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## Hong Leong Bank announces full year results: GROWTH MOMENTUM CONTINUES

**Kuala Lumpur, 28 August 2012** - Hong Leong Bank Berhad (the “Bank” or “Group”), (BM: HLBANK) today announced its results for the financial year ended 30 June 2012.

- ✦ *Net profit after tax of Hong Leong Bank Group for financial year ended 30 June 2012 (“FY12”) at RM1,648 million, up 45% over RM1,137 million in the previous year (“FY11”) [or increase of 7.5% over the previous year on pro forma consolidated accounts year-on-year (“FY11 pro forma basis”)]*
- ✦ *Net profit after tax for the fourth quarter ended 30 June 2012 (“Q4FY12”) at RM395 million, up 31.9% from RM299 million in the corresponding quarter last year (“Q4FY11”) [or increase of 17.0% over the corresponding quarter last year using FY11 pro forma basis]*
- ✦ *Total Assets at RM157.8 billion, a growth of 8.4% from the previous year*
- ✦ *Gross Loans & Financing grew by 7.8% year-on-year to RM90.6 billion*
- ✦ *Customer Deposits expanded by 7.2% year-on-year to RM123.1 billion*

Hong Leong Bank’s Group Managing Director/ Chief Executive, Datuk Yvonne Chia, said “The positive results achieved in the financial year ended 30 June 2012 as net profit rose by 7.5% to RM1,648 million from the previous financial year using the pro forma basis, reflect the combined strength of our merged Bank.”

“We achieved satisfactory performance on our key shareholder value indicators as well. Basic earnings per share rose to 99 sen, against 78 sen last year. Net assets per share rose to RM6.52 from RM5.14 last year, while the return on equity improved to 17.5% from 16.3% in the previous year.”

“Exactly one year after the merger, we completed the last mile of our integration journey with the successful delivery of the Single Platform Day 1 (“SPD1”). We will remain focused on delivering the Hong Leong Bank promise of embedment in the communities we serve to meet the needs of individual and business customers.”

### Summary of Financial Performance

<i>(Figures in RM 'million unless otherwise stated)</i>	<i>FY12 actual</i>	<i>FY11 proforma</i>	<i>Change vs FY11 proforma</i>	<i>FY11 actual</i>	<i>Change vs FY11 actual</i>
<b>EARNINGS &amp; EFFICIENCY</b>					
Net interest income ^	3,026	3,017	+0.3%	1,874	+61.5%
Non interest income ^	868	1,031	-15.8%	678	+27.9%
Total income	3,894	4,047	-3.8%	2,552	+52.6%
Operating expenses	(1,925)	(1,976)	-2.6%	(1,212)	+58.9%
Operating profit	1,890	1,732	+9.1%	1,205	+56.9%
Associates’ profit contribution	219	210	+4.0%	210	+4.0%
Profit before tax	2,109	1,943	+8.6%	1,415	+49.0%
Profit after tax	1,648	1,533	+7.5%	1,137	+44.9%
Net interest margin	2.12%	2.27%	-0.15%	2.06%	+0.06%
Cost-to-income ratio (“CIR”)	49.4%	48.8%	+0.6%	47.5%	+1.9%
CIR (excl integration cost)	44.9%	46.1%	-1.2%	44.4%	+0.5%

<i>(Figures in RM 'million unless otherwise stated)</i>	<b>FY12 actual</b>	<b>FY11 proforma</b>	<b>Change vs FY11 proforma</b>	<b>FY11 Actual</b>	<b>Change vs FY11 actual</b>
<b>PERFORMANCE RATIOS</b>					
Return on equity (ROE)	17.5%	14.8% *	+2.7%	16.3%	+1.2%
Return on assets (ROA)	1.09%	1.09%	-	0.99%	+0.10%
Basic earnings per share (sen)	99	75 *	+24sen	78	+21sen
Dividend per share (sen)	38	24	+14sen	24	+14sen
Net assets per share (RM)	6.52	5.14	+26.8%	5.14	+26.8%
<b>LENDING &amp; DEPOSITS</b>					
Total assets	157,787	145,499	+8.4%	145,499	+8.4%
Gross loans	90,571	84,022	+7.8%	84,022	+7.8%
Customer deposits	123,096	114,857	+7.2%	114,857	+7.2%
Loans to deposits ratio	73.6%	73.2%	+0.4%	73.2%	+0.4%
<b>ASSET QUALITY</b>					
Gross impaired loans ratio	1.69%	2.28%	-0.59%	2.28%	-0.59%
Loan loss coverage	158%	135%	+23%	135%	+23%
Credit charge	0.13%	0.26%	-13bps	0.17%	-4bps
<b>EQUITY &amp; CAPITAL RATIOS</b>					
Shareholders' equity	11,419	7,468	+52.9%	7,468	+52.9%
Tier-1 capital adequacy ratio ~	11.7%	8.5%	+3.2%	8.5%	+3.2%
Risk-weighted capital adequacy ratio (RWCAR) ~	15.9%	14.3%	+1.6%	14.3%	+1.6%

