



ANNUAL REPORT | 99 | LAPORAN TAHUNAN



Hong Leong Bank Berhad (97141-X)
A Member of the Hong Leong Group Malaysia



A Symbol For A New Era

The adoption of the new logo marks a new era for the Group. The corporate logo embodies the traditional character and culture of the Group, while its contemporary and dynamic design projects a modern image as the Group propels into the 21st century with new technology and revitalised programmes. The bold and sleek lines that come together represent the Group's various business divisions moving forward to serve our customers more effectively by offering quality products and services, thus reflecting the Group's corporate motto of **"Reaching out to you"**.

Bangsar Youth Carnival and Parade
29 August 1999



Reaching
out to you....

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corporate information

directors

YBhg Tan Sri Quek Leng Chan

(Executive Chairman)

Mr James Lim Cheng Poh

(Senior Group Managing Director)

En Zulkiflee Hashim

(Executive Director)

Mr Kwek Leng Hai

Mr Kwek Leng Seng

YBhg Datuk Dr Hussein Awang

Mr Tan Keok Yin

secretaries

Ms Ng Choi Foong

Ms Wong Seong Ch'o

auditors

Messrs PricewaterhouseCoopers

Public Accountants

11th Floor, Wisma Sime Darby

Jalan Raja Laut

50350 Kuala Lumpur

registrars

Hong Leong Nominees Sendirian Berhad

Level 5, Wisma Hong Leong

18 Jalan Perak

50450 Kuala Lumpur

Tel: 03-2641818

registered office

Level 5, Wisma Hong Leong

18 Jalan Perak

50450 Kuala Lumpur

Tel: 03-2648228

audit committee

composition of members

Mr Tan Keok Yin

(Chairman, Independent Non-Executive Director)

YBhg Datuk Dr Hussein Awang

(Independent Non-Executive Director)

Mr Kwek Leng Seng

(Non-Executive Director)

terms of reference

- To review with the auditor, the audit plan.
- To review with the auditor, his evaluation of the system of internal accounting controls and audit findings.
- To review with the auditor, his audit report.
- To review the assistance given by the Bank officers to the auditors.
- To review the scope and results of the internal audit procedures.
- To review the consolidated financial statements of the Bank submitted by the external auditors and thereafter to submit them to the Board of Directors.
- To review any related party transactions that may arise within the Bank or the Group.
- To recommend appropriate responses and actions, where necessary, on the above reviews.
- To nominate a person or persons as auditors.
- Other functions as may be agreed to by the Audit Committee and the Board of Directors.

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Fifty-eighth Annual General Meeting of the Company will be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Wednesday, 20 October 1999 at 12.00 noon in order:

1. To receive and consider the audited accounts for the year ended 30 June 1999 and the Directors' and Auditors' Reports thereon.
2. To declare a first and final dividend of 7% less tax for the year ended 30 June 1999 to be paid on 15 November 1999 to shareholders registered in the Record of Depositors on 29 October 1999.
3. To approve the payment of Directors' fees of RM257,616 to be divided amongst the Directors in such manner as the Directors may determine.
4. To re-elect Directors retiring in accordance with the Company's Articles of Association.
5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration.
6. As special business, to consider and, if thought fit, pass with or without any modifications, the following ordinary motion pursuant to Section 132D of the Companies Act, 1965:

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Company for the

time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Kuala Lumpur Stock Exchange and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

7. To consider any other business of which due notice shall have been given.

FURTHER NOTICE IS HEREBY GIVEN that a depositor shall qualify for entitlement to the first and final dividend only in respect of:

- a) shares transferred into the depositor's securities account before 12.30 p.m. on 29 October 1999 in respect of ordinary transfers; and
- b) shares bought on the Kuala Lumpur Stock Exchange on a cum entitlement basis according to the Rules of the Kuala Lumpur Stock Exchange.

