in Corporate Excellence, Dedication and Industry 2006
- Asia's Banker of High Distinction Award 2006
- The BrandLaureate Brand Personality Award 2007
- ASEAN Most Astute Banker Award 2007
- Lifetime Entrepreneurship Achievement Award 2007
- The Pila Recognition Award 2007
- Asian Banker Par Excellence Award 2008
- Best CEO in Malaysia 2009
- Asia's Banking Grandmaster 2010
- Asian Corporate Director Recognition Award 2010 for Malaysia
- Value Creator: Malaysia's Outstanding CEO 2010
- The BrandLaureate – Tun Dr. Mahathir Mohamad Man of the Year Award 2010-2011
- Best CEO (Investor Relations) 2011 for Malaysia
- Asian Corporate Director Recognition Award 2011 for Malaysia
- The BrandLaureate Premier Brand Icon Leadership Award 2011
- Best CEO (Investor Relations) 2012 for Malaysia
- Asian Corporate Director Recognition Award 2012 for Malaysia
- Best CEO (Investor Relations) 2013 for Malaysia
- Asian Corporate Director Recognition Award 2013 for Malaysia
- The BrandLaureate Banker of the Year Award 2013

Tan Sri Teh was awarded the Medal 'For the Course of Vietnamese Banking' by the State Bank of Vietnam in 2002 for his contributions to the Vietnamese banking industry over the past years. Tan Sri Teh was conferred the Recognition Award 2007 by the National Bank of Cambodia in appreciation of his excellent achievement and significant contribution to the banking industry in Cambodia.

In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

He had served in various capacities in public service bodies in Malaysia, he was a member of the Malaysian Business Council from 1991 to 1993, a member of the National Trust Fund from 1988 to 2001, a founder member of the Advisory Business Council since 2003 and is a member of the IPRM Accreditation Privy Council.

He is an Emeritus Fellow of the Malaysian Institute of Management and is a Fellow of the Institute of Bankers Malaysia, the Chartered Institute of Bankers, United Kingdom, the Institute of Administrative Management, United Kingdom and the Institute of Chartered Secretaries and Administrators, Australia.

His directorships in other companies within the PBB Group are as Chairman of PIVB, Public Mutual, Public Islamic Bank Berhad, Public Financial, Public Bank (Hong Kong) and Campus Bank, and several other subsidiaries of PBB. His directorships in other public companies are as Chairman of LPI Capital Bhd, Lonpac Insurance Bhd and Tong Meng Industries Ltd.

Tan Sri Datuk Seri Utama Thong Yaw Hong
(Independent Non-Executive Co-Chairman)

Tan Sri Datuk Seri Utama Thong Yaw Hong, aged eighty three (83), was appointed as a Director of PBB on 23 June 1986 and was made its Chairman in October 1986. He was re-designated as Co-Chairman of PBB with effect from 1 July 2002. He serves as Chairman of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He graduated with a Bachelor of Arts (Hons) degree in Economics from University of Malaya and a Master's degree in Public Administration from Harvard University. He attended the Advanced Management Program at Harvard Business School. In June 1998, he was appointed a Pro-Chancellor of University Putra Malaysia from which he had retired in end June 2006. In September 2006, he was conferred the Doctor of Economics (Honorary) from University Putra Malaysia.

He has had a distinguished career with the Government of Malaysia, primarily in the fields of socio-economic development planning and finance. He had served in the Economic Planning Unit in the Prime Minister's Department since 1957 and became its Director-General from 1971 to 1978 and served as Secretary-General, Ministry of Finance from 1979 until his retirement in 1986.

Tan Sri Thong also serves as member on the Boards of Trustees of Program Pertukaran Fellowship Perdana Menteri Malaysia and Tun Razak Foundation, among others. He is a member of the National Economic Council and is also a Senior Member of the Working Group of the Executive Committee for the National Economic Council. He is a Distinguished Fellow of the Institute of Strategic and International Studies (ISIS) Malaysia and is also a Fellow of the Institute of Bankers Malaysia.

His directorships in other companies within the PBB Group are as Co-Chairman of PIVB, Public Mutual, Public Financial, Public Bank (Hong Kong), Campu Bank and as Chairman of Campu Lonpac Insurance Plc and Campu Securities Plc; he is also a Director of PIBB and several other subsidiaries of PBB. Other public companies in which he serves are as Co-Chairman of LPI Capital Bhd and Lonpac Insurance Bhd and as Director of Batu Kawan Berhad, Kuala Lumpur Kepong Berhad, Glenealy Plantations (Malaya) Berhad and Malaysian South-South Corporation Berhad. He is also the Chairman of Malaysia Property Incorporated.

Tan Sri Dato' Sri Tay Ah Lek
(Managing Director/Chief Executive Officer)

Tan Sri Dato' Sri Tay Ah Lek, aged seventy (70), has fifty two (52) years experience in the banking and finance industry. He was appointed as an Executive Director of PBB on 18 June 1997 and was re-designated as Managing Director/Chief Executive Officer with effect from 1 July 2002. He joined the PBB Group as a pioneer staff in 1966. He was the Executive Vice-President of PBB from 1995 to 1997 and prior to this appointment, he was the Executive Vice-President of the former Public Finance Berhad. He is a member of the Board Executive Committee. He is the Chairman of the Credit Committee, the IT Steering Committee, the Assets & Liabilities Management Committee and the Share Investment Committee, and is a member of the Group Human Resource Committee.

He holds a Master's degree in Business Administration from Henley, United Kingdom and attended the Advanced Management Program at Harvard Business School. He is an Emeritus Fellow of the Malaysian Institute of Management and is a Fellow of CPA Australia, the Financial Services Institute of Australasia and the Institute of Bankers Malaysia.

He is presently the Chairman of the Association of Hire Purchase Companies Malaysia and is a Member of the National Payments Advisory Board.

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His directorships in other companies in the PBB Group include as Director of PIVB, Public Mutual, Public Islamic Bank Berhad, Public Financial, Public Bank (Hong Kong), Campu Bank and Public Bank (L) Ltd. His directorships in other public companies are in Cagamas Holdings Berhad, ASEAN Finance Corporation Ltd and Financial Mediation Bureau.

Dato' Sri Lee Kong Lam **(Executive Director)**

Dato' Sri Lee Kong Lam, aged seventy one (71), has forty five (45) years experience in the banking and finance industry. He was appointed as an Executive Director of PBB on 28 November 2001. He joined PBB in November 1996 as General Manager and was subsequently appointed Senior General Manager in 1997 and Executive Vice-President in 1998. He is a member of the Board Executive Committee. He is the Chairman of the Operational Risk Management Committee and the Business Continuity Management Committee and is a member of the Credit Committee, the IT Steering Committee, the Assets & Liabilities Management Committee, the Share Investment Committee and the Group Human Resource Committee.

Prior to joining PBB, he was with BNM and was involved primarily in the supervision and examination of banking institutions. He retired in August 1996 as the Head of BNM's Examination Department and as a member of BNM's Management Committee.

He is a Fellow of CPA Australia and the Chartered Institute of Bankers, United Kingdom and a Chartered Accountant of the Malaysian Institute of Accountants.

His directorships in other companies within the PBB Group are as Director of PIVB, Public Mutual, Public Islamic Bank Berhad, Public Bank (L) Ltd, PB Trust (L) Ltd, Campu Bank, Campu Lonpac Insurance Plc, Campu Securities Plc, and several other subsidiaries of PBB.

Dato' Yeoh Chin Kee **(Non-Independent Non-Executive Director)**

Dato' Yeoh Chin Kee, aged seventy one (71), began his banking career in 1961 and has fifty two (52) years experience in the banking and finance industry. He was appointed as a Director of PBB on 9 May 1978. He was the Executive Director of PBB from May 1978 to May 1997 and served as an Independent Non-Executive Director from May 1997 to September 2011. He was re-designated as Non-Independent Non-Executive Director with effect from 27 September 2011. He is the Chairman of the Credit Risk Management Committee; and is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He is a Fellow of CPA Australia and the Financial Services Institute of Australasia.

His directorships in other companies within the PBB Group are as Chairman of Public Bank (L) Ltd and PB Trustee Services Berhad, and as Director of PIVB and Public Islamic Bank Berhad. His directorships in other public companies are in LPI Capital Bhd and Lonpac Insurance Bhd.

Dato' Haji Abdul Aziz bin Dato' Dr. Omar **(Independent Non-Executive Director)**

Dato' Haji Abdul Aziz bin Dato' Dr. Omar, aged sixty five (65), was appointed as a Director of PBB on 5 January 2000. He is the Co-Chairman of the Audit Committee, the Risk Management Committee and Credit Risk Management Committee; and is a member of the Nomination Committee and the Remuneration Committee.

