

## **HONG LEONG BANK ANNOUNCES FY2020 RESULTS: RESILIENT PERFORMANCE ON CHALLENGING OPERATING ENVIRONMENT**

**Kuala Lumpur, 28 August 2020** - Hong Leong Bank Berhad (“Bank” or “HLB”), (BM: HLBANK) today announced its results for the financial year ended 30 June 2020 (“FY2020”).

- ✦ ***Core net profit for the financial year at RM2,603 million, marginally higher by 1.1% compared to the corresponding period last year (excluding a one-off gain from divestment of joint venture in FY2019 and modification loss in FY2020).***
- ✦ ***Gross loans and financing recorded a 6.1% year-on-year (“y-o-y”) growth to RM145.9 billion, with asset quality remaining solid, reflected by a lower Gross Impaired Loan (“GIL”) ratio at 0.61%.***
- ✦ ***Strong capital and liquidity position with Common Equity Tier 1 (“CET 1”), Tier 1 and Total Capital ratios at 13.7%, 14.2% and 16.5% respectively and Loans to Deposits ratio (“LDR”) and Liquidity Coverage ratio (“LCR”) improving to 83.5% and 137% respectively.***

**Domenic Fuda, Group Managing Director and Chief Executive Officer of HLB commented,** “The financial year delivered some unprecedented challenges and required us to respond quickly to the evolving health and economic situation so that we remain resilient and well-positioned to support all of our stakeholders. We are proud to be able to sustain our business performance with above industry loan/financing growth momentum, disciplined cost management and healthy contributions from our associates.

Net profit whilst adversely affected from ongoing headwinds, OPR cuts and one-off modification loss due to the loan/financing moratorium initiatives, underlying performance was resilient with good contribution from loan/financing growth and higher treasury and investment income.

We have been in close contact with our customers since the beginning of the pandemic outbreak, and have been tightly monitoring our credit portfolio over the past few months. In anticipation of a deteriorating asset quality cycle post the auto loan/financing moratorium period, we proactively built up additional credit loss buffers of RM301 million since March 2020.

Our strategic and tactical plans executed over the past year and the provision buffers we have built, gives us confidence to face the uncertainties ahead.”

**Resilient Performance against a Challenging Backdrop**

- *Total income* for FY2020 recorded a 1.1% y-o-y growth to RM4,778 million, on the back of loan/financing expansion and improved non-interest income contribution, after the impact of the one-off modification loss and OPR cuts.
- *Net interest income* for the fourth quarter of the financial year (“Q4FY20”) was lower by 5.5% y-o-y to RM773 million, as a result of 50 bps OPR cut in May 2020 and a one-off modification loss. Correspondingly, net interest income for FY2020 ended at RM3,406 million. NIM for FY2020 fell 8 bps y-o-y to 1.88% on the back of a combined 100 bps OPR cuts during the year.
- Net modification loss arising from the modification of cash flows due to the automatic moratorium on loan repayments/payments come in at RM142 million.
- *Non-interest income* for FY2020 was higher by 2.9% y-o-y at RM1,373 million, with non-interest income ratio maintained at 28.7%.
- *Cost-to-income ratio* moderated to 44.0% with positive JAWS attained for the year. *Operating expenses* were kept flattish at RM2,104 million for FY2020, indicating the effectiveness of the Bank’s digitisation efforts and strategic cost management initiatives to drive efficiencies.
- Consequently, *operating profit before allowances* and the modification loss for FY2020 was RM2,817 million, a 6.9% y-o-y increase compared to the same period last year.

