

HONG LEONG BANK ANNOUNCES FIRST QUARTER RESULTS: A POSITIVE START TO A NEW FINANCIAL YEAR

Kuala Lumpur, 27 November 2019 - Hong Leong Bank Berhad (“Bank” or “HLB”), (BM: HLBANK) today announced its results for the first quarter ended 30 September 2019 (“Q1FY20”).

- ✦ ***Net profit after tax for Q1FY20 at RM689 million.***
- ✦ ***Gross loans and financing grew 6.8% year-on-year (“y-o-y”) to RM138.7 billion; with Gross Impaired Loan (“GIL”) ratio maintained at 0.81%.***
- ✦ ***Capital position remained robust with Common Equity Tier 1 (“CET 1”), Tier 1 and Total Capital ratios at 12.8%, 13.4% and 15.7% respectively.***

Domenic Fuda, Group Managing Director and Chief Executive Officer of HLB commented, “The banking sector remains challenging, amidst ongoing external headwinds and soft consumer sentiment. Despite that, the Bank recorded a net profit after tax of RM689 million for the first quarter, an improvement of 8.2% quarter-on-quarter (“q-o-q”) as net interest margin (“NIM”) saw a rebound post OPR cut, coupled with prudent cost control and healthy contributions from our overseas associates. Excluding a one-off gain from divestment of joint venture of RM72 million recorded in the corresponding quarter last year, net profit for Q1FY20 would have expanded by an encouraging 8.5% y-o-y.

Business momentum continued its growth traction with gross loans and financing expanding 6.8% y-o-y despite a relatively softer business environment during the quarter. Asset quality remained uncompromised, as GIL ratio was solid at 0.81%. We remain confident that with our strategic priorities in place, we should continue to see further operational improvements and business growth going forward.”

Growing the corporate and SME portfolio remains HLB’s priority and to this end, the Bank has committed RM500 million in financing to support projects specifically on renewable energy for corporate and SME customers, with solar, biogas and small hydropower as the key focus areas. The demand has been positive, as the Bank has approved close to RM300 million in financing thus far and is expected to exceed the RM500 million target by the end of this financial year, two years ahead of schedule.

The Bank continues to leverage on digital technology to enable its business customers in managing their operations more effectively with the introduction of the first corporate eToken in Malaysia with biometric recognition. The latest feature uses facial recognition capabilities to log in and authenticate payments on Hong Leong ConnectFirst, the Bank’s business online banking platform, providing customers with a simple, seamless and secure banking experience.

It's efforts to encourage financial literacy awareness among Malaysians, saw the Bank launch **HLB DuitSmart**, a financial sustainability initiative in conjunction with Malaysia Day. This initiative focuses on engaging Malaysians with approachable and relatable content, coupled with activities on financial knowledge and information to increase awareness and understanding on the importance of credit history, credit scores, good budgeting and savings habits.

For its efforts in empowering SMEs and its ongoing drive to be "Digital at the Core", the Bank was recognised as Malaysia's 'Best SME Bank' and 'Best Digital Bank' by international banking and finance industry publication, Asiamoney. This is the Bank's second win for the year for Best SME Bank, and the second year in a row for the Digital Bank award, serves to further strengthen HLB's long-term retail and SME banking commitment as seen in its 110 plus years of strong heritage of entrepreneurship and innovation. HLB also received accolades for its Human Resources practices by winning five awards in the categories of HR Leader of the Year Gold Award, Excellence in Workplace Culture Gold Award, Young HR Talent of the Year Bronze Award, HR Innovation and HR Team Collaboration. These awards recognise the Bank's sustained and continuous commitment towards developing talent, innovation and people management.

Solid Underlying Performance

- *Total income* for Q1FY20 was RM1.2 billion, mainly driven by expansion in net interest income and sustained underlying non-interest income contribution.
- *Net interest income* improved by 3.4% y-o-y or 7.7% q-o-q to RM882 million, benefitting from loan book growth and lower cost of funding due to repricing of high cost fixed deposits post OPR cut. Consequently, *net interest margin ("NIM")* for Q1FY20 rose 5 bps y-o-y or 14 bps q-o-q to 2.03%.
- *Non-interest income* for Q1FY20 was reported at RM334 million, supported by improvement in fee income but offset by lower forex gain and absence of one-off gain from divestment of joint venture in the corresponding quarter last year, giving rise to non-interest income ratio of 27.4%.
- *Operating expenses* for the quarter continue to be well managed, contracting by 0.6% y-o-y or 1.5% q-o-q to RM522 million as we continue to reap benefits from our digitisation efforts and strategic cost management initiatives. Accordingly, *cost-to-income ratio* for Q1FY20 stood at 43.0%, with positive JAWS attained compared against the prior quarter.