He qualified as a Chartered Accountant from the Institute of Chartered Accountants in England & Wales, and is also a Chartered Accountant of the Malaysian Institute of Accountants.

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During his previous banking experiences, he became a Fellow of the Institute of Bankers Malaysia. He was the President and Chief Executive Officer of a Malaysian bank from 1986 to 1993. His forty four (44) years experience also include the areas of audit and accounting, taxation, property, plantation, hotelling, trading and manufacturing, both locally and abroad.

His directorships in other companies within the PBB Group are as Co-Chairman of PIBB and as Director of PIVB, Public Mutual, PB Trustee Services Berhad and AIA PUBLIC Takaful Bhd. His directorships in other public companies are in LPI Capital Bhd and Lonpac Insurance Bhd.

Quah Poh Keat ***(Independent Non-Executive Director)***

Quah Poh Keat, aged sixty (60), was appointed as a Director of PBB on 30 July 2008. He is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He is a Fellow of the Malaysian Institute of Taxation and the Association of Chartered Certified Accountants; and a Member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

He was a partner of KPMG since October 1982 and appointed Senior Partner (also known as Managing Partner in other practices) in October 2000 until 30 September 2007. He retired from the firm on 31 December 2007.

He is experienced in auditing, tax and insolvency practices and had worked in Malaysia and United Kingdom; his experiences include restructuring, demergers and privatisation.

His directorships in other companies within the PBB Group are as Director of PIVB, Public Mutual, Public Islamic Bank Berhad, Public Financial, Public Bank (Hong Kong), Campu Bank, Campu Lonpac Insurance Plc, Campu Securities Plc and several other subsidiaries of PBB. His directorships in other public companies are in LPI Capital Bhd, Lonpac Insurance Bhd, IOI Corporation Bhd and Telekom Malaysia Berhad.

Tang Wing Chew ***(Independent Non-Executive Director)***

Tang Wing Chew, aged sixty eight (68), was appointed as a Director of PBB on 29 March 2011. He is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

He graduated with a Bachelor of Arts (Hons) degree from the University of Malaya.

He has forty six (46) years experience in the financial services industry, ranging from research, management and project studies, training, mergers and integration, and stewardship of financial institutions. He joined BNM in 1966 as an Assistant Economist in the Economic Research Department. During his eighteen (18) years of service with BNM, he also served as Manager (Penang Branch), Principal (BNM Staff Training Centre) and Manager (Operational Planning Division).

He had working experience in two finance companies, where he was the Chief Executive Officer and General Manager (Operations). Mr Tang had also served as an Executive Adviser and the Chief Executive Officer of an insurance company.

At Board level, he also served as an Independent Non-Executive Director in two general insurance companies and in a leasing and credit company.

His directorships in other companies within the PBB Group are as Director of PIVB and Public Islamic Bank Berhad. His directorship in other public company is in Cagamas Berhad.

Lai Wan

(Independent Non-Executive Director)

Lai Wan, aged seventy (70), was appointed a Director of PBB on 26 April 2012. He is a member of the Audit Committee, the Risk Management Committee and the Credit Risk Management Committee.

He graduated with a Bachelor of Arts (Hons) degree in Economics from the University of Malaya.

Mr Lai has thirty nine (39) years of experience in the banking and finance related industries. He had served BNM for twenty (20) years and the last position held before his resignation in 1985 was as the Deputy Manager, Bank Examination Department.

Mr Lai had working experience in three finance companies from 1985 to 1994 where he had held senior management positions.

Mr Lai was appointed the President/Chief Executive Officer of a Malaysian bank in 1997 until his retirement on 31 December 2000.

Upon retirement from full time employment, Mr Lai continued to be engaged in finance related industries through his directorships in various companies.

Lai Wai Keen

(Independent Non-Executive Director)

Lai Wai Keen, aged fifty eight (58), was appointed a Director of PBB on 29 May 2012. She is a member of the Audit Committee, the Risk Management Committee and the Credit Risk Management Committee.

Ms Lai holds a Bachelor of Economics (Hons) – Business Administration degree from University of Malaya and a LLB degree from the University of London.

She possesses extensive experience with BNM and PIDM, concentrated in senior management and project leader positions, including significant central banking assignments.

Ms Lai has over twenty (20) years of banking regulatory experience with BNM, including in bank regulation, corporate communications, international negotiations and relations, deposit insurance systems and protection scheme for insurance policy holder.

She was seconded to PIDM as General Manager, Policy and International in 2005 until her retirement in January 2011.

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4.8 Senior Management

PBB's business is managed by the Board Executive Committee comprising the following:

Chairman	-	Tan Sri Dato' Sri Dr. Teh Hong Piow
Managing Director	-	Tan Sri Dato' Sri Tay Ah Lek
Executive Director	-	Dato' Sri Lee Kong Lam

The Chief Operating Officers and Heads of Divisions are as follows:

Name	Position	Division/Portfolio
Dato' Chang Kat Kiam	Chief Operating Officer	-
Sulaiman bin Abd. Manap	Chief Operating Officer	-
Abd. Razak bin Md. Dali	Senior General Manager	Public Affairs Division
Dato' Chia Lee Kee	Senior General Manager	Secretariat Division
Chong You Lin	Senior General Manager	PB Card Services & Support
Chan Chew Fung	Senior General Manager	Corporate Banking
Chang Siew Yen	Senior General Manager	Finance/Corporate Planning & Strategy/Information Technology
Yik Sook Ling	Chief Financial Officer	Finance Division
Chai Ming Kiat	Group Chief Internal Auditor	Internal Audit Division
Eddie Chan Kok Kwai	General Manager	Credit Administration & Supervision Division
Koay Seok Khim	General Manager	Knowledge & Learning
Lim Then Fui	General Manager	Compliance Division
Marlene Goh	General Manager	Human Resource Division
Tan Teck Kong	General Manager	Information Technology Division
Tuan Haji A Wahab bin A Raman	Director	Security Division
Chan Chiew Peng	Director	Retail Financial Services Division
Jasmine Loh Sook Ling	Director	Risk Management Division
Lim Lye Ping	Director	Treasury Division
Patrick Lim Yoong Leng	Director	Banking Operations Division
Quah Ewe Lee	Director	Credit Operations Division
Sim Goay Chye	Director	Property Division
Wong Man Hoe	Director	Hire Purchase Operations

4.9 The PBB Group's Strategy

The PBB Group will remain focused on its organic growth strategies in Malaysia to grow retail loans, customer deposits and fee-based businesses. In addition, the PBB Group will continue to mobilise core customer deposits, expand its retail fee-based income, enhance service delivery channels, develop new products and services, maintain high level of customer service and delivery standards, focus on effective cost and productivity management and effective risk management. The major thrusts of the PBB Group's strategy are as follows:

- *To increase its earnings by growing existing businesses and strengthening existing customer relationships:* The PBB Group will remain focused on growing consumer lending (particularly housing loans, motor vehicle financing, personal loans, credit cards, and share margin financing), retail commercial lending to SMEs and Islamic banking and financing. The PBB Group aims to further strengthen its relationship with its customers, particularly with SMEs through diversification of products and services, including expansion of working capital and trade financing, as well as remittances business.
- *To expand the core customer deposits of the PBB Group, particularly the lower cost deposits:* The PBB Group will continue to develop competitive core deposit products and packages and promote deposits acquisition campaigns and activities to expand the PBB Group's core customer deposits, particularly the lower cost savings and demand deposits.
- *To expand the PBB Group's retail fee-based income:* The PBB Group will pursue initiatives to expand fee-based income activities particularly from the expansion and market share growth of the unit trust business of Public Mutual and the development and expansion of the bancassurance distribution business of the PBB Group pursuant to the strategic tie-up with AIA Group Limited.
- *To improve the effectiveness and cost efficiency of delivery channels:* The PBB Group will continue to leverage on its multiple delivery channels such as its extensive branch network, e-banking, telebanking, ATMs, cash deposit machines and an increasing number of self-service machines such as bi-functional cash recycling machines and cheque deposit machines to efficiently deliver its products and services.
- *To maintain its high level of customer service and delivery standards:* The PBB Group will continue to implement customer service and delivery standards which meet customer requirements and which are benchmarked to international standards and maintain the existing high standards of customer service at the front office and in loan delivery which have already achieved bank-wide ISO 9001:2008 certification.
- *To develop further the "PB Brand" as a premier brand:* The PBB Group will continue to focus on enhancing the "PB Brand" through the introduction of new products and services and sustained high service delivery standards whilst promoting the PB Brand actively in its overseas operations.
- *To realise group-wide synergies through the cross-selling of products and optimise access to the customer base and distribution networks of companies in the PBB Group:* Existing customers also benefit from priority financing packages for credit cards, hire purchase loans and commercial loans. These priority financing packages are also extended to subsidiary companies of the PBB Group, such as Public Mutual. The PBB Group will continue to develop strategies to tap the synergies of the companies in the PBB Group to achieve greater market share.
- *To achieve best practices in corporate governance and continuously improve the PBB Group's risk management policies:* The PBB Group will continue to emphasise prudent and effective risk management. In this regard, the PBB Group will also continue to maintain a healthy and efficient capital position, high asset quality and healthy balance sheets, in addition to a prudent credit culture and good corporate governance.

