Press Release 19 August 2010

Net Profit Up 32% against 3rd Quarter

Shareholder Value Creation Expands

Hong Leong Bank Berhad ("Bank" or "Group") continues its track record of sustainable, profitable growth by posting RM 301 million in net profit for the fourth quarter of its financial year ended 30 June 2010 ("FY10").

"Net profit for the last quarter of the financial year climbed 32% against the third quarter (January to March 2010), or 51% against the corresponding fourth quarter last year (April to June 2009). This is our best performing quarter for the last 20 quarters in terms of net profit delivered to shareholders," reports Yvonne Chia, Group Managing Director / Chief Executive.

"It continues our track record of unbroken profitability as a commercial bank since commencing our Business Transformation in 2005, which has delivered RM 3.8 billion in total net profit to shareholders in the last 5 financial years. The Hong Leong discipline of prime value creation, the bedrock of our management philosophy has been consistent in improving returns to shareholders. Net profit has been growing by a compound annual growth rate of 16% over the last 5 years.

This trend continued in FY10 as net profit grew to RM 988 million, 6% ahead of consensus street estimates by market analysts," Ms. Chia continued.

Earnings per share saw a 9.1% year-on-year expansion to 68.2 sen, 11% ahead of consensus estimates. Net assets per share grew 13.3% to RM 4.43, vs RM 3.91 last financial year.

Return on assets improved to 1.20% against 1.15%, while return on average shareholder funds was resilient at 16.3%.

Growth momentum

"After a period of a steadier, consolidated growth following the fallout of the global financial and economic crisis, we have seen a return to a stronger growth momentum. In the second half of FY10 (January to June 2010), loan growth accelerated to post a 6.5% growth against December 2009, or at a 3.8 times rate faster than the first half. Gross loans ended 8.3% higher for FY10.

Overall, loan growth has been balanced. Business Banking saw a significantly better traction where working capital loans grew 20.3%, well above the sector growth rate, reflecting the improving trade conditions and export markets worldwide. As a result, working capital growth accounted for 48% of bankwide loan growth. In FY10, we extended more loans and financing to domestic business enterprises, at a growth rate of 12.3% year-on-year. This underpins our continued strong commitment to the local economy, companies and businessmen. We are supportive of their structural reforms to be more competitive in a fast changing global landscape and their efforts to re-build growth and penetrate new markets," Ms. Chia continues.

Business Banking approved 32% more loans year-on-year, while loan disbursements also expanded 32%. In the second half of FY10, the Bank disbursed 2.2 times more Business Banking loans when compared to the corresponding period last financial year.

Trade Finance grew 12.8% year on year, above the sector growth rate. The second half saw Trade Finance growing 24.9% against December 2009, reversing a 9.7% contraction in the first half against June 2009. The Bank is cautiously optimistic on the global trade outlook and trends.

As an embedded retail bank in the community, the Personal Financial Services segment of the Bank continues to be a major driver of earnings at 75% of bankwide loans. Loans to individuals grew 6.1%.

"We helped more customers buy more homes for themselves and their families, and mortgages grew 7.3%. Mortgage loan approvals were up 32.7% in FY10 against last financial year. Mortgage disbursements were up 18%. While the Hire Purchase loan base was relatively flat, loan submissions and approvals year-on-year were up 6% and 21.1% respectively. Loans for personal use also grew 10.5% while there was a 9.6% expansion in credit card receivables," commented Ms. Chia.

Islamic banking's net financing base rose 8.2% year-on-year.

HL Markets, the Group's Treasury business division posted a segmental pre-tax profit of RM 292 million, contributing 24.6% of bankwide pre-tax profits. It continued its track record of sustaining and protecting its profitability amid the continuing uncertainty and lingering effects of the global financial crisis.

Deposit franchise

"We are happy to report that Hong Leong Bank's embedded brand continues to enjoy the confidence, trust and support of the community. Customers entrusted more of their wealth to our safe custodianship throughout our 186 branches, and core deposits (fixed deposits, demand deposits, savings deposits, foreign currency deposits) grew 9% year-on-year, almost double the sector growth rate in the same period," Ms Chia reported.

Core deposits recorded a 10.6% share of incremental industry growth. Lower cost deposits grew 12.6%, accounting for 41.5% of core deposit growth.

Demand deposits (current accounts) expanded 19.4% year-on-year or 1.7 times the sector growth rate. Savings deposits grew 7% from June 2009 to June 2010, whilst industry grew 1.3% over the same period.

Foreign currency deposits grew 78%, against industry's 40%. Fixed deposits grew 4.9% as at end June 2010 while the sector ended 1.7% higher against June 2009 over the same period. Assets under Management ("AuM") of domestic customers grew 9% to RM 3.2 billion.

The funding profile of the Bank continues to be strong and healthy. CASA (current accounts and savings accounts) mix to total deposits improved to 23% vs 21% last year. Core deposits rose to 75.2% in June 2010 (vs industry's 61.3%), up from 71.2% last June 2009. The Bank's balance sheet remains highly liquid with a loan-to-deposit ratio of 55.3% in June 2010.

Summary highlights of the Group's financial performance

- Pre-tax profit for the fourth quarter of Financial Year ending 30 June 2010 ("FY10") rose to RM 345 million, up 33% against the third quarter of FY10, or up 66% against the corresponding fourth quarter last financial year.

- Pre-tax profit for FY10 rose to RM 1,185 million.

- After-tax profit expanded from RM 905 million last financial year to RM 988 million in FY10.

