

HONG LEONG BANK ANNOUNCES H1FY23 RESULTS: COMMENDABLE PERFORMANCE AMIDST CHALLENGING OPERATING ENVIRONMENT AND MACROECONOMIC HEADWINDS

Kuala Lumpur, 28 February 2023 - Hong Leong Bank Berhad (“the Bank” or “HLB”), (BM: HLBANK) today announced its results for the six months ended 31 December 2022 (“H1FY23”).

- ✦ ***Net profit after tax for H1FY23 improved 26.7% year-on-year (“y-o-y”) to RM2,024 million.***
- ✦ ***Gross loans and financing expanded 7.6% y-o-y to RM172.3 billion, maintaining its strong growth trajectory.***
- ✦ ***Asset quality remained solid with a Gross Impaired Loan (“GIL”) ratio of 0.49% and healthy loan impairment coverage (“LIC”) ratio of 210.1%.***
- ✦ ***Healthy capital and liquidity positions with Common Equity Tier 1 (“CET 1”), Tier 1 and Total Capital ratios at 13.0%, 14.0% and 16.1% respectively while Loans to Deposits ratio (“LDR”) and Liquidity Coverage ratio (“LCR”) were resilient at 85.0% and 130% respectively.***

Domenic Fuda, Group Managing Director and Chief Executive Officer of HLB commented, “We are optimistic that the continuous expansion in consumer spending and added signs of recovery in investments and China reopening will be key drivers to lead the Malaysian economic expansion in 2023. Despite facing headwinds in the operating environment, we remained resilient and achieved a set of commendable results supported by a strong topline, continued loan/financing expansion and a healthy balance sheet.

Our net profit after tax for H1FY23 improved 26.7% y-o-y to RM2,024 million underpinned by stronger topline growth, low credit costs and robust contribution from associates. Consequently, we recorded an improved return on equity (“ROE”) of 12.8%.

Gross loans and financing portfolio expanded 7.6% y-o-y to RM172.3 billion, supported by expansion in our mortgage, SME and commercial banking segments, as well as overseas operations. We consistently monitor our asset quality and regularly review our credit underwriting processes which help to maintain our overall low GIL ratio (at 0.49% as at the end of December 2022), with adequate LIC of 210.1%.”

Commendable Business Performance

- *Total income* for H1FY23 grew 8.5% y-o-y to RM2,986 million, driven by stronger net interest income and non-interest income contribution.
- *Net interest income* for the quarter ended 31 December 2022 (“Q2FY23”) amounted to RM1,198 million. Correspondingly, net interest income for H1FY23 increased by 5.8% y-o-y to RM2,430 million backed by expansion in loan/financing portfolio and effective asset/liability management. This translates to a *net interest margin (“NIM”)* of 2.14% for H1FY23.
- *Non-interest income* for H1FY23 saw a solid recovery, up 22.4% y-o-y to RM556 million with a non-interest income ratio of 18.6%. This is mainly attributed to growth in credit card related fees as consumer sentiment improved coupled with higher trade finance, trading and foreign exchange gains due to the strengthening of our local currency.
- Operating expenses (“*opex*”) for H1FY23 were prudently managed at RM1,087 million. Revenue continues to outpace expenses growth for H1FY23, delivering positive JAWS with an improved *cost-to-income ratio (“CIR”)* of 36.4% versus the prior corresponding period, and stable to prior quarter.
- Consequently, *operating profit before allowances* for H1FY23 improved by 9.7% y-o-y to RM1,900 million, led by the strong underlying business performance.

Solid Growth Trajectory in Loan/Financing Portfolio

- *Gross loans, advances and financing* maintained a solid growth trajectory, expanding 7.6% y-o-y to RM172.3 billion. The growth is led by expansion in our key segments of mortgages, SME and commercial banking, as well as overseas operations.
- *Domestic loans/financing* growth of 6.5% y-o-y continues to outperform the industry growth rate of 5.7% y-o-y.
- *Residential mortgages* grew 8.2% y-o-y to RM86.1 billion, supported by a healthy loan pipeline while *transport vehicle loans/financing* extend its growth momentum of 10.3% y-o-y to RM18.7 billion, corresponding to the strong growth in sales volume of motor vehicles.
- *Loans to domestic business enterprises* expanded 10.1% y-o-y to RM55.5 billion, whilst our support of SMEs saw this loan/financing portfolio up 11.1% y-o-y to RM31.3 billion. The Bank’s community banking initiative, within the SME segment, also maintained a solid growth of 15.9% y-o-y, attributable to a strong loan/financing pipeline and our continuous innovation in the digital banking landscape which enhanced customers’ experience via significant improvements in turnaround time from loan application to approval and disbursement.
- Loans and financing from overseas operations grew 24.4% y-o-y, led by solid y-o-y growth of 31.9%, 25.6% and 15.8% in Vietnam, Singapore and Cambodia respectively.