SECTION 5.0 CAPITALISATION AND INDEBTEDNESS

The following table sets out the capitalisation and indebtedness of the PBB Group as at 30 June 2013, 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 ^[1] (RM million)	Audited As At 2011 (RM million)
Short-term and long-term liabilities			
Deposits from customers	240,369.2	225,042.3	200,370.5
Deposits from banks	15,486.0	12,849.3	15,806.7
Bills and acceptances payable	2,304.5	3,048.8	2,095.4
Recourse obligations on loans and financing sold to Cagamas	500.7	501.5	11.8
Derivative financial liabilities	306.9	233.6	236.7
Borrowings	897.8	864.9	895.1
Other liabilities	4,091.4	3,570.5	3,467.6
Provision for tax expense and zakat	866.7	740.3	777.4
Deferred tax liabilities	62.1	47.9	55.6
	<u>264,885.3</u>	<u>246,899.1</u>	<u>223,716.8</u>
Debt securities			
Senior medium term notes	400.0	-	-
Subordinated notes	3,506.8	4,937.9	6,256.7
Innovative Tier I capital securities	1,954.5	1,955.8	1,968.8
Non-Innovative Tier I stapled securities	2,166.7	2,188.3	2,197.2
	<u>8,028.0</u>	<u>9,082.0</u>	<u>10,422.7</u>
TOTAL LIABILITIES	<u>272,913.3</u>	<u>255,981.1</u>	<u>234,139.5</u>
Equity			
Share capital	3,531.9	3,531.9	3,531.9
Share premium	1,073.3	1,073.3	1,073.3
Other reserves	4,383.2	4,100.6	4,056.1
Retained profits	10,213.1	9,453.7	7,276.8
Treasury shares	(215.6)	(215.6)	(215.6)
Equity attributable to equity holders of PBB	<u>18,985.9</u>	<u>17,943.9</u>	<u>15,722.5</u>
Non-controlling interests	742.4	699.9	697.5
TOTAL EQUITY	<u>19,728.3</u>	<u>18,643.8</u>	<u>16,420.0</u>
TOTAL LIABILITIES AND EQUITY	<u>292,641.6</u>	<u>274,624.9</u>	<u>250,559.5</u>
COMMITMENTS AND CONTINGENCIES	<u>84,650.6</u>	<u>79,457.6</u>	<u>70,847.2</u>

^[1] Exclude reinstatement of financial effects in relation to the adoption of MFRS 119, which was adopted effective 1 January 2013.

SECTION 6.0 FUNDING AND CAPITAL ADEQUACY

Funding

The PBB Group's primary source of funding is customer deposits, accounting for 88.1% of the PBB Group's total liabilities as at 30 June 2013. The PBB Group's other sources of funding include interbank deposits, bills and acceptances payable, loans and financing sold with recourse to Cagamas, borrowings, senior medium term notes, subordinated notes, innovative Tier I capital securities and non-innovative Tier I stapled securities.

The PBB Group has established policies which set out measures to manage and monitor the PBB Group's funding and liquidity requirements. Such measures include the diversification of funding sources, subjecting future cashflows to sensitivity and stress analysis as well as managing adequate contingent funding sources.

(i) Customer Deposits

The PBB Group's customer deposits primarily comprise fixed deposits, savings deposits, demand deposits, money market deposits and negotiable instruments of deposits ("NIDs"), representing 54.7%, 10.4%, 14.8%, 19.3% and 0.8% respectively, of the PBB Group's total customer deposits as at 30 June 2013. Fixed deposits, savings deposits and demand deposits form the PBB Group's core customer deposits. As at 30 June 2013, 87.5% of total customer fixed deposits, money market deposits and NIDs had remaining maturities of less than six (6) months and a further 12.4% of fixed deposits, money market deposits and NIDs had remaining maturities within the period of six (6) months to one (1) year. Based on the behavioural trend, a substantial portion of core customer deposits will be rolled over upon maturity, thereby providing the PBB Group with a stable source of funding.

Based on BNM statistics, as at 31 May 2013, the PBB Group's domestic core customer deposits accounted for 17.2% of total domestic core customer deposits in the Malaysian banking system, with a market share of 18.7%, 13.1% and 17.4% of fixed deposits, demand deposits and savings deposits respectively. The PBB Group is focused on increasing its lower cost savings and demand deposits by leveraging on its high customer service delivery standards at the front office and an extensive branch network.

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The following tables sets out the profile of the PBB Group's customer deposits as at 30 June 2013, 31 December 2012 and 31 December 2011:

Profile of Customer Deposits by Type

Deposits by Type	Unaudited As At 30 June 2013 (RM Million)	Audited As At 31 December 2012 2011 (RM Million) (RM Million)	
Demand deposits	35,516.4	32,632.5	28,764.0
Savings deposits	24,940.7	23,726.5	21,959.7
Fixed deposits	131,398.2	120,675.6	106,573.0
Core deposits	191,855.3	177,034.6	157,296.7
Negotiable instruments of deposit	1,937.0	1,223.6	2,283.0
Money market deposits	46,399.1	46,593.2	40,589.5
Other deposits	177.8	190.9	201.3
Total	240,369.2	225,042.3	200,370.5

Deposits by Type	Unaudited As At 30 June 2013 (%)	Audited As At 31 December 2012 2011 (%) (%)	
Demand deposits	14.8%	14.5%	14.4%
Savings deposits	10.4%	10.5%	11.0%
Fixed deposits	54.7%	53.6%	53.2%
Core deposits	79.9%	78.6%	78.6%
Negotiable instruments of deposit	0.8%	0.5%	1.0%
Money market deposits	19.3%	20.7%	20.3%
Other deposits	0.0%	0.2%	0.1%
Total	100.0%	100.0%	100.0%

Maturity Structure for Fixed Deposits, Money Market Deposits and Negotiable Instruments of Deposits

Deposits by Type	Unaudited As At 30 June 2013 (%)	Audited As At 31 December 2012 2011 (%) (%)	
Due within six months	87.5%	90.1%	88.7%
More than six months to one year	12.4%	9.7%	11.2%
More than one year to three years	0.1%	0.2%	0.1%
More than three years to five years	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

(ii) Interbank Deposits

The PBB Group has the capacity to obtain funds, comprising short-term funds, deposits and placements by financial institutions and NIDs from other financial institutions in the interbank market. The PBB Group obtains interbank funds primarily from other banks for periods from overnight to up to 180 days at prevailing interbank rates. As at 30 June 2013, deposits and placements of banks and other financial institutions accounted for 5.7% of the PBB Group's total liabilities.

(iii) Bills And Acceptance Payable

Bills and acceptances payable represent PBB's own bills and acceptances rediscounted and outstanding in the market. As at 30 June 2013, the amount of outstanding bills and acceptances payable of the PBB Group stood at RM2,304.5 million, accounting for 0.8% of the PBB Group's total liabilities.

(iv) Recourse Obligations On Loans And Financing Sold To Cagamas

The PBB Group is also able to obtain funding for three (3) years to up to ten (10) years tenures by selling loans/financing for the purchase of residential properties ("housing loans"), loans/financing for the purchase of industrial properties, hire purchase financing and leasing debts to Cagamas with recourse to the PBB Group.

As at 30 June 2013, the amount of outstanding loans and financing sold to Cagamas with recourse to the PBB Group stood at RM500.7 million, accounting for 0.2% of the PBB Group's total liabilities.

(v) Borrowings

The borrowings by the PBB Group comprise term loans which are unsecured and denominated in Hong Kong Dollars. The loans are for tenures ranging from one (1) month to two (2) years. As at 30 June 2013, the amount of outstanding borrowings of the PBB Group stood at RM897.8 million, accounting for 0.3% of the PBB Group's total liabilities.

