

HONG LEONG BANK ANNOUNCES FIRST HALF RESULTS: STRONG UNDERLYING PERFORMANCE

Kuala Lumpur, 26 February 2020 - Hong Leong Bank Berhad (“Bank” or “HLB”), (BM: HLBANK) today announced its results for the six months ended 31 December 2019 (“H1FY20”).

- ✦ ***Core net profit after tax for H1FY20 rose 6.6% to RM1,390 million, compared against the corresponding period last year which excluded a one-off gain from divestment of joint venture.***
- ✦ ***Gross loans and financing accelerated 7.3% year-on-year (“y-o-y”) to RM141.3 billion while sustaining solid asset quality metrics with Gross Impaired Loan (“GIL”) ratio of 0.84%.***
- ✦ ***Healthy capital position with Common Equity Tier 1 (“CET 1”), Tier 1 and Total Capital ratios at 13.1%, 13.7% and 15.9% respectively.***

Domenic Fuda, Group Managing Director and Chief Executive Officer of HLB commented, “The Bank achieved a commendable set of results for Q2FY20 and H1FY20 on the back of strong top line growth, vigilance in cost management and solid contributions from our associates. Core net profit of RM1,390 million for H1FY20 demonstrated a resiliency in our performance with a convincing 6.6% growth compared to RM1,304 million in the corresponding period last year.

Despite the prevailing cautious business sentiment, gross loans and financing continues to gain traction with a 7.3% y-o-y growth, which was further complemented by firm asset quality metrics, reflective of the Bank’s commitment towards achieving sustainable long-term growth.”

The Bank’s focus on growing strategic segments of retail and corporate loans (including SME) remains intact, although the environment is more challenging than it was a quarter ago. We are, for example, seeing encouraging results in new initiatives such as renewable energy financing, where there is a structural shift in the economy towards more environmentally sustainable energy sources. Efforts towards growing this sector has been positive as evidenced by the over RM300 million in financing which had been approved in the first half of the financial year.

In other segments, the Bank continues to see good results from its HLB DuitSmart financial sustainability initiative which was launched on Malaysia Day. This initiative remains an effective method to engage and to educate Malaysians from all walks of life on the impact their financial choices have on their financial stability and eligibility for obtaining financing responsibly in the future. We have rolled this out in a number of states nationwide with the HLB DuitSmart roadshows successfully reaching out to the public and is set to further increase financial literacy of Malaysians as the Bank looks to taking this initiative nationwide.

HLB continues its focus on enhancing its cashless payment options for retail consumers during its **HoliYay** campaign which saw HLB partnering with amongst others, AirAsia and Emirates. Holders of selected HLB credit and debit/i-card holders enjoyed exclusive deals on selected

destinations during promotion periods, discounts on economy and business class flights, discounts on hotel bookings worldwide, cashback while dining overseas amongst a host of other special offers and rewards during the campaign period.

On the business segment front, we have expanded the sector specialist capabilities so that we have the capabilities for greater sector insights when evaluating new credit applications as well as reviewing exposures to existing sectors. This augurs well for our continued credit quality management.

Solid Underlying Performance

- *Total income* for H1FY20 achieved RM2,453 million, on the back of above industry loan growth whilst maintaining prudent funding cost management.
- *Net interest income* improved for the second consecutive quarter to RM912 million for Q2FY20, up 5.5% y-o-y. Accordingly for H1FY20, net interest income was 4.5% higher y-o-y at RM1,793 million. This has resulted in an increase in *net interest margin* (“NIM”) to 2.03% and 2.04% for H1FY20 and Q2FY20 respectively.
- *Core non-interest income* for H1FY20 improved 12.8% y-o-y to RM659 million with a corresponding non-interest income ratio of 26.9%, contributed by higher fee income and gains from treasury operations but partially mitigated by lower forex gain.
- *Operating expenses* for H1FY20 remained tightly managed at RM1,049 million, leading to an improved *cost-to-income ratio* of 42.8%, as revenue outpaced expenses growth by a significant margin. Similarly, Q2FY20 showcased a strong performance as operating expenses only rose 3.2% y-o-y compared to an 8.4% y-o-y increase in revenue.
- Correspondingly, *core operating profit* for H1FY20 recorded a solid 10.9% y-o-y growth to RM1,403 million. For Q2FY20, core operating profit expanded at a higher pace of 15.8% y-o-y to RM711 million.