*Notes:* ^ income from Hong Leong Islamic Bank included in respective income lines

\* merged based on aggregated basis

~ before proposed dividend

## Profitability, Efficiency and Interest Margin

*Net profit after tax* of Hong Leong Bank Group for FY12 was higher at RM1,648 million, up 7.5% from FY11 pro forma basis. On the actual basis, *net profit after tax* grew by 45% from the previous year.

*Operating expenses* in FY12 of RM1,925 million includes integration costs of RM175 million. FY12 integration costs comprised mainly severance costs for voluntary separation scheme amounting to RM115 million.

Excluding integration costs, *cost-to-income ratio* in FY12 declined to 44.9% from 46.1% using the FY11 pro forma basis, reflecting our continuing journey in synergies realisation and operating efficiencies.

*Net interest income* for financial year ended 30 June 2012 ("FY12") was slightly higher at RM3,026 million in FY12, primarily driven by growth in customer loans. *Total income* however, dipped slightly by 3.8% to RM3,894 million from FY11 pro forma basis, mainly attributable to a drop in *non-interest income* resulting from forex and hedging losses due to unfavourable market conditions.

*Net interest margin* was relatively higher at 2.12% in FY12 compared to 2.06% in FY11 mainly due to consolidation of higher-yielding assets post-merger, off-set by increasing pressure on new loan pricing resulting from intensified competition. Nevertheless, the Bank had successfully maintained its cost of funds despite continuing competition for customer deposits through its active asset-liability management and prudent liquidity management. There remains ample domestic liquidity and with moderating loan demand, we see the continuing pressure on the margin.

## Loan Growth in Core Segments Gaining Pace

*Gross loans and financing* grew by 7.8% to RM90.6 billion in FY12. We saw loans growth gaining pace at 3.3% in the final quarter of FY12, primarily driven by business loans particularly trade financing for the months of April to June 2012.

*Loans and financing to business enterprises*, both from small-medium enterprises (SME) and middle market segment, expanded by 13.7% to RM31.9 billion in FY12, reaping benefit from the strength of our community business franchise. *Working capital loans* grew by 11.6% to RM19.9 billion whilst market share for *trade financing* in FY12 improved to 13.2%.

On the back of a higher base, *loans and financing to individuals* grew moderately by RM3.0 billion or 5.7% to RM55.5 billion in FY12. However our core segment, *residential mortgages* expanded strongly by 11.0% to RM30.7 billion, while *transport vehicle loans* hovered at RM17.3 billion with our portfolio yield rebalancing initiatives. *Credit cards* commanded a strong market share of 13.1% in FY12 despite impact from recent lending guidelines.

## Superior Retail Deposit Franchise & Liquidity

*Deposits from customers* expanded by 7.2% to RM123.1 billion in FY12, reflecting our strong customer franchise and continuous prudent liquidity management. *Deposits from individuals and business enterprises* continued to record strong expansion with growth of 15.4% and 17.0% respectively.

Our mix of *deposits from individuals* reached 48.3% in FY12 from 44.8% in FY2011, leveraging on our enlarged branch network and reflecting the strength of our customer franchise. We maintained our *current accounts and savings accounts (CASA)* mix at 24% of our bank-wide customer deposits in FY12. Our strong liquidity franchise remains supportive of growth with loans-to-deposits ratio at 73.6% in FY12 compared to 73.2% in the previous year.

## Superior Asset Quality & Capital

The Bank's impaired loans and loan loss coverage ratios continue to outperform the banking system as we stayed on course with our credit discipline post-merger. *Gross impaired loans ratio* improved further to 1.69% in FY12 from 2.28% in the previous year through proactive credit and recovery management, and loan write-offs. *Loan loss coverage* strengthened further to 158% in FY12 from 135% a year ago, amongst the highest in the banking system.

