

HLB FIRST QUARTER PRE-TAX PROFITS AT RM198 MILLION

Strong Earnings Traction for 1st Quarter

The Bank Group's revenue growth momentum continues. **Net interest income was up 25%** against last corresponding quarter with the **net interest margin widening to 2.2%** from 1.8%. The core stream of non interest income was consistent with the corresponding quarter last year, but non interest income overall came in slightly lower at RM88 million after accounting for mark-to-market losses on derivatives and a lower advisory income from IPO deals. Overall, **net income was up 11%, coming in strongly at RM422 million.**

Business Transformation initiatives remain work-in-progress and leading indicators are positive although operating expenses on infrastructure and people are increasing, but this is to support future revenue growth streams and greater sustainability as the franchise grows.

Pre-provision profit before tax was up 9% against last corresponding quarter, evidencing stronger fundamentals and competitiveness as the Bank moves into its next transformation phase. The adoption of additional provisioning for non-performing loans of 5 to 7 years and over 7 years as per regulatory stipulations, however brought the **pre-tax profit to RM198 million** or level with the corresponding quarter's pre-tax profits.

The Bank should continue to deliver a sustainable profit stream on a platform of ongoing Business Transformation initiatives that focus on high performance, portfolio and business alignment, structural innovations and new capabilities.

Strengthening Domestic Core Business

Total Assets expanded to RM 61.3 billion, up 1.2% q-o-q from RM 60.6 billion in the previous quarter. Of this, **loans, advances and financing grew to RM 28.9 billion overall**, up 1.3% q-o-q or **11.4% y-o-y**, with key market share gains through consumer loans growth in the financing of landed properties (up 5.2% q-o-q) and credit cards (up 13.4% q-o-q) whilst purchase of transport vehicles declined slightly by 2.6% q-o-q, reflecting the market environment.

We continued to grow our **deposits franchise**, with deposits from customers **growing 1.7% q-o-q** or **4.5% y-o-y to RM 45.0 billion** with the retail portion strengthening to 62% of the total deposit base.

Expansion of our customer segments and products continued despite the competition.

Asset quality maintained

The quality of loan assets remained healthy, with **gross NPL ratio improving to 4.5%** (4.7% last June 2006) and **net NPL ratio lowering to 2.8%** (3.1% last June 2006). Both ratios are expected to remain below the industry. The loan loss coverage ratio has also further improved to 71.9% (65% last June 2006).

The ratios evidence the strong asset quality mantra at the Group, underscored by prudent lending and collection practices, complemented by effective risk management.

Strong Capital Position

The **Group's core capital and total capital ratio** (after deducting proposed dividends) stood at **12.98% and 16.31%**, versus end June 2006 ratios of 13.24% and 17.00%. Share buy-backs stood at 75,175,200 (4.8%) of the Bank's issued share capital as at end 30 September 2006. They have been held as treasury shares and none were resold or cancelled to date.

Structural Changes to Accelerate Momentum of Key Business Pillars

The convergence of the Business Banking, Trade, Debt Capital Market and Treasury businesses offered a compelling need to re-organise them into a Wholesale Banking division. Platform readiness and structural preparedness for Wholesale Banking was pursued, and Wholesale Banking as a Strategic Business Division commenced in August 2006, shortly after the fiscal year end. The focus is on solutioning and structured finance beyond lending, and to drive fee income. The Group is building these new capabilities.

Personal Financial Services has continued to innovate to introduce new, relevant products and services to the market, and they include notably:

- The re-launch of the **Hong Leong Platinum Credit Card** with distinct, superior propositions to the core premium customers; and
- The launch of **Hong Leong InvestSafe**, an innovative investment product in collaboration with Amanah Raya Berhad (AmanahRaya).
- The launch of **Hong Leong Personal Loan**, a monthly installment loan product that offers fast loan approval within 48 hours nationwide. This product is designed to help customers meet financial needs such as home renovations, education fees, weddings, travel and house down payment;
- A new stand-alone **Priority Banking Center** in Damansara Heights, Kuala Lumpur to cater for the affluent segment was also opened in September 2006.

Scaling Up Islamic Banking

Net profit before tax and zakat from Islamic banking was RM 18.9 million for the first quarter, up 10% from the corresponding quarter. The higher profit was delivered through a combination of:

- Higher income derived from investments from depositors and shareholders funds;
- Lower operating expenses; and
- Lower specific and general provisions.

Ongoing positioning efforts focused on infrastructure building for Islamic Investment Banking and Wealth Management capabilities in Hong Leong Islamic Bank Berhad, its wholly-owned subsidiary.

The Group's new Takaful subsidiary, Hong Leong Tokio Marine Takaful Bhd is expected to commence operations by the end of 2006.

Dividend

The Board has not recommended any dividend for the 1st quarter interim results.

For further details, visit www.hlb.com.my or www.bursamalaysia.com

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