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Information Memorandum**Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes****(vi) Debt Securities**

The following table sets out the debt securities of the PBB Group as at 30 June 2013 and 31 December 2012:

	Unaudited As At 30 June 2013 (RM million)	Audited As at 31 December 2012 (RM million)
Senior medium term notes under the RM5.0 billion Senior Medium Term Notes Programme		
- RM400 million due in 2018	400.0	-
Subordinated notes issued under the RM5.0 billion Subordinated Medium Term Notes Programme		
- RM1,400 million due in 2018, callable with step-up in 2013	-	1,399.8
- RM473 million due in 2019, callable with step-up in 2014	472.9	472.8
- RM3,000 million due in 2022, callable in 2017	2,998.0	2,997.7
Innovative Tier I Capital Securities		
- USD200 million due in 2036, callable with step-up in 2016	633.8	611.0
- RM1,200 million due in 2036, callable with step-up in 2016	1,199.4	1,199.3
RM2,088 million Non-Innovative Tier I Stapled Securities issued under the RM5.0 billion Non-Innovative Tier I Stapled Securities Programme callable in 2019	2,083.5	2,083.2
	7,787.6	8,763.8
Unrealised fair value loss arising from fair value hedge	240.4	318.2
	<u>8,028.0</u>	<u>9,082.0</u>

Capital Adequacy

As at 30 June 2013, the PBB Group's Common Equity Tier I ("CET I") capital ratio (the ratio of CET I capital to risk-weighted assets), Tier I capital ratio (the ratio of Tier I capital to risk-weighted assets) and total capital ratio (the ratio of the capital base to risk-weighted assets) before deducting the interim dividend were 9.0%, 10.8% and 13.2% respectively, and PBB's CET I ratio, Tier I capital ratio and total capital ratio before deducting the said interim dividend were 10.8%, 12.9% and 12.9% respectively.

The capital adequacy ratios of the PBB Group consist of total capital and risk-weighted assets derived from consolidated balances of PBB and its subsidiary companies. The capital adequacy ratios of PBB consist of total capital and risk-weighted assets derived from PBB and from its wholly-owned offshore banking subsidiary company, Public Bank (L) Ltd.

With effect from 1 January 2008, the PBB Group and PBB have adopted the revised Risk-Weighted Capital Adequacy Framework (Basel II) ("Basel II Framework") issued by BNM. Under the Basel II Framework, the PBB Group and PBB have adopted the standardised approach for credit risk and market risk, and the basic indicator approach for operational risk. The amount of risk-weighted assets is derived as the sum of (i) the credit risk-weighted amount of on-balance sheet exposures and credit equivalent of off-balance sheet exposures, (ii) the risk-weighted asset equivalent for market risk of the PBB Group and PBB's trading book positions and (iii) the risk-weighted asset equivalent for operational risk. The risk weights and credit conversion factors for off-balance sheet credit equivalents are based on guidelines issued by BNM.

On 28 November 2012, BNM issued the CA Framework which was based on the Basel III, with a phased implementation timeline commencing 1 January 2013, and full phase-in by 1 January 2019. Under the CA Framework, the minimum capital adequacy ratios are progressively increased with phased introduction of new capital conservation buffer. The CA Framework also

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introduced additional capital deductions from CET I. Tier I and Tier II capital instruments which do not contain stringent write-off and conservation features will be gradually phased-out. The CET I ratio of the PBB Group based on the CA Framework requirements as at 30 June 2013 is 9.0%, which is above the minimum the CA Framework requirement of 7.0% of which is fully effective 1 January 2019. The 7.0% minimum requirement by the CA Framework is inclusive of the capital conservation buffer of 2.5% and excludes the counter-cyclical buffer and any other buffers yet to be introduced by BNM.

The Group is well-positioned to sustain its capital ratios above BNM's CA Framework minimum requirements based on its strong earnings-generating capacity.

The following table sets out the capital adequacy ratios of the PBB Group as at 30 June 2013, 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 ^[1] (RM million)	Audited As At 31 December 2012 ^{[2], [3]} (RM million)	Audited As At 31 December 2011 ^[2] (RM million)
<u>Tier I Capital</u>			
Paid-up share capital	3,531.9	3,531.9	3,531.9
Share premium	1,073.3	1,073.3	1,073.3
Other reserves	4,248.9	3,965.3	3,955.3
Retained profits	10,006.3	9,453.7	7,276.8
Treasury shares	(215.6)	(215.6)	(215.6)
Qualifying non-controlling interests	492.6	699.9	697.5
Less: Goodwill	(1,966.3)	(1,899.9)	(1,939.0)
Less: Deferred tax assets, net	(65.6)	(64.9)	(46.0)
Less: Defined benefit pension fund assets	(120.1)	-	-
Total CET I Capital	16,985.4	16,543.7	14,334.2
Innovative Tier I capital securities	1,630.4	1,810.3	1,833.3
Non-Innovative Tier I stapled securities	1,879.2	2,083.2	2,082.4
Qualifying CET I and additional Tier I capital instruments held by third parties	40.5	-	-
Total Tier I capital	20,535.5	20,437.2	18,249.9
<u>Tier II Capital</u>			
Collective assessment allowance and regulatory reserves ^[4]	1,120.7	1,038.4	1,073.3
Subordinated notes	3,470.9	4,870.3	6,138.3
Qualifying CET I and additional Tier I and Tier II capital instruments held by third parties	54.0	-	-
Less: Investment in banking/insurance subsidiary companies and associated companies	(142.3)	(1.0)	(1.0)
Less: Holdings of other financial institutions' capital instruments	-	(46.8)	(44.4)
Total Tier II capital	4,503.3	5,860.9	7,166.2
Total capital	25,038.8	26,298.1	25,416.1
Risk-weighted assets	189,741.7	179,526.9	163,027.3
<u>Before deducting interim dividends</u>			
CET I capital ratio	9.0%	N/A	N/A
Tier I capital ratio	10.8%	11.4%	11.2%
Total capital ratio	13.2%	14.6%	15.6%

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	Unaudited As At 30 June 2013 ^[1] (RM million)	Audited As At 31 December 2012 ^{[2], [3]} (RM million)	Audited As At 31 December 2011 ^[2] (RM million)
<u>After deducting interim dividends</u>			
CET I capital ratio	8.5%	N/A	N/A
Tier I capital ratio	10.4%	10.8%	10.6%
Total capital ratio	12.8%	14.1%	15.0%

The breakdown of risk-weighted assets of PBB Group by each major risk category as at 30 June 2013, 31 December 2012 and 31 December 2011 are as follows:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 ^[3] (RM million)	Audited As At 31 December 2011 (RM million)
Credit risk	173,815.8	164,080.5	148,664.4
Market risk	1,755.2	1,713.1	1,670.8
Operational risk	14,170.7	13,733.3	12,692.1
Total	189,741.7	179,526.9	163,027.3

Notes:

^[1] Capital ratios were prepared in accordance with CA Framework, which was based on Basel III.

^[2] Capital ratios were prepared in accordance with Risk Weighted Capital Adequacy Framework, which was based on Basel II.

^[3] Exclude reinstatement of financial effects in relation to the adoption of MFRS 119, which was adopted effective 1 January 2013.

^[4] Excludes collective assessment allowance on Impaired Loan restricted from Tier II capital of the PBB Group of RM562,510,000 (31 December 2012: RM491,197,000; 31 December 2011: RM422,707,000).

Includes the PBB Group's qualifying regulatory reserves for non-impaired loans which pertain to Public Bank (Hong Kong) and Public Finance amounting to RM125,719,000 (31 December 2012: N/A, 31 December 2011: N/A).

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The following table sets out the capital adequacy ratios of PBB as at 30 June 2013, 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 ^[1] (RM million)	Audited As At 31 December 2012 ^{[2], [3]} (RM million)	Audited As At 31 December 2011 ^[2] (RM million)
<u>Tier I Capital</u>			
Paid-up share capital	3,531.9	3,531.9	3,531.9
Share premium	1,073.3	1,073.3	1,073.3
Other reserves	3,776.7	3,506.3	3,522.6
Retained profits	9,830.8	9,277.0	7,083.9
Treasury shares	(215.6)	(215.6)	(215.6)
Less: Goodwill	(695.4)	(695.4)	(695.4)
Less: Defined benefits pension fund assets	(116.4)	-	-
Total CET I Capital	17,185.3	16,477.5	14,300.7
Innovative Tier I capital securities	1,630.4	1,810.3	1,833.3
Non-Innovative Tier I stapled securities	1,879.2	2,083.2	2,082.4
Regulatory adjustments on additional Tier I capital	(162.4)	-	-
Total Tier I capital	20,532.5	20,371.0	18,216.4
<u>Tier II Capital</u>			
Collective assessment allowance ^[4]	631.6	691.3	721.9
Subordinated notes	3,470.8	4,870.3	6,138.3
Less: Investment in banking/insurance subsidiary companies and associated companies	(4,102.4)	(4,162.3)	(3,987.3)
Less: Holdings of other financial institutions' capital instruments	-	(46.8)	(44.4)
Total Tier II capital	-	1,352.5	2,828.5
Total capital	20,532.5	21,723.5	21,044.9
Risk-weighted assets	158,927.3	149,774.2	134,887.8
<u>Before deducting interim dividends</u>			
CET I capital ratio	10.8%	N/A	N/A
Tier I capital ratio	12.9%	13.6%	13.5%
Total capital ratio	12.9%	14.5%	15.6%
<u>After deducting interim dividends</u>			
CET I capital ratio	10.3%	N/A	N/A
Tier I capital ratio	12.4%	12.9 %	12.8 %
Total capital ratio	12.4%	13.8 %	14.9 %

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The breakdown of risk-weighted assets of PBB by each major risk category as at 30 June 2013, 31 December 2012 and 31 December 2011 are as follows:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012^[3] (RM million)	Audited As At 31 December 2011 (RM million)
Credit risk	146,245.3	137,279.0	123,065.3
Market risk	2,555.1	2,579.7	2,774.1
Operational risk	10,126.9	9,915.5	9,048.4
Total	158,927.3	149,774.2	134,887.8

^[1] Capital ratios were prepared in accordance with CA Framework, which was based on Basel III.