**Sustained Loan/Financing Growth Momentum – Helping borrowers shore up their cash flows**

- *Gross loans, advances and financing* achieved a healthy 6.1% y-o-y growth to RM145.9 billion, as the Bank looked for opportunities to support customers in their personal and business endeavors. The Bank’s key segments of mortgages, SME and commercial banking remain the main drivers of loan/financing growth, supplemented by a strong lending franchise expansion in Cambodia and Vietnam.
- *Domestic loans/financing* continued its growth traction at 5.9% y-o-y, outperforming the industry growth rate.
- *Residential mortgages* grew 8.7% y-o-y to RM73.3 billion, backed by a healthy loan/financing pipeline while *transport vehicle loans/financing* growth was muted on lower car sales during the Movement Control Order (“MCO”) period to close at RM16.8 billion.
- *Domestic loans/financing to business enterprises* expanded 6.3% y-o-y to RM43.3 billion, whilst *loans and financing to SME* was 5.3% y-o-y higher at RM22.6 billion. The Bank’s community banking initiative continued its solid performance with a convincing growth of 32.8% y-o-y, boosted by loan/financing provided to SMEs who needed liquidity during the MCO and the subsequent recovery period.
- *Loans and financing from overseas operations* grew 9.3% y-o-y, led by expansion in Cambodia and Vietnam by 26.8% and 47.4% y-o-y respectively.

**Prudent Funding and Liquidity Position**

- The Bank's funding and liquidity positions remained healthy and prudent, with LDR of 83.5%. LCR remained comfortably above regulatory requirements, improving to 137%, compared to 134% for the same period last year.
- *Customer deposits* for FY2020 recorded a 6.4% y-o-y growth to RM173.5 billion. Leveraging on the Bank's cash management system, CASA expansion was robust at 15.9% y-o-y with an improved CASA mix of 27.9%.
- The Bank continued to maintain a stable funding base backed by a solid individual deposit base, represented by an industry leading mix of 53.3%.

**Solid Asset Quality and Capital Position**

- Maintaining the Bank's solid asset quality remains a key management focus. GIL ratio saw a good downward trend during the year, ending at 0.61% as at June 2020, down from 0.78% the prior year, providing a solid position to face the uncertainties ahead.
- The Bank's *loan/financing impairment coverage ("LIC") ratio* at 142% as at 30 June 2020 is significantly higher than prior year as we proactively built up credit loss buffers of RM301 million to mitigate potential risks arising from the ongoing COVID-19 pandemic and the end of the auto-moratorium period. It is worth noting that the provisions on GIL coupled with the value of security that we hold on these GILs results in a combined LIC ratio of 184%.
- The Bank's capital position remains supportive of future loans/financing expansion with *CET 1, Tier 1 and Total Capital ratios* at 13.7%, 14.2% and 16.5% respectively as at 30 June 2020.

**Regional Contribution**

- International operations accounted for 19.1% of the Bank's pre-tax profit in FY2020, mainly contributed by Bank of Chengdu ("BOCD"). Profit contribution from BOCD remains robust, improving 13.9% y-o-y to RM631 million for the financial year.

**Dividend**

- The Board has recommended a final dividend of 20.0 sen per share, bringing the total dividend to 36.0 sen per share for FY2020, with a dividend payout ratio of 30%, as the Bank exercises prudence in the management of our capital in view of current environment.

**Swift Response to COVID-19 Pandemic**

Fuda added, “The COVID-19 pandemic serves as a reminder that we are all connected as one community. With our customers affected by this, we made sure they were provided with the necessary assistance and support which enabled them to access the required liquidity to sustain themselves at different stages of the pandemic, and now, to work through the recovery journey that lays ahead.

The initiation of our Customer Financial Relief Plan in February, well before the MCO, allowed customers to restructure and reschedule their loans and financing in anticipation of the health and economic crisis effect on their businesses’ cash flow and individuals’ income. These proactive approach assisted them to manage and mitigate short-term cash flow disruptions through our wide-reaching initiatives, delivered in a clear, simple and seamless manner.”

Another key initiative carried out by the Bank was simplifying and digitising the application process for BNM’s SRF for SMEs to adapt to the restrictions of the MCO, as well as, to safeguard the health and safety of customers and HLB staff. The Bank allowed for the applications to be done via email, SMS or WhatsApp with consent provided via digital signatures. Through this initiative, HLB has managed to secure a total of RM1.2 billion for over 1,500 SMEs under the SRF, providing timely and much needed support to SMEs. In an effort to further support SMEs, HLB has also provided an additional RM500 million from its own funds to more than 600 SMEs supplementing the SRF to address the financing gap for SMEs which did not manage to receive the SRF funding, thus, filling the demand from SMEs to shore up their finances and reboot their businesses.

