Press Release

For Immediate Release

HONG LEONG BANK ANNOUNCES 9MFY20 RESULTS: RESILIENT NET PROFIT ON HEALTHY LOAN GROWTH AND SOLID FUNDAMENTALS

Kuala Lumpur, 29 May 2020 - Hong Leong Bank Berhad ("Bank" or "HLB"), (BM: HLBANK) today announced its results for the nine months ended 31 March 2020 ("9MFY20").

- ***Gross loans and financing expanded by 6.6% year-on-year ("y-o-y") to RM142.4 billion, ahead of the industry growth rate.***
- ***Solid asset quality preserved with Gross Impaired Loan ("GIL") ratio below 1%.***
- ***Core net profit after tax for 9MFY20 stood at RM1,925 million, marginally lower compared to the corresponding period last year (which included a one-off gain from divestment of joint venture).***
- ***Robust capital position with Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital ratios at 12.9%, 13.5% and 15.7% respectively.***

Domenic Fuda, Group Managing Director and Chief Executive Officer of HLB commented, "Despite ongoing headwinds from the COVID-19 pandemic, global oil price crash and Overnight Policy Rate ("OPR") cuts by Bank Negara Malaysia's ("BNM"), we remained resilient as the Bank's performance was upheld by sustained loan growth momentum, prudent cost management and stable contributions from our associates.

Core total income for 9MFY20 expanded 3.3% y-o-y to RM3,582 million, underpinned by healthy 6.6% y-o-y expansion in loan/financing book, despite pressure from the two OPR cuts in January 2020 and March 2020, which resulted in net interest margin ("NIM") for the nine months being moderated to 1.97%. Excluding the impact from the OPR cuts, our NIM would have been stable at 2.02%, reflecting the Banks' solid fundamentals. Impact to NIM for the 3rd quarter ("Q3FY20") was well contained within 20bps quarter-on-quarter ("q-o-q") despite the combined 50bps cut, as a result of pre-emptive strategies that were in place."

In these unprecedented times, in addition to ensuring that our business remains healthy, the Bank's other main focus has been helping our customers through the financial challenges and business pressures brought about by the COVID-19 pandemic.

"Our main priority is helping our customers weather the current storm as well as assisting them to recover when the economy rebounds. We have been proactive in our efforts towards alleviating short-term financial strains as well as mitigating long term economic and social impacts. We moved early, and already at the beginning of February we had in place our own Customer Financial Relief Plan for affected SMEs and individual customers, where they could restructure or reschedule their loans and financing repayments to help with their short-term cash-flow situation," said Fuda. HLB and Hong Leong Islamic Bank ("HLISB") continues to extend support to SMEs via BNM's Special Relief Fund where, as of 18 May 2020, HLB had approved RM1.64 billion for over 2,000 SMEs spanning across sectors ranging from wholesale and retail trade, manufacturing, construction to transport, storage and communication. SMEs also have the option to apply for financing facilities under BNM's Funds for SMEs, specifically under the Automation and Digitalisation Facility ("ADF"), Agrofood Facility ("AF") and, the Micro Enterprises Facility ("MEF").

"Following BNM's announcement on the moratorium for SME and individual customers, covering conventional loans and Islamic financing repayments, our moratorium initiatives have followed suit. We have provided flexibility to our customers by giving them the option to continue paying whatever amount that they feel they can afford and in whatever frequency they are comfortable with, whether it be weekly, monthly, or otherwise. Subsequently, this allows our customers to manage their cashflow and, at the same time, ensures a smooth transition to normal repayment commitments come October 2020.

While corporate customers are not eligible for the automatic moratorium, we have been talking to our entire customer base and have extended, on a case-by-case basis, financial support as and when needed. Although credit cardholders did not fall under the automatic moratorium, we extended the option of converting their balances into a term loan/financing for a tenure of 3 years at an effective interest/profit rate of 13% p.a. to lessen their financial burden. Thus far, we are encouraged by the level of engagement and resultant feedback we have had from our retail, SME and corporate clients. Whilst the situation remains fluid and the economic pick-up uncertain, engaging with our clients will provide the opportunity of dialogue to alleviate the effects of this pandemic on their cashflow." he added.