By Order of the Board

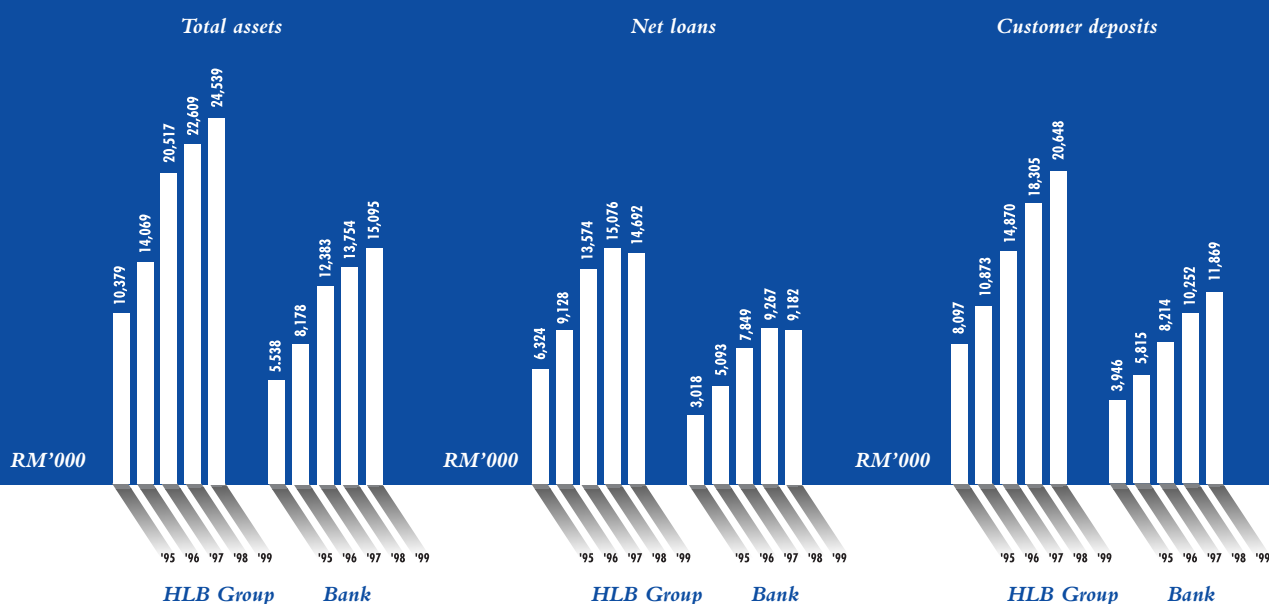
NG CHOI FOONG
WONG SEONG CH'O
Secretaries

Kuala Lumpur
5 October 1999

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy but not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company. A member may appoint any other person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. The Form of Proxy must be deposited at the Registered Office of the Company at Level 5, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
2. **Resolution pursuant to Section 132D of the Companies Act, 1965**
In line with the Company's plan for expansion/diversification, the Company is actively looking into prospective areas so as to broaden the operating base and earning potential of the Company. As the expansion/diversification may involve the issue of new shares, the Directors, under present circumstances, would have to call for a general meeting to approve the issue of new shares even though the number involved is less than 10% of the issued capital. In order to avoid any delay and cost involved in convening a general meeting to approve such issue of shares, it is thus considered appropriate that the Directors be now empowered to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for the time being for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.

financial highlights



	June 95 RM'000	June 96 RM'000	June 97 RM'000	June 98 RM'000	June 99 RM'000
Total assets					
HLB Group	10,379	14,069	20,517	22,609	24,539
Bank	5,538	8,178	12,383	13,754	15,095
Net loans					
HLB Group	6,324	9,128	13,574	15,076	14,692
Bank	3,018	5,093	7,849	9,267	9,182
Customer deposits					
HLB Group	8,097	10,873	14,870	18,305	20,648
Bank	3,946	5,815	8,214	10,252	11,869

chairman's statement

1998 was one of the most challenging in recent years for the Malaysian economy. Across the board, the domestic financial markets - equity, currency and money market - suffered deterioration which resulted in large outflows of funds and tightened liquidity. However, the Government's measures introduced in the latter half of 1998 to promote economic recovery has returned stability and confidence to Malaysia. Whilst the economy was on the recovery path, the Government further implemented an expansionary monetary policy through the lowering of interest rates especially the intervention rates, to accelerate economic growth.

Inevitably, the results of Hong Leong Bank Berhad (HLB) Group reflected to a considerable degree the economic conditions in which HLB Group operated. That HLB Group was able to maintain its operating profits demonstrated our team's commitment to protect asset quality and manage risk; improve liquidity and drive down costs through productive and efficient use of resources, as outlined in our last annual report.

reviewing our performance

financial highlights

I am pleased to report that as at 30 June 1999, the HLB Group customer deposits expanded to RM21 billion representing a growth rate of 13% from RM18 billion a year ago. Most of the increase was contributed by the Bank as it grew customer deposits by almost RM2 billion or 16% to RM12 billion at 30 June 1999.

The Group maintained its prudent stance of adopting more stringent policy of non-performing loans (NPL) classification and provisioning, in which loans were recognised as non-performing when payments were in arrears of 3 months and above. Based on the 3-month classification, net NPL for HLB Group and HLB stood at 8.0% and 5.4% respectively at 30 June 1999 as a result of effective credit risk management. The Group's general provisioning (GP) increased from 1.8% to 1.9% as at 30 June 1999 while GP for the Bank remained at 2.0% to cushion against unfavourable economic conditions.

Despite the challenging
operating environment,
the HLB Group

successfully preserved its Capital Strength

Despite the challenging operating environment, the HLB Group and the Bank preserved capital strength at risk weighted capital ratio of 12.2% and 13.0% respectively, well above the minimum requirement of 8.0%.

The Group remained profitable with an increase of RM42 million in its operating profit before provisions, from RM497 million to RM539 million in the current period. This was achieved through the increased operational efficiency, which saw operating expenses reduced by 8% and a greater emphasis on non-interest related income as evidenced by the robust growth of 38% in the Group's non-interest income.

