

## HONG LEONG BANK GROUP FULL YEAR PROFITS CROSS RM 1 BILLION

### **RM 1 billion profits milestone**

Hong Leong Bank Group ("Group") has achieved its first billion pre-tax profit at RM 1.01 billion for its full financial year results ended 30 June 2008.

The full year pre-tax profit rose by RM 153 million, up 18%, vs RM 857 million for the same corresponding period last year.

Shareholder value creation strengthened in tandem, with returns on shareholder funds (ROSF) advancing 150 basis points to 15.3%, compared to 13.8% reported for the whole 12 months last fiscal year. Earnings per share (EPS) expanded by 21% to 51.2 sen compared to 42.4 sen last fiscal year. Similarly, net assets per share rose by 33 sen to RM 3.51 compared to RM 3.18 as of June 2007.

"In the last 4 years since we laid out our Business Transformation agenda, pre-tax profits has grown almost two-folds from RM 529 million in FY04 to over a RM 1 billion today. Returns on shareholder funds are up 610 basis points from 9.2% in FY04 to 15.3%. This financial result is evidence that the efforts to step up and scale up our organic franchise in liberalising banking sector are paying off.

Our Business Transformation agenda is flexible and adaptive, but the core themes of high performance and sustainable, profitable growth remain consistent. We are on track to achieve our twin goals of a strong domestic core franchise and regional embedment,"

remarks Yvonne Chia, Group Managing Director / Chief Executive.

### **Highlights of the Group's full year financial performance**

- Pre-tax profit for FYE Jun 08 rose by 18% y-o-y to RM 1,010 million.
- After-tax profit for FYE Jun 08 expanded by 20% y-o-y to RM 742 million.
- Returns on average shareholder funds increased to 15.3% on an annualised basis, up by 1.5% from 13.8% in FYE Jun 07.
- Earnings per share grew to 51.2 sen from 42.4 sen as compared to last year.
- Return on assets improved by 6 basis points against the same period last year to 1.0%.
- Total net income crossed the RM 2 billion mark, ending at RM 2,018 million, up 14% y-o-y. This was driven by an 18% growth in net interest income, 11% growth in net income from Islamic banking and 5% growth in other operating income (non-interest income).
- Net interest income expansion was driven by a combination of loans growth and margin enhancement from a proactive management of portfolio asset yields and cost of funds. Net interest margin has improved by 25 basis points vs last year.
- Non-interest income also showed improvements at RM 479 million or up 5% y-o-y, from improved earnings from core transactional sources, wealth management, trade finance, forex as well as advisory fees from the Singapore branch.
- Revenue growth was 2.4 times operating expense growth y-o-y, and cost-to-income ratio was flat at 42.1% vs 42.3% for FYE Jun 07.

- Total assets grew 9% y-o-y to RM 77.5 billion.
- Gross loans grew 9% y-o-y.
- Customer deposits grew 10.3% y-o-y.
- Gross non-performing loan (NPL) ratio and net NPL ratio decreased to 2.4% and 1.4% in FYE Jun 08, from 3.2% and 1.9% in the last corresponding year.
- Loan loss coverage expanded to 103.8%, up from 86.6% last year.
- The Group's capital position remained strong, with the risk-weighted capital ratio (RWCR) at 16.4%.

### **Underlying business growth**

Loans growth was broad-based for the year, and the Group ranked among the top 3 for loans interest income growth over the recent 7 quarters.

The competitiveness of the Bank's Personal Financial Services segment continued its pace with mortgage loans financing growing by 10%, credit card receivables by 16% and personal lending by 118% y-o-y. On a cumulative basis for 7 quarters to March 2008, the Personal Financial Services segment ranked as high as number two for share of incremental retail loans in the sector, among all local and foreign banks.

Loans to domestic business enterprises, including corporates and SMEs expanded by 12.4% y-o-y. Trade finance is progressing well, with a market share of 9%. Commercial FX volume expanded 1.7 times, and FX profits were up 1.9 times. Profits from HL Markets, the Group's Treasury operations improved by 1.5 times.

