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A Resilient Performance through Challenging Times, Shareholder Value Creation Intact

"The financial year ended 30 June 2009 was by any yardstick a tumultuous one. The unfolding of the credit, capital, liquidity and confidence crises globally in 2008 brought about much volatility, risks and changes. The fallout, spilling into 2009 was tremendous. As a sector, we were not immune to the shocks.

We entered 2009 faced with a depressed macro-economic environment that saw the 1st quarter GDP of the country contract by 6.2%. It is against this difficult and challenging environment that the resilient performance of Hong Leong Bank for the 2009 financial year is to be evaluated," reports Yvonne Chia, Group Managing Director / Chief Executive.

"In spite of the challenging environment, Hong Leong Bank ended the financial year ended 2009 with a satisfactory set of results."

Resilience through difficult times

Hong Leong Bank Group ("Group" or "Bank") achieved a pre-tax profit of RM 1.13 billion for its full financial year results ended 30 June 2009. The full year pre-tax profit rose by RM 122 million, up 12%, vs RM 1.01 billion for the same corresponding period last year.

After-tax profit grew RM 163 million, up 22% year-on-year to RM 905 million.

Shareholder value creation remained intact, with returns on shareholder funds (ROSF) advancing 140 basis points to 16.7%, compared to 15.3% reported for the whole 12 months last fiscal year.

Earnings per share (EPS) expanded by 22% to 62.5 sen compared to 51.2 sen last fiscal year. Net assets per share rose by 45 sen to RM 3.96 compared to RM 3.51 as of June 2008.

“The relatively steady financial performance demonstrates the intrinsic value of the Bank, especially its resilience, sustainability, strong customer confidence and support, franchise breadth and depth and competitiveness. We continue to grow shareholder value even though we were running against the headwinds of non-performing loan formation risks and negative growth drivers for much of the financial year,” Ms. Chia continues.

Summary highlights of the Group’s full year financial performance

§ Pre-tax profit for the Financial Year ending June 2009 (“FYE Jun 09”) rose by 12% year-on-year (“y-o-y”) to RM 1,132 million.

§ After-tax profit for FYE Jun 09 expanded by 22% y-o-y to RM 905 million.

§ Returns on average shareholder funds increased to 16.7% on an annualised basis, up by 1.4% from 15.3% in FYE Jun 08.

§ Earnings per share grew to 62.5 sen from 51.2 sen as compared to last year.

§ Return on assets improved by 20 basis points against the same period last year to 1.2%.

§ Total net income, ending at RM 2.1 billion was up 4% y-o-y, despite the revenue challenge from 3 interest rate cuts that took rates to historic lows in the country, an unabated price war and volume contraction.

§ Net interest income contracted slightly by 2% from margin compression and lacklustre volume growth in the difficult economic environment. However, this was offset by a 10%

growth in net income from Islamic banking as well as 19% growth in other operating income (non-interest income).

- Non-interest income rose to RM 570 million or up 19% y-o-y, driven by a 51% expansion in foreign exchange profit and a steady 5% growth in transactional sources and 11% in PFS.

- Revenue growth was 2.4 times operating expense growth y-o-y, and cost-to-income ratio improved to 41.8% against 42.1% last year.

- Total assets grew 2.5% y-o-y to RM 79.4 billion.

- Net loans grew just under 1% y-o-y.

- Customer deposits grew 8% y-o-y.

- Gross non-performing loan (NPL) ratio and net NPL ratio further improved to 2.2% and 1.3% in FYE Jun 09, from 2.4% and 1.4% in the last corresponding year.

- Loan loss coverage expanded to 109.1%, up from 103.8% last year.

- The Group's capital position remained healthy, with the risk-weighted capital ratio (RWCR) at 16.0%.

Deposits and liquidity a core franchise strength

The Group's embedment in the community continues to be a core franchise strength, especially among individual or retail depositors. Total deposits from customers ended at RM 67.6 billion against RM 62.5 billion last year, or a growth of 8%. The Group is among the top 3 in size for individual deposits today (as at March 2009, based on sector statistics).