- Return on average shareholder funds for FY10 stood at 16.3%.

- Earnings per share grew to 68.2 sen from 62.5 sen as compared to last year.

- Return on assets improved by 5 basis points against the same period last year to 1.20%.

- Total assets grew 7% y-o-y to RM 85 billion.

- Net loans grew significantly by 8% y-o-y.

- Customer deposits grew 3% y-o-y. Core deposits grew 9% y-o-y.

- Net interest income for the second half of FY10 grew 11% as compared to the corresponding half last year. Net interest income in the last quarter of FY10 grew 20% against the corresponding quarter last year. For the whole year, net interest income grew 2% and net income from Islamic banking grew 4.8 y-o-y.

- Net interest margin improved to 2.32% from 2.25% last year.

- Gross non-performing loan (NPL) ratio and net NPL ratio further improved to 1.9% and 1.2% in FYE Jun 10, from 2.2% and 1.3% in the last corresponding year.

- Loan loss coverage expanded to 117.4%, up from 109.1% last year.

- Credit charge was lowered to 0.3% against 0.4% last year.

- Loan to deposit ratio was 55.3% as at 30 June 2010.

- The Group's capital position remained healthy, with the risk-weighted capital ratio (RWCR) at 15.5%.

- Profit from overseas operations and investments grew to 13% of Group pre-tax profit, up from 10% last year.

- Islamic banking posted a 11.4% higher pre-tax profit in FY10, and after-tax profit rose 13.3%. Islamic banking contributed 9.4% of Group pre-tax profit.

Regional expansion

"Profit contribution from the Bank's 20% equity interest in Bank of Chengdu Co., Ltd ("Bank of Chengdu") in the financial year ended 30 June 2010 was RM 144 million, up 44% from last year. A lynchpin in Hong Leong Bank's foray into China, Bank of Chengdu continues to make significant strides in its transformation into a market oriented regional bank. We continue to be very active, supportive and involved shareholders in providing technical expertise, cross-fertilisation of business and risk practices and capabilities, bankwide training, as well as human capital strengthening and skills upgrading. Overall, we are very pleased with the progress," Ms. Chia remarked on the progress of Bank of Chengdu.

The following milestones summarise Bank of Chengdu's latest published financial results for the period ended 31 December 2009:

- Total assets crossed the RMB 100 billion asset mark to RMB 104.3 billion. Deposits expanded 45.3% while loans grew 36%, powered by a 54% growth in retail loans and 34% growth in corporate and business loans. Loan to deposit ratio was healthy at 60.1%.

- Net profit crossed the RMB 1 billion mark to RMB 1.08 billion, up 18%. Average return on equity was 15%. Net asset value per share improved by 16% to RMB 2.38.

- Non-performing loan ratio was 1.31%, while provision coverage ratio held firm at 167%. Cost to income ratio was 31.2%. Bank of Chengdu is also adequately capitalised at 13.6%.

In March 2010, Hong Leong Bank together with Bank of Chengdu obtained operation approval from China Banking Regulatory Commission (CBRC) for Sichuan Jincheng Consumer Finance Limited Company ("Sichuan Jincheng"), a 49:51 joint venture company that is part of the first batch of approved companies, to start consumer finance operations in Central and Western China. Greenfield operations have commenced in the last quarter of FY10, and Sichuan Jincheng is positioned as a strategic opportunity to expand and diversify the Bank's consumer banking capabilities into a high growth, high potential consumer financing market in China.

Hong Leong Bank's two branches in Singapore and Hong Kong turned in a better performance in FY10, with a 50% improvement in pre-tax profit to contribute 2.3% of the Bank's operating pre-tax profit, up from 1.5% last year. Hong Leong Bank Vietnam Limited, the first wholly-owned subsidiary of any Southeast Asian banking group in Vietnam, successfully started operations in Ho Chi Minh City in the second quarter of FY10. Still early days, the Bank remains focused on building greenfield business operations and strengthening its foundations to strongly participate in the growth story of Vietnam.

Business outlook

"Overall, we are very excited with the prospects of the Group. There are opportunities to assert our liquidity franchise to strongly grow for scale. In a fast liberalising sector, efficiency of delivery and human capital effectiveness will continue to be our prime focus to differentiate the Bank against competitors. We do see opportunities emerging from re-shaping new segments in the domestic market, and we need to continue to stay the course to sharply enhance our branch strategy for an even more embedded relationship between our customers and the Hong Leong Bank Brand," Ms. Chia commented on the outlook of the Bank.

"Our regionalisation push will continue of course, and we are continuing to build a regional benchstrength and cross-border capabilities."

"Ultimately, we support the vision of 1 Malaysia, our local businesses and communities. The corporate move to acquire EON Capital Berhad is really an inorganic in-country commitment to create a stronger bank to support the country's economic transformation. The merger means a winning combination for customers – customers will have the convenience of the country's 2nd largest branch network and one of the most comprehensive, competitive product suites for all their financial needs."

"We are even more excited with the prospects of employees from both banking groups becoming part of a larger franchise with regional ambitions, one that supports personal development and rewards success. We see so many opportunities from the merger, and people do make the difference to deliver and achieve our vision. We value good talent, and people will continue to be our most important asset," Ms. Chia concluded.

Dividends and Stock Performance

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.

At the close of the financial year ended 30 June 2010, the Bank's stock price was RM 8.58 per share, up 50% against RM 5.70 on 30 June 2009.

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

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