Loan Growth Momentum Sustained

- *Gross loans, advances and financing* growth momentum quickened, expanding by 7.3% y-o-y to RM141.3 billion, predominantly led by growth in our key segments of business banking and mortgages as well as overseas operations.
- *Domestic loans* growth stayed ahead of industry at 6.8% y-o-y whilst *domestic loans to the retail segment* continue to drive the Bank’s loan growth, increasing 6.6% y-o-y and contributed 71% of the Bank’s total loans.
- *Residential mortgages* expanded strongly by 9.8% y-o-y to RM70.6 billion, underpinned by a healthy loan pipeline while *transport vehicle loans* portfolio remained stable at RM17.4 billion.
- *Domestic loans to business enterprises* increased by 4.8% y-o-y to RM40.4 billion, whilst *loans and financing to SME* was marginally lower at RM20.8 billion due to re-tagging of SME

accounts in accordance with BNM new guidelines on SME definition. The Bank's community banking initiative continues to see strong growth of 37.7% y-o-y and 8.1% quarter-to-quarter.

- Loans and financing from overseas operations recorded a commendable 16.7% y-o-y expansion, attributed to y-o-y growth of 10.1%, 33.2% and 43.3% in Singapore, Cambodia and Vietnam respectively.

Prudent Funding and Liquidity Position

- The Bank continues to remain prudent towards liquidity management with a healthy *loans-to-deposits ratio* of 84.6% whereas *liquidity coverage ratio* was comfortable at 123%.
- *Customer deposits* for H1FY20 rose by 2.7% y-o-y to RM167.0 billion. Leveraging on the Bank's cash management solutions, CASA grew 7.3% y-o-y to RM43.2 billion, improving the CASA ratio to 25.9%.
- The Bank's stable funding base continues to be supported by strong individual deposit base, exemplified by an individual deposit mix ratio of 53.7%.

Solid Asset Quality and Healthy Capital Position

- The Bank continues to uphold its solid asset quality positions with GIL ratio of 0.84%, still amongst the best in the industry, whilst *Loan Impairment Coverage ("LIC") ratio* stood at 103%. Inclusive of regulatory reserve set aside as at 31 December 2019, the Bank's LIC ratio was 182%.
- The Bank's capital position remains healthy with *CET 1*, *Tier 1* and *Total Capital ratios* at 13.1%, 13.7% and 15.9% respectively as at 31 December 2019.

Regional Contribution

- International operations accounted for 19.3% of the Bank's pre-tax profit in H1FY20, primarily driven by solid contributions from Bank of Chengdu ("BOCD") during the period under review. Profit contribution from BOCD improved 10.3% y-o-y to RM306 million in H1FY20, representing 18.0% of the Bank's pre-tax profit.

Dividend

- The Board has recommended an interim dividend of 16.0 sen per share for H1FY20.

Business Outlook

Domenic Fuda commented, “The Malaysian economy is expected to grow more modestly in the first half of 2020 amid uncertainties surrounding the COVID-19 outbreak that could potentially disrupt the global supply chain. However, we expect domestic demand, supported by both monetary and fiscal measures, to remain the main anchor of growth, helping cushion the fallout from the external front.

In the journey to be a highly digital and innovative ASEAN financial services institution, we have built our priorities around customers, as we aim to provide seamless, relevant, personalized and fair banking experiences to clients while empowering our people with the best opportunities to realise their full potential. We believe that this ongoing focus will provide us the platform to continue to explore new growth opportunities while optimising our cost structure, enabling us to achieve sustainable growth, make meaningful contributions to the communities which we operate in and deliver superior returns to our shareholders.”

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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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