Prudent Funding and Liquidity Position

- We continue to emphasise strong funding and liquidity positions as enablers to business growth. As at 31 December 2022, our LDR and LCR were stable and well above the regulatory requirements at 85.0% and 130% respectively.
- *Customer deposits* for H1FY23 rose by 5.5% y-o-y to RM198.9 billion, with a stable *CASA* of RM62.2 billion. This represents a *CASA* ratio of 31.3%, led by the Bank's effective cash management solutions and various product innovations and offerings.
- The Bank's stable funding base continues to be supported by an established individual deposit portfolio of RM100.0 billion, representing an individual deposit mix ratio of 50.3%.

Healthy Asset Quality and Capital Positions

- The Bank's asset quality positions remained healthy with a stable *GIL ratio* of 0.49% whilst *LIC ratio* is adequate at 210.1% as at 31 December 2022. Inclusive of the provisions made and the value of securities held on our *GIL*, the Bank's *LIC ratio* comfortably stood at 280.1%.
- Capital position of the Bank remains strong with *CET 1*, *Tier 1* and *Total Capital ratios* at 13.0%, 14.0% and 16.1% respectively as at 31 December 2022.

Regional Contribution

- International operations accounted for 28.6% of the Bank's pre-tax profit in H1FY23, primarily driven by the robust contribution from Bank of Chengdu ("BOCD"). Profit contribution from BOCD improved 36.0% y-o-y to RM628 million in H1FY23, representing 25.4% of the Bank's pre-tax profit.

Dividend

- The Board has declared an interim dividend of 21.0 sen per share for H1FY23.

Delighting Customers with Digital Services

- The Bank is cognisant of the digitalisation of many daily activities which enabled us to remain agile in meeting the ever-changing customer needs as Malaysians increasingly embrace a digital, mobile-led lifestyle, with close to 95% smartphone penetration in Malaysia.
- Aligning with the Bank's "Digital at the Core" ethos, the Bank was one of the first in the market to support Google Wallet on our cards, enabling close to 65% of the Bank's customers who are on the Android platform with an easy, safe and secure usage and payment experience.

Continued Focus on Community Investment Initiatives

- With social finance slated to play a greater role in advancing financial inclusion and enabling social development in the country, the Bank has rolled out a brand-new social finance programme: '**HLB Jumpstart – Micro Business**'. This programme provides assistance to aspiring entrepreneurs from underserved communities who lack credit history, and opportunities for them to start their own businesses. This assistance comes in the form of zero-profit financing and capital opportunities, as well as mentorship and business training. The ultimate goal is to help micro-entrepreneurs improve their livelihoods, including gig

economy workers, homemakers, and individuals that have yet to build a financial track record.

- The Bank's school-focused digital and financial inclusion initiative, 'HLB@School' has reached up to 50 schools nationwide in our effort to transform schools into cashless campuses, giving students first-hand exposure to digital banking and personal finance. This initiative empowers students to take responsibility of their own finances from a young age, equipping them with financial knowledge that should prove valuable throughout life. Most recently, the Bank has digitally transformed 16 schools in Kota Kinabalu, where these schools were recognised as "Cashless Schools" by Payment Networks Malaysia Sdn Bhd ("PayNet").

ESG Award Recognition

HLB is proud to receive The Edge's inaugural ESG Awards 2022 in recognition of the Bank's effort in our ESG (Environmental, Social & Governance) goals and sustainability efforts. With sustainability being an integral part of the Bank's long-term strategy, the Bank will continue to have meaningful engagements with stakeholders including customers, business partners and vendors to ensure that we work together to achieve collective progress towards sustainability goals and to facilitate future sustainable growth. The Bank will also continue to adopt a transparent stance on the progress we are making, so that all stakeholders are kept informed of our journey – through detailed disclosures in our website, annual sustainability reports, analyst briefings and other stakeholders' engagements.

Business Outlook

Fuda commented, "Growth in the Malaysian economy is expected to maintain a positive trajectory in the 4.0-4.5% region in 2023. Whilst the global economy continues to be challenging, resiliency in domestic demand underpinned by continuous expansion in consumer spending and added signs of recovery in investment is expected to help cushion the fallout from the external headwinds. China's border reopening would further ease supply chain constraints and provide a lift to consumption and global economic activities. However, tighter financial conditions, financial market volatility and geopolitical risks are other factors potentially keeping a lid on growth prospects ahead.

Our "Digital at the Core" strategy remains our guidance to constantly innovate and offer products and services which truly provide our customers with a seamless and best-in-class banking experience. Ringing true to our brand promise of "Built Around You", customer centricity remains a key priority as our product and service offerings are personalised to respective customers' needs and provided to them in a timely and contextualised manner.

We are disciplined in our investments and expenditure with a focus on growth opportunities that will deliver sustainable outcomes to our stakeholders. In line with our aspiration to become carbon neutral, our environmental, social and governance ("ESG") practices are benchmarked against international standards and internal milestones to ensure we make meaningful progress overtime."

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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 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 centers 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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