*Tier-1 capital ratio* strengthened further by 3.2% to 11.7% in FY12 on the back of a very successful RM2.6 billion rights issue in October 2011 and retained profits.

The Bank's *risk-weighted capital ratio (RWCAR)* also improved by 1.6% to 15.9% in FY12, as a result of our new issuance of tier-2 subordinated notes ("sub-notes") of RM1.5 billion in June 2012. Our capital position is consistently strong to support our asset growth and business strategies.

## Contribution from Hong Leong Islamic Bank ("HLISB")

HLISB completed our country's first ever vesting of an Islamic Bank. HLISB's *total assets* grew by 7.8% to RM21.9 billion in FY12, from the previous year based on pro forma merged accounts of HLISB with EONCAP Islamic Bank Berhad ("Islamic pro forma basis"). HLISB's *total assets* represent 13.9% of the Group's total assets. *Islamic financing and advances* expanded by 10.7% (using the

Islamic pro forma basis) to RM12.4 billion in FY12, contributing to 13.7% of the Group's total loans, advances and financing.

HLISB's net profit for FY12 was higher at RM150 million, contributing to 9.1% to the Group's net profit. HLISB continues to build capabilities on the merged platform, grow new segments and enhance offerings in wholesale and Islamic investment banking.

### **Regional Contribution**

Profit contribution from Bank of Chengdu ("BOCD") for FY12 grew by 2.8% year-on-year to RM217 million, representing 10.3% of the Bank's profit before tax. BOCD continues to leverage on its strong franchise network, expanded customer base and new core IT platform delivering stronger and more sustainable business momentum.

BOCD recorded strong financial results in its financial year ended 31 December 2011. BOCD's net profit grew significantly by 48.0% to RMB2.4 billion from RMB1.6 billion in the previous year whilst its total assets expanded by 19.9% year-on-year to RMB181.4 billion. Customer deposits rose by 10.1% to RMB134.8 billion while gross loans grew by 18.8% to RMB80.6 billion. Loans-to-deposits ratio for BOCD remained healthy at 59.8%, loan loss coverage ratio improved further to 429.0% and return on equity was 24.3%.

Vietnam has turned profitable amidst a very challenging and fragile economic condition for the past three years and it is our priority to scale the franchise.

### **Merger Integration Update**

The Bank completed the merger integration with the IT streamlined into one system. This will allow ongoing synergies from efficiencies, faster time-to-market for further product and system development as well as opportunity to streamline maintenance costs. We will continue with IT strategic investment spend to develop new capabilities and meet demand from our customers.

Overall merger integration costs of RM175 million were principally from HR rationalisation and IT capital expenditure.

### **Mach by Hong Leong Bank**

We recently launched concept branches at Mid Valley Megamall, IOI Mall and e@Curve under our new sub-brand, *Mach by Hong Leong Bank*. The sub-brand embodies a modern lifestyle banking targeted at the Gen-Y market segment. It is hallmarked on customisable services, eco-friendly processes, non-intrusive high-tech self-service concepts, convenient locations and fast turnaround time.

### **Business Outlook**

Commenting on business outlook, Datuk Yvonne said, "We remain committed in delivering sustainable returns and value to all our stakeholders, staying agile and opportunistic to grow the franchise. Over the next few months, we will remain vigilant to the fast changing environment with the continuing weaknesses in the global economic outlook."

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## About Hong Leong Bank Berhad

Hong Leong Bank Berhad is one of the leading financial services organisations in Malaysia. With a heritage of more than 100 years, it provides comprehensive services in consumer banking, business banking and trade finance, treasury, branch and transaction banking, wealth management, investment banking, private banking and Islamic financial services. Its recent merger with EON Bank Group sees the creation of a core domestic franchise with an expanded distribution network of 331 branches for customers across the country.

With a proven track record in value creation and a highly recognised brand, Hong Leong Bank has also been extending its footprint in the region, with branches in Singapore and Hong Kong and a wholly owned subsidiary in Vietnam. In China, the Bank has a 20% shareholding in Bank of Chengdu Co., Ltd., Sichuan and a consumer finance joint venture.

Hong Leong Bank is a subsidiary of Hong Leong Financial Group Berhad, the financial services arm of the Hong Leong Group. Apart from banking, Hong Leong Financial Group is involved in the provision of insurance and takaful, as well as investment banking, unit trust, fund management and stock broking services.

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