Liquidity remains strong and healthy, and the loan to deposit ratio (including short-term corporate placements) stands at 52.7% or 63.9% (excluding short-term corporate placements).

Underlying revenue drivers

After experiencing a 2.3% contraction in the Bank's loan books from the first quarter of the fiscal year through to the third quarter, loan growth rebounded by 2.8% quarter-on-quarter in the last quarter for the Group's gross loans to register a slight annual net loans growth of just under 1%.

"At the Bank, we continued to ensure that access to financing remains available for our business and SME customers and individuals across different market segments. A total of RM 9.6 billion in new loans was approved over the financial year.

In fact, in the last quarter of the fiscal year, new loans approved expanded by 10.5% against the corresponding period last year. We will continue our efforts to support our community and help strengthen economic recovery," remarks Ms. Chia.

Loans for the purchase of residential properties were up 5% and credit card receivables also expanded by 5%.

Non-interest income expanded 19% to RM 570 million. The non-interest income to total income ratio improved to 28% against 24% last year, driven largely by a 56% jump in non-interest income contributions from Wholesale Banking segment. Gains from foreign exchange jumped 57%. Trade finance sources remained resilient with an 8% share of bank-wide non-interest income. Non-interest income generated at the Personal Financial Services segment improved by 11%.

Strong asset quality a continuing mantra in the Group

With high vigilance on asset quality and risk management at the Group, coupled with the Government's responses through monetary and expansionary fiscal policies as well as stimulus efforts, the NPL risks in the sector were effectively contained. Asset quality remained strong, with the gross NPL ratio improving further to 2.2%, down from 2.4% last June 2008. The net NPL ratio improved to 1.3% from 1.4% last June 2008. The loan loss coverage was higher at 109.1%, versus 103.8% last June 2008.

Robust capitalisation

The Bank maintains a strong capital adequacy ratio (RWCR) at 16.0%, and which is in compliance with the new Basel II capital adequacy framework.

Strong credit ratings

Through the downturn, the Bank's credit ratings were affirmed by Fitch Ratings in December 2008, RAM Ratings in March 2009 and Moody's in July 2009, all with a stable outlook. The affirmation of the ratings was grounded in the Bank's robust financial position, particularly its strong capital position and low and well-reserved NPLs. Other credit strengths accorded include the Bank's well-regarded franchise, sturdy funding and liquidity position. The ratings are the strongest of all mid-sized local commercial banks and were placed among the top tier of local commercial banks.

Further expansion towards regional embedment

The Group's 20% equity interest in Bank of Chengdu Co., Ltd. (formerly known as Chengdu City Commercial Bank Co. Ltd.) contributed its maiden share of RM 99 million to the Group.

The State Bank of Vietnam, in December 2008 granted a license to the Group to incorporate and operate a 100% wholly-owned commercial bank in Vietnam. The Group became the first and only Malaysian and Southeast Asian bank to obtain such a license, and one of only five licensees to have obtained this type of license thus far. In July 2009, Hong Leong Bank Vietnam Limited was legally incorporated. Business operations are expected to commence in the last quarter of the 2009 calendar year.

The Group will continue to expand and embed itself in the region.

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.

Business outlook

“The economic and financial crisis has fundamentally changed the entire global financial landscape. Business economics have changed, and as a Group and Bank, we must respond to various scenarios. It is too early to guess what the permanent changes are.

We must continue to invest in key areas, especially in human resources and new capabilities to differentiate and sustainably grow the business. The Group is in a position of strength, driven by a liquid balance sheet and good deposit franchise, a strong capital position, the continuity of shareholders and management, execution depth, prudent risk management and credit mantra, quality reputation as well as a strict code of business conduct and ethics. We can be opportunistic and strengthen our full-fledged banking business in this economic cycle to secure our future and sustainability.

I am confident and optimistic of the Group’s prospects as we continue to support our Government and community to ride out the downcycle and emerge stronger and more competitive,” Ms. Chia adds.

For further details, visit www.hlb.com.my or www.bursamalaysia.com, and for further clarification, please contact:

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