^[2] Capital ratios were prepared in accordance with Risk Weighted Capital Adequacy Framework, which was based on Basel II.

^[3] Exclude reinstatement of financial effects in relation to the adoption of MFRS 119, which was adopted effective 1 January 2013.

^[4] Excludes collective assessment allowance on Impaired Loan restricted from Tier II capital of PBB of RM423,946,000 (31 December 2012: RM369,214,000; 31 December 2011: RM325,341,000).

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SECTION 7.0 ASSET QUALITY

Loans

The PBB Group has an expanding and diversified loans portfolio, with its largest exposures being loans granted for the purchase of landed property (both residential and non-residential properties), purchase of transport vehicles and for working capital.

As at 30 June 2013, the PBB Group's total outstanding gross loans stood at RM209.4 billion, of which 82.8% were loans granted by PBB. Of the PBB Group's total outstanding gross loans, 93.5% comprised domestic loans. Overseas loans constituted 6.5% of the PBB Group's total outstanding gross loan, of which 5.2% were in Hong Kong. As at 30 June 2013, 92.4% of the PBB Group's loans were denominated in Ringgit Malaysia ("RM" or "Ringgit"), 2.4% denominated in United States Dollars ("USD") and 5.0% denominated in Hong Kong Dollars ("HKD").

Loans by type

The following table sets out a breakdown of the PBB Group's gross loan by product type as at 30 June 2013, 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	Audited As At 31 December 2011 (RM million)
Overdrafts	9,621.2	9,528.8	9,447.5
Term loans/financing			
- Housing loans/financing	64,541.0	59,867.4	51,315.8
- Syndicated term loans/financing	1,880.5	1,974.3	2,318.6
- Hire purchase receivables	43,335.5	42,021.5	38,727.8
- Other term loans/financing	79,310.4	73,633.4	64,851.8
Credit card receivables	1,568.1	1,604.2	1,522.3
Bills receivables	133.9	130.6	85.4
Trust receipts	327.5	324.2	382.9
Claims on customers under acceptance credits	4,024.1	4,020.4	3,936.9
Revolving credits	3,439.4	3,464.2	4,003.3
Staff loans	1,258.6	1,214.2	1,101.7
Gross loans, advances and financing	209,440.2	197,783.2	177,694.0
Less : Allowance for impaired loans and financing			
- collective assessment allowance	(1,557.5)	(1,529.6)	(1,496.0)
- individual assessment allowance	(171.4)	(202.0)	(245.2)
Net loans, advances and financing	207,711.3	196,051.6	175,952.8

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The following table sets out a breakdown of the PBB Group's gross loans by economic purpose as at 30 June 2013, 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	Audited As At 2011 (RM million)
Purchase of securities	5,152.2	4,127.0	1,855.9
Purchase of transport vehicles	43,568.5	42,238.6	38,947.1
Purchase of landed properties	116,744.4	108,286.2	91,177.9
(of which: - residential	65,958.7	61,130.7	52,207.2
- non-residential)	50,785.7	47,155.5	38,970.7
Purchase of fixed assets (excluding landed properties)	254.6	298.6	270.0
Personal use	9,087.8	9,318.1	9,721.8
Credit card	1,568.1	1,604.2	1,522.3
Purchase of consumer durables	16.9	16.7	16.8
Construction	2,616.5	2,493.6	1,899.3
Mergers and acquisitions	223.9	220.0	208.3
Working capital	26,408.4	25,325.7	27,685.5
Other purpose	3,798.9	3,854.5	4,389.1
	<u>209,440.2</u>	<u>197,783.2</u>	<u>177,694.0</u>

Purchase of residential properties

The PBB Group's largest concentration of loans is in loans for the purchase of residential properties ("housing loans"), and loans to this sector comprised 31.5% of the PBB Group's total outstanding gross loans as at 30 June 2013 compared to the Malaysian banking industry average of 27.8% as at 31 May 2013. This reflects the PBB Group's strategy of maintaining housing loans as a core product, providing the PBB Group with both recurring income and opportunities for product bundling and cross-selling. Loans to this sector are principally to individuals for house purchases or to build houses for owner occupation. Loans to this sector are secured by mortgages over the residential property being financed.

The PBB Group has a policy of setting loan to value ratios for housing loans at a maximum of 90.0% of the appraised value of the property to be financed at the time of granting of the housing loan, except for low cost housing, where the maximum loan to value ratios could be higher.

Purchase of non-residential properties

As at 30 June 2013, the second (2nd) largest concentration of the PBB Group's loans was in loans for the purchase of non-residential properties, which include shophouses, factories and warehouses, and comprised 24.2% of the PBB Group's total outstanding gross loans as at that date. Such properties are typically used by business enterprises and companies for their businesses or rented out to business enterprises. The concentration of the PBB Group's loans in this sector reflects the focus of the PBB Group's lending to SMEs. The loans in this sector are secured by mortgages over the non-residential property being financed.

Purchase of transport vehicles

The PBB Group's third (3rd) largest concentration of loans is in loans for the purchase of transport vehicles, primarily passenger vehicles, and comprised 20.8% of the PBB Group's total outstanding gross loans as at 30 June 2013. The PBB Group has a strong domestic market share in this sector, amounting to 26.3% as at 31 May 2013. This strong market share was achieved through the aggressive marketing efforts of PBB's hire purchase centers and branches, the continued development of PBB's relationships with car dealers, the expansion of network of car dealers who refer vehicle purchases to PBB for financing and PBB's competitive passenger vehicle financing packages. Loans to this sector are extended to individuals and business enterprises and are secured by the transport vehicle purchased under the hire purchase agreement.

Working capital

As at 30 June 2013, the fourth (4th) largest concentration of the PBB Group's loans was in loans for working capital purposes, which comprised 12.6% of the PBB Group's total outstanding gross loans as at that date.

Loan maturity profile

As at 30 June 2013, loans maturing in less than one (1) year constituted 13.8% of the PBB Group's total outstanding gross loans, 10.4% of total outstanding gross loans had maturities of one (1) to three (3) years, 9.7% of total outstanding gross loans had maturities of three (3) to five (5) years and 66.1% of total outstanding gross loans had maturities of more than five (5) years. The category of loans with maturities of less than one (1) year includes revolving credits, overdraft facilities and trade financing facilities.

The following table sets out the breakdown of the PBB Group's total gross loan by remaining maturity as at 30 June 2013, 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	Audited As At 31 December 2011 (RM million)
Maturity within one year	28,989.3	26,478.9	28,165.2
One year to less than three years	21,781.0	22,671.4	16,730.3
Three years to less than five years	20,294.2	18,899.5	19,594.4
Five years and above	138,375.7	129,733.4	113,204.1
	<u>209,440.2</u>	<u>197,783.2</u>	<u>177,694.0</u>

Twenty (20) Largest Borrowers

As at 30 June 2013, the PBB Group's twenty (20) largest borrowers accounted for RM17.1 billion or 8.2% of total outstanding gross loans. Most of these borrowers were domestic conglomerates with diversified business activities such as business services, real estate, construction, manufacturing and trading.

Credit Approval Procedures

The PBB Group's credit risk management aims to maintain superior asset quality to enhance shareholder value and confidence and to ensure compliance with BNM guidelines. The PBB Group seeks to achieve this through, inter-alia, a multi-level credit approval process and credit policies and procedures which comply with BNM's best practices for the management of credit risk.