Loan Growth Driven by Business Banking, Mortgages and International Operations

- *Gross loans, advances and financing* sustained its growth momentum into the new financial year and grew 6.8% y-o-y to RM138.7 billion, predominantly led by growth in our business and mortgages segments, as well as overseas operations.
- *Loans to domestic business enterprises* expanded 9.9% y-o-y, whilst overall *loans and financing to SME* increased by 8.9% y-o-y to RM21.8 billion. The Bank's community banking initiative continues to see convincing growth of 37.2% y-o-y and 6.7% q-o-q.

- Domestic loans to the retail segment continued to be a main driver of the Bank's loan growth, expanding 6.6% y-o-y, outperforming the industry and contributed 71% of the Bank's total loans.
- *Residential mortgages* grew ahead of industry at 10.2% y-o-y to RM69.0 billion, supported by a healthy loan pipeline while *transport vehicle loans* portfolio was flattish at RM17.3 billion.
- Loans and financing from overseas operations recorded a 6.8% y-o-y and 2.7% q-o-q loan expansion, led by growth in Cambodia and Vietnam, which increased 22.1% and 37.4% y-o-y respectively.

Strong Funding and Liquidity Position

- Our funding and liquidity positions remain prudent and continue to be supportive of business growth with a healthy *loans-to-deposits ratio* of 84.8%. *Liquidity coverage ratio* as at 30 September 2019 stood at 126%, well exceeding regulatory requirements.
- *Customer deposits* for Q1FY20 increased by 3.0% y-o-y to RM163.5 billion, whilst CASA grew at a stronger pace of 5.5% y-o-y to RM41.8 billion, achieving an improved CASA ratio of 25.6%.
- The Bank's stable funding base continues to be supported by strong individual deposit base which expanded to RM86.9 billion and a mix of 53.1%, amongst the best in the industry.

Excellent Asset Quality and Robust Capital Position

- Asset quality positions are amongst the best in the industry with a GIL ratio of 0.81% whilst *loan impairment coverage ("LIC") ratio* was maintained at a prudent level of 110% as at 30 September 2019. Inclusive of regulatory reserve, the Bank's LIC ratio stood at a comfortable 196%.
- The Bank's capital position remains robust with *CET 1*, *Tier 1* and *Total Capital ratios* at 12.8%, 13.4% and 15.7% respectively as at 30 September 2019.

Regional Contribution

- International operations accounted for 18.6% of the Bank's pre-tax profit in Q1FY20, led by solid contributions from Bank of Chengdu ("BOCD") during the quarter. Profit contribution from BOCD was RM141 million in Q1FY20, representing 16.7% of the Bank's pre-tax profit.

Business Outlook

Domenic Fuda commented, “The Malaysian economy has stayed resilient and is expected to remain on a moderate growth path in 2020, even as we wrestles with an increasingly uncertain global environment. Against a still soft external backdrop, sustained domestic demand led by the private sector will remain the key engine anchoring growth in the near term. While we remain cautiously optimistic, downside risks stemming from ongoing trade protectionism policy and geopolitical risks remain.

Despite that, we remain focused in our strategic goal to be a highly digital and innovative ASEAN financial services institution. Our priorities are built around customers, as we aim to provide seamless, relevant, personalised and fair banking experiences to clients while providing our people with the best opportunities to realise their full potential. We continue to explore new growth opportunities while revamping our cost structure through the digital transformation journey, enabling us to achieve sustainable growth and returns for our stakeholders.”

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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. Hong Leong Bank, which has won awards for its innovations in the financial services space, also has one of the largest service and distribution network of branches and business centres in Malaysia.

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 wholly owned subsidiaries in Vietnam and Cambodia. In China, the Bank is a substantial shareholder in Bank of Chengdu Co., Ltd., Sichuan.

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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