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Hong Leong Bank announces first quarter results: NET PROFIT IMPROVES TO RM478 MILLION, UP 19.5%

Kuala Lumpur, 14 November 2012 - Hong Leong Bank Berhad (the “Bank” or “Group”), (BM: HLBANK) today announced its results for the first quarter ended 30 September 2012.

- ✦ *Net profit after tax for the first quarter ended 30 September 2012 (“Q1FY13”) at RM478 million, up 19.5% from RM400 million in the corresponding quarter last year (“Q1FY12”)*
- ✦ *Total income at RM1,003 million, up 10.7% from the corresponding quarter last year*
- ✦ *Total Assets at RM155.6 billion, a growth of 8.5% from the corresponding quarter last year*
- ✦ *Gross Loans & Financing grew by 7.7% year-on-year to RM91.8 billion*
- ✦ *Customer Deposits expanded by 8.1% year-on-year to RM123.5 billion*

Hong Leong Bank’s Group Managing Director/ Chief Executive, Datuk Yvonne Chia, said “We started the financial year on a sound note. Net profit improved by 19.5% to RM478 million from the corresponding quarter last year on the back of higher non-interest income and improved operating efficiencies.”

“The Bank has fully adopted the Malaysia Financial Reporting Standards (“MFRS 139”) for the first time with effect from this financial quarter. The main impact of the adoption of MFRS139 was the retrospective reduction of collective assessment allowance to retained earnings. The retrospective adjustments arising from the adoption of MFRS139 are reflected in the restatement of the Q1FY12 comparatives.”

“Our key shareholder value indicators are on track. Return on equity was 16.0% following the enlarged shareholders’ equity post rights issue and full adoption of MFRS 139. Basic earnings per share remain unchanged at 27 sen while net assets per share improved to RM6.96 from RM5.54 in the same period last year.”

Summary of Financial Performance

<i>(Figures in RM 'million unless otherwise stated)</i>	Q1FY13 actual	Q1FY12* restated	Change vs Q1FY12
EARNINGS & EFFICIENCY			
Net interest income [^]	728	743	-2.0%
Non interest income [^]	275	162	+69.0%
Total income	1,003	905	+10.7%
Operating expenses	(443)	(446)	-0.6%
Operating profit	560	460	+21.7%
Associates’ profit contribution	62	62	-
Profit before tax	637	514	+24.1%
Profit after tax	478	400	+19.5%
Net interest margin	2.13%	2.34%	-0.21%
Cost-to-income ratio (“CIR”)	44.2%	49.2%	-5.0%
CIR (excl integration cost)	43.3%	49.2%	-5.9%

<i>(Figures in RM 'million unless otherwise stated)</i>	Q1FY13 actual	Q1FY12* restated	Change vs Q1FY12
PERFORMANCE RATIOS			
Return on equity (ROE)	16.0%	20.3%	-4.3%
Return on assets (ROA)	1.22%	1.11%	+0.11%
Basic earnings per share (sen)	27	27	-
Dividend per share (sen)	-	-	-
Net assets per share (RM)	6.96	5.54	+25.6%
LENDING & DEPOSITS			
Total assets	155,639	143,456	+8.5%
Gross loans	91,788	85,215	+7.7%
Customer deposits	123,456	114,248	+8.1%
Loans to deposits ratio	74.3%	74.6%	-0.3%
ASSET QUALITY			
Gross impaired loans ratio	1.61%	2.09%	-0.48%
Loan loss coverage	134.3%	129.1%	+5.2%
Credit charge	-0.07%	0.06%	-13 bps
EQUITY & CAPITAL RATIOS			
Shareholders' equity	12,204	8,069	+51.2%
Tier-1 capital adequacy ratio ~	12.0%	8.0%	+4.0%
Risk-weighted capital adequacy ratio (RWCAR) ~	15.8%	12.9%	+2.9%

Notes: * restated with retrospective application of MFRS 139

^ income from Hong Leong Islamic Bank included in respective income lines

~ before proposed dividend

Profitability, Efficiency and Interest Margin

Net profit after tax of Hong Leong Bank Group for Q1FY13 was higher at RM478 million, up 19.5% from the same period last year.

Total income improved by 10.7% to RM1,003 million from the corresponding quarter last year mainly due to higher non-interest income which contributed 27.4% of total income as compared to 17.9% in Q1FY12. *Non-interest income* grew by 69.0% to RM274 million from the same period last year, mainly contributed by higher gains from treasury operations. *Net interest income* was slightly lower at RM728 million with competitive asset yields.

Net interest margin for Q1FY13 declined to 2.13% from 2.34% in the same period last year, mainly due to the continuing pressure on new loan pricing and a prudential loan to deposits ratio of 74.3%. The higher net interest margin base recorded in Q1FY12 was also the result of consolidation of high-yielding assets post-merger. The Bank continues to manage cost of funds through its active asset-liability management and prudent liquidity management. There remains ample domestic liquidity and with moderating loan demand, we see continuing pressure on the margin.