Approval Process

Lending authority for credit facilities is determined in accordance with the discretionary powers granted to the approving authority by PBB's Board. The lending authority of officers at branch level is lower than that of officers at Head Office of a similar grade. For loans approved at branch level, the lending authority is dependent on the grade of the branch managers and business managers approving the loan application. For loans submitted to Head Office for approval, the lending authority ranges from the discretionary powers given to assistant managers up to that of the Credit Committee to approve loan applications, with increasingly higher levels of discretionary powers corresponding to the levels of seniority of the approving authority. The applicable level of loan approval is dependent on the types of credit facilities, aggregation of credit lines or facilities and PBB's total exposure to each customer.

Impaired Loans

Loans are classified as Impaired Loan when they fulfill any of the following criteria:

- (i) Principal or interest or both are past due for three (3) months or more;
- (ii) Where a loan is in arrears for less than three (3) months, the loan exhibits indications of significant credit weaknesses; or
- (iii) Where an Impaired Loan has been rescheduled or restructured, the loan continues to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

For the determination of impairment on loans, PBB and the PBB Group assess at each reporting date whether there is any objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (ie. an "incurred loss event") and that loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

The criteria that the PBB Group uses to determine that there is objective evidence of an impairment includes:

- (i) Any significant financial difficulty of the issuer or obligor;
- (ii) A breach of contract, such as a default or delinquency in interest/profit or principal payments;
- (iii) High probability of bankruptcy or other financial reorganisation of the obligor;
- (iv) Concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; and
- (v) Any adverse news or developments affecting the local economic conditions or business environment of the borrower which will adversely affect the repayment capacity of the borrower.

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The PBB Group first assesses individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Estimates of fair value of collateral for gross loans are based on the value the collateral assessed at the time of loan application, and are updated whenever there is new information available or when a loan/financing is classified as impaired.

Collective assessment of loans is performed via grouping of loans on the basis of similar credit risk characteristics. Future cash flows of each of these groups of loans are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment impairment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

The PBB Group seeks to prevent loans from becoming impaired through early detection and proactive remedial actions. The PBB Group maintains a watch list of accounts and close attention accounts with a higher probability of default in order to identify and monitor potential impaired accounts, tracking information such as outstanding loan balances, interest and principal payments, targeted actions and responses and other information about the borrower. Generally, once the PBB Group is concerned about a particular loan, a higher frequency of reviews and proactive management of the relevant account is undertaken.

The following table sets out the credit quality of gross loans of the PBB Group's total outstanding gross loan:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	2011 (RM million)
Neither past due nor impaired	185,397.8	174,605.8	155,451.8
Past due but not impaired	22,639.4	21,803.3	20,712.5
Impaired	<u>1,403.0</u>	<u>1,374.1</u>	<u>1,529.7</u>
	<u>209,440.2</u>	<u>197,783.2</u>	<u>177,694.0</u>

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The following table sets out the movements in the PBB Group's allowance for bad and doubtful debts for the financial half year ended 30 June 2013, FYE 31 December 2012 and 2011:

	Unaudited 30 June 2013 (RM million)	Audited 2012 (RM million)	Audited 2011 (RM million)
Collective Assessment Allowance			
At 1 January	1,529.6	1,496.0	1,415.0
Allowance made during the period/year	145.3	279.2	335.8
Amount written off	(118.9)	(244.0)	(256.0)
Exchange differences	1.5	(1.6)	1.2
At 30 June/31 December	<u>1,557.5</u>	<u>1,529.6</u>	<u>1,496.0</u>

	Unaudited 30 June 2013 (RM million)	Audited 2012 (RM million)	Audited 2011 (RM million)
Individual Assessment Allowance			
At 1 January	202.0	245.2	264.9
Net allowance made during the period/year	113.2	194.9	220.5
Allowance made during the period/year	118.5	246.9	269.6
Amount written back in respect of recoveries	(5.3)	(52.0)	(49.1)
Amount written off	(150.0)	(231.3)	(253.1)
Amount transferred to allowance for impairment loss on foreclosed properties	-	(1.4)	-
Exchange differences	6.2	(5.4)	12.9
At 30 June/31 December	<u>171.4</u>	<u>202.0</u>	<u>245.2</u>

Write-Off Policy

Banks may write-off an uncollectible loan if, having taken into consideration the realisable value of any collateral, there is no realistic prospect of recovery. Write-offs of all loans must be approved by PBB's Board. Losses incurred from write-offs are tax deductible only if it can be shown that all legally available and necessary steps for recovery had been taken.

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Information Memorandum**Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes****Profile of Impaired Loans**

The PBB Group's gross Impaired Loans stood at RM1.4 billion as at 30 June 2013. The ratio of gross Impaired Loans to total loans was 0.7%. Based on BNM statistics as at 31 May 2013, the ratio of gross Impaired Loans to total loans for the Malaysian banking industry was 2.0%.

Shown in the table below are the PBB Group's total Impaired Loans and Impaired Loan ratios for the financial half year ended 30 June 2013, the FYE 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	Audited As At 31 December 2011 (RM million)
Gross loans	209,440.2	197,783.2	177,694.0
Impaired Loans	1,403.0	1,374.1	1,529.7
Allowance for Impaired Loans and financing			
- collective assessment allowance	1,557.5	1,529.6	1,496.0
- individual assessment allowance	171.4	202.0	245.2
	<u>1,728.9</u>	<u>1,731.6</u>	<u>1,741.2</u>

Ratios:

Gross Impaired Loan ratio	0.7%	0.7%	0.9%
Loan loss reserve	123.2%	126.0%	113.8%

Impaired Loans by economic purpose

The table below sets out the PBB Group's Impaired Loans by economic purpose as at 30 June 2013, 31 December 2012 and 31 December 2011:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	Audited As At 31 December 2011 (RM million)
Purchase of securities	5.5	5.8	5.9
Purchase of transport vehicles	318.2	263.3	267.8
Purchase of landed properties	606.1	591.8	660.0
(of which: - residential	470.7	420.3	466.2
- non-residential)	135.4	171.5	193.8
Purchase of fixed assets (excluding landed properties)	6.2	6.2	6.2
Personal use	171.6	165.2	176.8
Credit card	24.7	23.4	22.3
Purchase of consumer durables	0.4	0.4	-
Construction	9.1	14.1	33.7
Working capital	245.3	283.9	329.6
Other purpose	15.9	20.0	27.4
	<u>1,403.0</u>	<u>1,374.1</u>	<u>1,529.7</u>

Portfolio of Securities

The PBB Group's securities portfolios are classified as financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity as follows:

(i) Financial assets held-for-trading

Financial assets are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short-term price movement or to lock in arbitrage profits. Financial assets held-for-trading will be stated at fair value and any gains or losses arising from a change in their fair values and the derecognition of financial assets held-for-trading are recognised in the income statement.

As at 30 June 2013, the financial assets held-for-trading constituted 4.5% of the PBB Group's total assets. The PBB Group's financial assets held-for-trading comprised mainly NIDs (77.4%) and government securities and treasury bills (14.9%).

(ii) Financial investments available-for-sale

Financial investments available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. Financial investments available-for-sale are measured at fair value or at amortised cost (less impairment losses) if the fair value cannot be reliably measured. Any gains or losses arising from a change in fair value is recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

As at 30 June 2013, the financial investments available-for-sale constituted 5.2% of the PBB Group's total assets. The PBB Group's securities available-for-sale comprised mainly of government securities and treasury bills (52.7%) as well as unit trust funds (32.8%).

(iii) Financial investments held-to-maturity

Financial investments held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the PBB Group intends and has the ability to hold to maturity. Financial investments held-to-maturity are measured at accreted/amortised cost based on the effective yield method. Amortisation of premium, accretion of discount and impairment as well as gains or losses arising from derecognition of financial investments held-to-maturity are recognised in the income statement.

As at 30 June 2013, financial investments held-to-maturity constituted 2.3% of the PBB Group's total assets. The PBB Group's financial investments held-to-maturity comprised mainly of government securities and treasury bills (57.1%) and NIDs (26.5%).