The wealth management business, also driven via the boutique investment banking and

private banking businesses out of the Singapore branch, as well as the Islamic wealth management are emerging growth areas for the Group. For FYE Jun 08, assets under management is at a size of over RM 13 billion. The Group is among the top 4 Institutional Unit Trust Agent (IUTA) in the country today. Investment sales were up 21% vs FY07, while structured investment sales expanded by 2x vs FY07.

The Group's Islamic assets expanded by 31%, and gross Islamic financing advanced by 15.3%.

### **Deposits a core franchise strength**

The Group's embedment in the community continues to be a core strength for deposits growth, especially among individual depositors. Total deposits from customers are at RM 62.5 billion versus RM 56.7 billion as of June 07, or a growth of 10%. The Group is among the top 3 in size for individual deposits today.

Liquidity remains strong and healthy, and the loan to deposit ratio (including short-term corporate placements) stands at 56.7% or 71.8% (excluding short-term corporate placements).

### **Strong asset quality a continuing mantra in the Group**

Asset quality remained strong, with the gross NPL ratio improving to 2.4%, down from 3.2% last June 2007. The net NPL ratio improved to 1.4% from 1.9% last June 2007. Total NPL also fell 19% to RM 840 million, from RM 1,033 million last June 2007.

The loan loss coverage was higher at 103.8%, versus 86.6% last June 2007.

### **Robust capitalisation**

The Bank was able to maintain a strong capital adequacy ratio (RWCR) at 16.4%, and which is in compliance with the new Basel II capital adequacy framework.

Capital management via treasury shares buyback is ongoing, with 5.1% of total issued shares purchased.

### **Talent management**

The Bank has significantly strengthened the bankwide talent pool over the last few years, with new skillsets and capabilities in consumer marketing, customer analytics, risk management and Basel II, wholesale banking and treasury, wealth management, credit, technology and e-banking, as well as Islamic banking and wealth management. The refreshing and upskilling of human resources at the Bank has enabled it to remain highly competitive and relevant to the changing market, and to expand the depth and breadth of the business model.

### **Strong credit ratings**

The Bank had its RAM credit rating for its long and short term financial institution rating re-affirmed at AA2 and P1 while its subsidiary, Hong Leong Islamic Bank was newly rated, same as the mother bank at AA2 and P1.

The Bank is rated A2/P-1 and A3/P-1 by Moody's for its long-term global local currency deposit ratings and foreign currency obligations (at sovereign rating level) respectively. Standard & Poor's rates the Bank's counterparty credit rating at BBB+/Stable/A-2. Fitch Ratings has the Bank's Long-term Foreign Currency Issuer Default Rating (IDR) at 'BBB+' with a stable outlook.

## **Updates on acquisition of 20% shareholding in Chengdu City Commercial Bank**

The acquisition transaction has been completed, and the Bank has been registered as a 20% shareholder in Chengdu City Commercial Bank, Chengdu (“Chengdu Bank”), Sichuan Province, China. This officially marks the first strategic investment of any Malaysian bank into the Chinese banking sector

Hong Leong Bank and Chengdu Bank have put in place a strategic alliance agreement on expert and technical assistance by HLB into Chengdu Bank, as well as training for Chengdu Bank’s personnel. Chengdu Bank’s growth over the long term is potentially the fastest growing franchise for Hong Leong Bank.

## **Dividends**

A final dividend of 15.0 sen per share less income tax of 25% has been proposed for the current quarter, bringing the total dividend for the year to 24.0 sen.

## **Market outlook**

“The Bank is cautiously optimistic on the market outlook. We will remain sensible on our business growth, and strengthen enterprise risk management,” adds Yvonne Chia.

“The underlying business strength is robust and foundations stronger, and we will pursue a balanced growth agenda, with utmost priorities on sustainable, profitable growth through different economic cycles.”

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