<u>Resilient Performance</u>

- Core *total income* for 9MFY20 grew 3.3% y-o-y to RM3,582 million, underpinned by above industry loan growth and healthy non-interest income contribution.
- *Net interest income* was 2.3% higher y-o-y at RM2,632 million on the back of expansion in loan base whilst maintaining prudent funding cost management. Correspondingly, NIM for 9MFY20 stood at 1.97% despite two OPR cuts during the March 2020 quarter.
- Core *non-interest income* for 9MFY20 improved 6.2% y-o-y to RM949 million, with non-interest income ratio recorded at 26.5%. This is attributed to higher treasury gains but partially offset by lower forex gain.
- *Operating expenses* were prudently managed at RM1,583 million for 9MFY20, and inched upwards marginally by 1.4% y-o-y as we continue to place strong emphasis on our strategic cost management initiatives to help us better manage expenses. Accordingly, *cost-to-income ratio* was maintained at 44.2%.
- Core *operating profit* for 9MFY20 reported a robust 4.8% y-o-y growth to RM1,999 million.

<u>Loan Growth Momentum Sustained</u>

- *Gross loans, advances and financing* maintained its growth momentum, expanding 6.6% y-o-y to RM142.4 billion despite a relatively slower domestic credit growth environment as well as generally soft business sentiments. Overall loan growth was predominantly driven by growth in our business banking and mortgages segments.

- *Domestic loans* growth outperformed the industry at 5.9% y-o-y, continuing the positive pace of growth of recent quarters.
- *Residential mortgages* saw strong growth of 8.9% y-o-y to RM71.8 billion, supported by a solid loan pipeline while *transport vehicle loans* portfolio stood at RM17.3 billion.
- *Domestic loans to business enterprises* reported a 4.6% y-o-y growth to RM40.5 billion. *Loans and financing to SME* grew 1.7% y-o-y to RM21.2 billion, led by our community banking initiative which maintained its growth trajectory in the third quarter and accelerated by 33.5% y-o-y and 5.5% q-o-q.
- Loans and financing from overseas operations sustained its growth traction at 20.6% y-o-y, driven by growth in Singapore, Cambodia and Vietnam, which increased 14.2%, 36.5% and 43.4% y-o-y respectively.

Prudent Funding and Liquidity Position

- In these challenging times, we believe that ample liquidity is paramount for the Bank's ability to continue to support our clients, therefore we have maintained our prudent approach with a *loans-to-deposits ratio* of 84.8% whereas *liquidity coverage ratio* remained well above regulatory requirements at 130%.
- *Customer deposits* for 9MFY20 increased 3.0% y-o-y to RM167.9 billion, predominantly led by strong growth in CASA of 11.8% y-o-y, signifying the effectiveness of the Bank's cash management solutions.
- The Bank continued to maintain a stable funding base, supported by a strong individual deposit base of RM93.0 billion with an industry leading mix of 55.4%.

Solid Asset Quality and Strong Capital Position

- The Bank asset quality remained solid as we continue to brace ourselves through this tough situation, with GIL ratio up slightly to 0.98% at the end of the quarter, amongst the best in the industry. *Loan Impairment Coverage ("LIC") ratio* was maintained at 91%, as the impaired loans were well covered with sufficient collateral. Inclusive of regulatory reserves set aside as at 31 March 2020, the Bank's LIC ratio was 159%.
- The Bank's capital position remains robust with *CET 1, Tier 1* and *Total Capital ratios* at 12.9%, 13.5% and 15.7% respectively as at 31 March 2020.

Regional Contribution

- International operations makes up 19.2% of the Bank's pre-tax profit in 9MFY20, led by robust contribution from Bank of Chengdu ("BOCD") during the period under review. Profit contribution from BOCD grew 12.7% y-o-y to RM469 million in 9MFY20.

Business Outlook

Fuda commented, “Growth prospects of the Malaysian economy have become more challenging amid protracted uncertainties surrounding the COVID-19 pandemic. The recent plunge in global crude oil prices as well as demand and supply disruption globally are expected to exacerbate the downside risks to domestic growth prospects. The growth outlook of the Malaysian and Asian economies would therefore hinge heavily on the containment of the pandemic, effectiveness of the recently introduced fiscal and monetary stimulus packages and how the world rides out this global recession as economies reopen post the COVID-19 lockdowns.

Despite the challenging operating environment ahead, we remain committed in our vision to build a highly digital and innovative ASEAN financial services institution. Our priorities are 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. We are steadfast in our commitment to help the local communities through this very difficult period, where SMEs and individuals especially, are the most vulnerable. We will continue to provide the necessary support and collaborate closely with our customers to make sure they are able to return to a state of financial normalcy as economies adjust to the fight against COVID-19 and the “new norm” operating environment.”

-END-

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.

For further information, please visit 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

Investor Relations:
Chow Sheng Wai
Head, Corporate Finance & Investor Relations
DID: 03-2181 2972
Email: IR@hlbb.hongleong.com.my