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Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes

The financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity of the PBB Group are as follows:

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	Audited As At 2011 (RM million)
FINANCIAL ASSETS HELD-FOR-TRADING			
At fair value			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	-	68.3	-
Malaysian Government Securities	160.9	141.4	350.5
Malaysian Government Investment Certificates	578.6	193.4	334.0
Bank Negara Malaysia Monetary Notes	1,230.0	3,424.3	226.5
Bank Negara Malaysia Bills	-	149.7	-
	<u>1,969.5</u>	<u>3,977.1</u>	<u>911.0</u>
Money market instruments:			
Negotiable instruments of deposit	<u>10,239.8</u>	<u>11,836.2</u>	<u>9,445.2</u>
Non-money market instruments:			
Equity securities			
- Quoted shares in Malaysia	0.2	0.9	0.8
Debt securities			
- Cagamas bonds	95.0	-	-
- Unquoted private debt securities	917.9	802.9	299.8
	<u>1,013.1</u>	<u>803.8</u>	<u>300.6</u>
	<u>13,222.4</u>	<u>16,617.1</u>	<u>10,656.8</u>
FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE			
At fair value			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	1,036.7	845.9	194.7
Malaysian Government Securities	567.8	491.4	500.2
Malaysian Government Investment Certificates	1,305.4	1,389.5	501.1
Bank Negara Malaysia Monetary Notes	5,187.5	7,341.2	8,480.8
	<u>8,097.4</u>	<u>10,068.0</u>	<u>9,676.8</u>
Money market instruments:			
Negotiable instruments of deposits	<u>50.0</u>	<u>-</u>	<u>-</u>
Non-money market instruments:			
Equity securities			
- Quoted shares and convertible loan stocks in Malaysia	17.3	36.2	37.1
- Quoted shares and convertible loan stocks outside Malaysia	11.6	11.0	7.7
- Unquoted shares	109.3	108.4	108.8
Debt securities			
- Unquoted private debt securities	2,042.1	2,014.6	2,072.2
Unit trust funds	5,033.8	4,962.9	4,816.8
	<u>7,214.1</u>	<u>7,133.1</u>	<u>7,042.6</u>
	<u>15,361.5</u>	<u>17,201.1</u>	<u>16,719.4</u>

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Sub-Notes Programme For The Issuance Of Up To RM10.0 Billion In Nominal Value Of Sub-Notes

	Unaudited As At 30 June 2013 (RM million)	Audited As At 31 December 2012 (RM million)	Audited As At 31 December 2011 (RM million)
FINANCIAL INVESTMENTS HELD-TO-MATURITY			
At amortised cost			
Government securities and treasury bills:			
Malaysian Government Treasury Bills	29.5	-	9.9
Malaysian Government Securities	1,069.8	1,139.8	1,355.1
Malaysian Government Investment Certificates	1,941.0	1,739.2	702.1
Foreign government treasury bills	832.3	727.3	707.3
	<u>3,872.6</u>	<u>3,606.3</u>	<u>2,774.4</u>
Money market instruments:			
Negotiable instruments of deposit	1,794.7	1,717.2	1,281.2
Bankers' acceptances and Islamic accepted bills	226.0	299.4	3,011.1
	<u>2,020.7</u>	<u>2,016.6</u>	<u>4,292.3</u>
Non-money market instruments:			
Debt securities			
- Cagamas bonds	5.1	5.1	20.2
- Unquoted private debt securities	879.0	629.9	543.4
	<u>884.1</u>	<u>635.0</u>	<u>563.6</u>
Accumulated impairment losses	(0.1)	(0.1)	(1.1)
	<u>6,777.3</u>	<u>6,257.8</u>	<u>7,629.2</u>

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SECTION 8.0 RISK MANAGEMENT

The PBB Group's business activities expose the PBB Group to a variety of financial risks, mainly credit risk, market risk and liquidity risk.

The PBB Group's financial risk management is underpinned by the PBB Group's risk appetite and is subject to the Board's oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC"), the Operational Risk Management Committee ("ORMC") and the Internal Capital Adequacy Assessment Process ("ICAAP") Working Group.

Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In addition, the market risk of Islamic banking activities of the PBB Group includes rate of return risk and displaced commercial risk.

Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the PBB Group's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risk remains within established risk tolerance level. The market risk of the PBB Group is identified into traded market risk and non-traded market risk.

Types of Market Risk

(i) Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exists in the PBB Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are primarily originated by the treasury operations.

Risk Management Approach

The PBB Group's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. The PBB Group's traded market risk for its interest rate/rate of return sensitive fixed income instruments is measured by the present value of 1 basis point change ("PV01") and independently reviewed by the Compliance Unit on a daily basis against approved market risk limits and report on limit excesses. In addition, the Compliance Unit also conducts independent verification on the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by the Risk Management Division. Changes to market risk limits must be approved by the Board. The trading book positions and limits are regularly reported to the ALCO. The PBB Group maintains its policy of prohibiting exposures in trading financial derivative positions unless with the prior specific approval of the Board.

(ii) *Non-Traded Market Risk*

The PBB Group's core non-traded market risks are interest rate/rate of return risk in the banking book, displaced commercial risk in the PBB Group's Islamic banking business, foreign exchange risk and equity risk.

Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

IRR/RoRBB is the risk to the PBB Group's earnings and economic value of equity ("EVE") arising from adverse movements in the interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the PBB Group's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such hedging activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities, the acquisition of new financial assets and liabilities to narrow the mismatch in the interest rate/rate of return sensitive assets and liabilities and entering into derivative financial instruments which have the opposite effects. The use of derivative financial instruments to hedge the interest rate risk is set out in Note 6 of the audited financial statements of the PBB Group for the FYE 31 December 2012.

The PBB Group uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

Liquidity And Funding Risk

Liquidity risk is the risk that the PBB Group is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the PBB Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the PBB Group is aligned with the New Liquidity Framework issued by BNM, and is measured and managed based on projected cash flows. In addition to ensuring compliance with the New Liquidity Framework, the PBB Group maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flows and the replenishment of funds as they matured or are borrowed by/financed to the customers.

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The PBB Group's liquidity and funding position is supported by the PBB Group's significant retail deposit base, accompanied by funding from wholesale markets. The PBB Group's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The PBB Group's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity. The PBB Group accesses the wholesale markets through the issuance of certificate of deposits and the taking of money market deposits to meet short-term obligations and to maintain its presence in the local money markets.

The primary tools for monitoring liquidity are the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the ALCO on a monthly basis in Ringgit Malaysia and United States Dollars.

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed by the various entities under the PBB Group to determine the cash flows mismatches under the "Specific Institution Liquidity Problem" and "Systemic Liquidity Problem" scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Overseas subsidiary companies and overseas branches are required to comply with their respective local regulatory liquidity requirements and internal liquidity limits set by Head Office. Similar risk management processes as practiced by PBB are adopted by its overseas subsidiary companies and overseas branches. It is the PBB Group's policy that the overseas subsidiary companies and overseas branches strive to attain a self-funding position in funding their respective operations.

Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the PBB Group's primary business is in commercial banking, the PBB Group's exposure to credit risk is primarily from its lending and financing to retail consumers, SMEs and corporate customers. Trading and investing the surplus funds of the PBB Group, such as trading or holding of debt securities, deposit placements, settlement of transactions, also expose the PBB Group to credit risk and counterparty credit risk.

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews PBB Group's credit risk framework and policies, credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

Risk Management Approach

The PBB Group's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the PBB Group's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing group-wide risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The Board of Directors of the respective entities has the authority to reject or modify the terms and conditions of loans which have been approved by the Credit Committee. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable for the PBB Group as it is inherent in its business operations. The objective of the operational risk management of the PBB Group is to manage its operational risk within an acceptable level.

Risk Governance

The PBB Group's operational risk management is guided by the PBB Group's Risk Management Framework and the PBB Group's operational risk management policies which are designed to provide a sound and well-controlled operational environment within the PBB Group. The PBB Group's Risk Management Framework sets out the PBB Group's approach to identifying, assessing, monitoring and mitigating operational risk.

The Board, through RMC, maintains overall responsibility for risk oversight within the PBB Group. The ORMC assists the RMC in operational risk management oversight. The ORMC is responsible for assessing the effectiveness of risk management policies and processes in relation to operational risk. To ensure effective oversight and management of operational risk, dedicated independent risk management and control units are put in place for ensuring the operational risk management policies, guidelines, procedures and limits are implemented and complied with.

The various business units are responsible for identifying, managing and mitigating operational risks within their lines of business and ensure that their business activities are carried out within the established operational risk management policies, guidelines, procedures and limits.

Risk Management Approach

The day-to-day management of operational risk exposures is through a comprehensive system of internal controls to ensure that operational policies, guidelines and procedures are being adhered to at all levels throughout the PBB Group. As events and business conditions evolve, the PBB Group continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

(i) Tools and Methods for Risk Mitigation

The PBB Group employs the following key methods to mitigate its operational risk:

- System of internal controls based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes;
- Documented operational risk management policies and procedural manuals to mitigate errors by users;

- Processes to ensure compliance with internal policies, guidelines, controls and procedures and appropriate punitive actions are taken against errant staff;
- Periodic review and enhancement of operational risk limits and control effectiveness;
- Disaster recovery and business continuity plans put in place to mitigate risk and manage the impact of loss events;
- Insurance coverage to mitigate risk of high impact loss events, where appropriate; and
- Review of outsourcing activities to ensure that service providers adhere to the terms and conditions in the service agreement and that their integrity and service quality are not compromised.