Operating expenses for Q1FY13 was lower by 0.6% at RM443 million compared to the corresponding quarter last year mainly contributed by lower personnel expenses. Excluding integration costs, *cost-to-income ratio* improved to 43.3% from 49.2% in the same period last year. We continue to put through a number of actionable initiatives to extract efficiencies and capture synergies.

Loan Growth Continue

Gross loans and financing grew by 1.3% quarter-on-quarter (“q-o-q”) and 7.7% year-on-year (“y-o-y”) to RM91.8 billion in Q1FY13. The loans growth in the quarter was led primarily by the growth in our core segment, *residential mortgages* which expanded by 2.3% q-o-q to RM31.4 billion. *Transport vehicle loans* increased slightly by 0.3% to RM17.3 billion with our ongoing portfolio rebalancing initiatives. Overall, *loans and financing to individuals* grew moderately by RM0.6 billion or 1.1% to RM56.1 billion compared to the last quarter.

Loans and financing to business enterprises, from both the small-medium enterprises (SME) and middle market segments, expanded marginally by 0.6% q-o-q to RM32.0 billion mainly due to the pay down in trade loans with the decline in the country’s exports for the quarter. *Working capital loans* comprising mainly of *trade financing* constitutes about 60% of total business banking loans.

Superior Retail Deposit Franchise & Liquidity

Deposits from customers expanded marginally by 0.3% q-o-q and 8.1% y-o-y to RM123.5 billion in Q1FY13. *Deposits from individuals and business enterprises* both recorded moderated growth of 0.5% and 2.6% q-o-q respectively.

Our mix of *deposits from individuals* of 48.4% in QFY13 remains one of the highest retail deposit concentration in the industry, leveraging on our extensive branch network and strength of our customer franchise. Our *current accounts and savings accounts (CASA)* mix was maintained at 24% of our bank-wide customer deposits in Q1FY13 as we continue with our initiatives to improve the CASA mix. Our strong liquidity franchise remains supportive of growth with loans-to-deposits ratio at 74.3% compared to 73.6% in the last quarter.

Asset Quality & Capital Strengthening

The Bank’s impaired loans and loan loss coverage ratios continue to outperform the banking system post MFRS 139 implementation. *Gross impaired loans ratio* improved further to 1.61% in Q1FY13 from 1.69% in the last quarter through proactive credit and recovery management. Our *loan loss coverage ratio* at 134% in Q1FY13 is still amongst the highest in the banking system, post MFRS 139.

Tier-1 capital ratio improved to 12.0% in Q1FY13 whilst *risk-weighted capital ratio (RWCAR)* improved to 15.8% on the back of higher retained earnings following the retrospective reduction of collective assessment allowance post MFRS 139 implementation. Our capital position is consistently strong to support our asset growth and business strategies.

Contribution from Hong Leong Islamic Bank (“HLISB”)

Gross Islamic financing and advances expanded by 1.9% q-o-q and 8.3% y-o-y to RM12.6 billion in Q1FY13 [note: the corresponding quarter last year is based on the pro forma merged accounts of HLISB and EONCAP Islamic Bank Berhad], contributing 13.8% of the Group’s total loans, advances and financing.

HLISB’s *total assets* were lower at RM20.0 billion in Q1FY13 as compared to RM21.9 billion in the last quarter, mainly due to the reduction in treasury assets from the rebalancing of the funding and liquidity needs of the merged entity.

HLISB's *net profit* for Q1FY13 was higher at RM65.2 million, up 25.5% from the same period last year, with improved yields and net interest margin. HLISB continues to build capabilities to grow new segments and enhance offerings in wholesale and Islamic investment banking.

Regional Contribution

Profit contribution from Bank of Chengdu ("BOCD") for Q1FY13 declined slightly by 1.3% against previous corresponding period to RM61 million, representing 9.6% 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.

Profit contribution from Hong Leong Vietnam Limited ("HLBVN") for Q1FY13 was lower on the back of lower net interest margin amidst the current economic slowdown. Nevertheless, HLBVN has continued to make good progress in its branch expansion and has added a new branch in Binh Duong Province during the quarter, its fourth outlet in the country.

Mach by Hong Leong Bank

We have also expanded our "*Mach by Hong Leong Bank*" footprint with the opening of an additional "Mach" branch in Paradigm Mall in Sep 2012, our fourth branch under this sub-brand, which embodies a modern lifestyle banking targeted at the Gen-Y market segment.

Business Outlook

Commenting on business outlook, Datuk Yvonne Chia said, "The global economy is expected to continue to experience slow growth with uncertainties in the advanced economies. The regional economies in ASEAN are expected to grow steadily, supported by strong domestic demand. Malaysia will sustain expansion in GDP growth with the government infrastructure spending and strong domestic consumption to offset the drop in external export sector. Hong Leong Bank will continue to extract efficiencies in our operations to bring value and convenience in our offerings and services to our customers. With increased competition and a fast changing landscape, we will continue to invest to transform our technology and operations in both branch banking and digital channels."

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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 financial services covering consumer banking, business banking and trade finance, treasury, branch and transaction banking, wealth management, private banking and Islamic financial services. Its merger with EON Bank Group in 2011 has further embedded its position as a core banking franchise with an expanded distribution network of more than 300 branches 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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