Additionally, further SME relief support has been provided via BNM’s Micro Enterprise Facility, Automation & Digitalisation Facility, Agrofood Facility, PENJANA SME Financing Scheme and PENJANA Tourism Financing Facility. This is to ensure that customers in these impacted industries receive the targeted assistance they need. On the digitalisation front, the Bank has organised ‘SME Talk’, a monthly webinar series focusing on emerging trends and needs that would benefit the SME business community, helping them to rebuild stronger and introduce digital tools to be adapted into their businesses.

With the industry-wide 6-month loan/financing repayments deferment period reaching the end on September 30<sup>th</sup>, the Bank has initiated calls and conversations with customers, to encourage borrowers to assess their current and expected financial position come October 2020, so that additional and targeted assistance tailored to their individual circumstances can be provided.

**Ensuring the Community Remains Supported**

To support communities at large, especially those in-need and the underprivileged, HLB donated RM1 million to MERCY Malaysia through the Association of Banks Malaysia as part of a collective contribution to support critical preparedness, readiness and response to COVID-19 cases. During the holy month of Ramadan, the Bank worked with 12 welfare homes nationwide to contribute hot meals daily in collaboration with its own SME customers in addition to providing cash aid for these homes to buy essentials.

The Bank also extended support to social enterprises who faced challenges in fulfilling their social missions. HLB worked with SURI Lifestyle, a denim upcycling social enterprise with social procurement to produce Personal Protective Equipment (“PPE”) suits for medical frontliners at Klang Hospital by subsidising labour cost, to help ensure underprivileged single mothers had an income to weather the pandemic. Another social enterprise HLB worked closely with is The Asli Co., who works with Orang Asli mothers empowering them to earn a sustainable income to overcome challenges faced as a result of the health crisis.

### **Recognition of the Bank’s Leadership during COVID-19**

In recognition of the Bank’s efforts in supporting customers during COVID-19, HLB was given the honour as one of the top six banks in Asia, and the only bank from Malaysia, for its agility, outstanding forward-thinking and commitment in extending support to its business, SME and individual customers and communities at large during the COVID-19 health and economic crisis with the **Excellence in Leadership in Asia 2020 award** at the prestigious Euromoney Awards for Excellence 2020. The Excellence in Leadership award is a new category of recognition introduced to honour banks across the Region for their swift response to the COVID-19 pandemic.

### **Business Outlook**

Fuda commented, “There are tentative green shoots to suggest that the world and domestic economies are emerging gradually from the trough. However, the recovery path ahead will be patchy, with downside risks remaining amid lingering uncertainties surrounding the pandemic and the full extent of the economic fallout from its extraordinary worldwide impact.

Living to our “Digital at the Core” ethos, we remain steadfast in our vision to build a highly digital and innovative ASEAN financial services institution. Emphasis are given to build products and services propositions that ring true to our brand promise of “Built Around You”, where clients are at the centre of everything we do.

The ‘new normal’ operating environment will no doubt present new growth opportunities which we will endeavour to capture by being agile and responsive to the changing landscape. Concurrently, we continue to revamp our cost structure, enabling us to invest in growth opportunities and deliver sustainable outcomes to 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 115 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.

For further information, please visit [www.hlb.com.my](http://www.hlb.com.my) or contact:

**Media:**

Vivian Tan

General Manager, Corporate Communication & CSR

DID: 03-2081 8888 ext 61914

Email: [VivianTan@hlbb.hongleong.com.my](mailto:VivianTan@hlbb.hongleong.com.my)

**Investor Relations:**

Chow Sheng Wai

Head, Corporate Finance & Investor Relations

DID: 03-2181 2972

Email: [IR@hlbb.hongleong.com.my](mailto:IR@hlbb.hongleong.com.my)