To monitor and mitigate operational risk, the PBB Group uses various tools including:

- Control self-assessment – to enhance management assessment of the state of the control environment;
- Key risk indicators – to collect statistical data on an ongoing basis to facilitate early detection of operational control deficiencies; and
- Operational risk incident reporting and data collection – to facilitate an enhanced analysis and timely reporting of operational risk data which are useful in assessing the PBB Group's operational risk exposure and in strengthening the internal control environment.

(ii) Reporting

Reporting forms an essential part of operational risk management. The PBB Group's risk management processes are designed to ensure that operational issues are identified, escalated and managed on a timely manner.

Operational risk areas for the key business and control units are reported through monthly operational risk management reports, which provide analyses and action plans for each significant business operation. The operational risk areas considered include premises controls and safety, losses due to fraud or control lapses, system availability, disaster recovery and business continuity plan simulations, outsourcing activities and legal actions taken against the PBB Group. The operational risk management reports are tabled to the ORMC and the RMC for deliberations.

SECTION 9.0 THE MALAYSIAN ECONOMY: REVIEW AND OUTLOOK

The Malaysian Economy in the Second Quarter of 2013

The global economy continued to experience modest growth in the second quarter. In the advanced economies, economic activity remained weak, constrained by fiscal adjustments, sluggish labour markets and impaired financial intermediation. In the emerging economies, while domestic demand continued to be an important source of growth, the prolonged weakness in the external environment had begun to affect domestic activity.

While domestic demand in Malaysia has remained strong, the prolonged weakness in the external sector has affected the overall growth performance. In the second quarter, the Malaysian economy expanded by 4.3% (1Q 2013: 4.1%). Private consumption continued to expand, while the growth in gross fixed capital formation was supported by investment activities of the private sector and public enterprises. Exports registered a larger decline, amid weakness across most export products.

On the supply side, the services and manufacturing sectors continued to expand, driven largely by sub-sectors catering to the domestic market. Growth of the mining sector rebounded following higher production of both natural gas and crude oil. However, the agriculture sector moderated, weighed down by a sharp reduction in natural rubber output and slower growth in crude palm oil production. In the construction sector, growth remained firm, led by the civil engineering and residential sub-sectors.

The headline inflation rate was higher at 1.8% in the second quarter (1Q 2013: 1.5%). The increase was attributed mainly to price increases in the food and non-alcoholic beverages and housing, water, electricity, gas and other fuels categories. Employment conditions improved during the quarter, with total employment level averaging 13.08 million persons during the first two months of the quarter, representing a net job gain of 244,000 persons compared to the previous quarter. However, the unemployment rate increased marginally to 3.2% in April-May (1Q 2013: 3.1%).

The current account surplus amounted to RM2.6 billion in the second quarter (1Q 2013: RM8.7 billion), equivalent to 1.1% of gross national income (1Q 2013: 3.9%), due to a lower goods surplus as well as sustained services deficit and outflows in the income accounts. International reserves remained high. As at 31 July 2013, the reserves position amounted to RM438.3 billion (equivalent to USD137.8 billion), sufficient to finance 9.7 months of retained imports and is 3.8 times the short-term external debt.

Outlook for the Malaysian Economy

Going forward, the global economy continues to face downside risks, emanating from developments in several major economies. Policy uncertainty surrounding the quantitative easing programme in the US and European sovereign debt concerns are expected to weigh on market sentiment and growth prospects. While overall growth performance in most emerging economies, including in Asia, will be affected by these developments, domestic demand will continue to support the overall growth performance. The growth prospects are also being augmented by targeted policy measures.

For the Malaysian economy, while domestic demand is expected to remain firm, supported by sustained private consumption, capital spending in the domestic-oriented industries and the ongoing implementation of infrastructure projects, the weak external sector in the first half of this year will affect overall growth performance for the year. For 2013, the overall growth of the economy has been revised to 4.5% to 5.0%.

The Malaysian Banking Sector in the Second Quarter of 2013

The domestic financial system remained resilient throughout the second quarter amid episodes of higher volatility in the global and domestic financial markets. Domestic financial

intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

The banking system remained well-capitalised, with the common equity Tier I capital ratio, Tier I capital ratio and total capital ratio remaining well above the Basel III requirements at 11.7%, 12.6% and 13.8%, respectively. Liquidity in the banking system continued to remain ample, with banks maintaining substantial placements with BNM. Credit risk in the banking system remained stable throughout the quarter amid sustained debt servicing capacity of borrowers. As at end-June 2013, the ratio of net impaired loans declined further to 1.3% (1Q 2013: 1.4%).

Banking system loans expanded at an annual growth rate of 9.1% as at end-June (end-March 2013: 10.6%). On an annual basis, the growth of business loans outstanding moderated to 8.2% during the quarter (end-March 2013: 11.7%). Household loans outstanding grew at a slower pace of 11.8% as at end-June (end-March 2013: 12.1%). Household demand for loans remained resilient during the quarter, with continued loan applications for the purchase of residential and non-residential properties, as well as for credit card facilities.

The Overnight Policy Rate was maintained at 3.00% during the second quarter of 2013. At the prevailing level of the Overnight Policy Rate, monetary conditions remain supportive of economic activity. Retail deposit rates were stable during the quarter. As at end-June 2013, the average quoted fixed deposit rates of commercial banks for the tenures 1 to 12 months ranged between 2.91% to 3.15%, respectively. Borrowing costs were also broadly stable throughout the period. The average base lending rate of commercial banks remained unchanged at 6.53%. Borrowing costs for businesses and households remained supportive of economic activity as lending rates continued to be below the levels prior to the global financial crisis.

The market risk of financial institutions remained stable as volatility in short-term capital flows continued to be well-intermediated by the financial system. Also, the potential risks emanating from financial institutions' direct exposures to Europe and deleveraging by European financial institutions remained low, with negligible adverse effects on domestic financial intermediation.

On 5 July 2013, BNM introduced a set of measures to further promote a sound and sustainable household sector. These measures are aimed at preventing the level of household indebtedness from becoming excessive, and to reinforce responsible lending practices by key credit providers. The measures limit the maximum tenure for personal financing to 10 years and loans for purchase of residential and non-residential properties to 35 years. The offering of pre-approved personal financing products is also prohibited. The measures also include the regulation requiring credit providers to observe a prudent debt service ratio in their credit assessment that preserves sufficient financial buffers to protect household against rising costs and unexpected adverse events. These will be complemented with the intensification of financial education initiatives.

Outlook for the Malaysian Banking Sector

The financial system continues to demonstrate resilience against the challenging external environment, with financial intermediation expected to continue provide strong support to domestic economic activity.

While the external environment is expected to remain challenging, potential risks to domestic financial stability will mainly be from a general weakness in the external economic conditions which is transmitted through the trade channel. The Malaysian financial sector is well placed to cope with such adverse external developments given the strong financial buffers of financial institutions, comprehensive institutional arrangements in place for responding to system-wide risks, and most importantly, the sound and continuous improvements in credit market and operational risk management practices of banks. Liquidity and funding conditions are also expected to remain supportive of the domestic intermediation.

(Sources: Quarterly Bulletin, Second Quarter 2013, Bank Negara Malaysia; Siaran Akhbar, Bank Negara Malaysia Financial Stability and Payment Systems Report 2012; Siaran Akhbar, Bank Negara Malaysia Annual Report 2012)

SECTION 10.0 OTHER INFORMATION

10.1 Material Litigation

As at 30 June 2013, PBB is not engaged in any litigation, either as plaintiff or defendant in any legal action, proceeding, arbitration or prosecution for any criminal offence which has a material effect on the financial position of PBB. The directors of PBB do not know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings, which may materially and adversely affect the position or the business of PBB.

10.2 Material Contracts Outside the Ordinary Course of Business

PBB has not entered into any material contracts which are outside its ordinary course of business.

10.3 Material Contingent Liabilities and Material Capital Commitment

Save as those disclosed in PBB's unaudited interim financial statement for the half year ended 30 June 2013 and audited financial statements for the FYE 31 December 2012, the directors of PBB are not aware of any material contingent liabilities and material capital commitment, which upon becoming enforceable may have substantial impact on the financial position and the business of PBB.

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**Appendix I – Unaudited Interim Financial Statements of PBB
for the Half Year Ended 30 June 2013**

Appendix II – Audited Financial Statements of PBB for the FYE 31 December 2012

ISSUER

PUBLIC BANK BERHAD
27th Floor, Menara Public Bank
146, Jalan Ampang
50450 Kuala Lumpur

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CENTRAL DEPOSITORY AND PAYING AGENT

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