The Group however, made an exceptional write-off of its goodwill of RM19 million and hence, pretax profit declined by 16% to RM107 million. In accordance with the recent Income Tax (Amendment) Bill 1999, no provision for taxation was required and with the writeback of over provision of tax in prior year, the Group's profit after tax grew by 183% to RM117 million. As a result, earnings per share recorded a two-fold increase to 20.3 sen.

At Bank level, profit before exceptional items registered an increase of 8% to RM137 million. The commendable performance by the Bank can be attributed to effective risk management and cost control measures and a strong emphasis towards enhancing the Bank's non-interest income, which grew by an impressive 41%.

The turbulent economic conditions however, resulted in losses suffered by one of the Bank's subsidiaries, Hong Leong Leasing Sdn Bhd and as such, the Bank made an exceptional



More Products More Channels

true to HLB's pledge
to serve customers
anytime, anywhere



full provision for the diminution in value of its investment in the subsidiary. Consequently, pretax profit after exceptional items registered a decrease of 14% to RM110 million.

Hong Leong Finance Berhad (HLF), the Bank's subsidiary, posted an increase in its operating profit by 36%, from RM115 million to RM157 million. The favourable increase was due to the increase in non-interest income of RM28 million and operating cost savings of RM19 million as compared to the preceding year arising from the implementation of timely and strategic cost control measures. Accordingly, pretax profit increased by 27% from RM16 million last year to record RM21 million in the current year.

more products more channels

Over the past year, we continued to pursue strategic alliances with various parties including non-financial service providers to bring more choice and convenience to customers, whatever lifestyle they enjoy, wherever they are and whichever stage of financial life they are in.

True to HLB's pledge to serve customers anytime, anywhere, HLB teamed up with our partner Rangkaian Segar Sdn Bhd, the issuer of Touch'N'Go cards (TNG) and introduced *HLB ~ Touch'N'Go* card - the only credit card for the Malaysian highway. *HLB ~ TNG* credit card combines the conveniences of a normal credit card with the prepaid electronic purse for toll payment at all TNG lanes, bus and LRT fares. No longer would customers need to worry about their TNG balance as the value in the *HLB~TNG* card will be automatically topped up to RM100 once it reaches the minimum RM20 and the amount debited into cardholders' account. Our weekend roadshows for *HLB ~ TNG*, themed "King of the Road" have been an enormous success. Held in busy shopping locations

in the Klang Valley, the roadshows drew more than 10,000 applications in the first month, representing more than 20% of the 30,000 to 50,000 users targeted in the first year of the card's introduction.

To market our home loans, the "*Sleepless nights campaign*" for Home-A-Loan (HAL) offered customers a free Bodyguard insurance coverage worth RM50,000 upon signing of the Letter of Offer and payment of the RM200 processing fee during the campaign period. The promotion was applicable to properties in the Klang Valley, Penang and Johor Bahru.

Early this year, HLF also teamed up with the Automobile Association of Malaysia (AAM) to introduce *Drive Link*. Customers who take up new car loans will be given a *Drive Link* card, a privilege card which comes with free AAM membership for a year. *Drive Link* cardholders will enjoy numerous benefits provided by AAM such as 24-hour breakdown assistance throughout Peninsular Malaysia with amongst others free towing and minor on-the-spot repairs, free DRIVE magazine, free third party claim assistance and free 20-point car inspection. Not restricted to car services only, members can also enjoy special discounts on hotel accommodation, tour packages at special promotional rates, rental of baby bassinet and child safety seats, discount on merchandise and special discount on car hire rate.

We believe in being "Healthy, wealthy and wise". With that emerged a joint initiative by HLF and Pathlab which offers HLF customers "*Health Check '99*", a comprehensive blood screening programme consisting 41 tests covering areas including diabetes screen, bone and joint problems, Hepatitis B screening, blood group and tumour markers. HLF customers and their spouses are entitled to redeem "*Health Check '99*" at RM120 each (normal price RM180).



For investment services, we created 2 new funds which were launched by our unit trust management company, HLB Unit Trust Management Berhad (HUTM) in May this year. *HLB Blue Chip Fund* and the *HLB Penny Stock Fund* are recovery funds which aim to capitalise on the stock market and economic recovery of Malaysia. The 1 billion units *Penny Stock Fund* is the first unit trust fund in Malaysia which was offered at 10 sen at the offer period. The public's response to the two funds was overwhelming. About RM100 million of investments poured into both funds within a month of the launch. The 100 million units *Blue Chip Fund* were fully subscribed shortly upon launching and had to be closed to the public. It was only reopened on 1 July 1999 after the Securities Commission gave us their approval to increase the fund size limit to 300 million units.

Being easily accessible and available to our customers is a top priority for us. This was why we also extended our reach to customers beyond our branches with *in-store*. In Malaysia, the *in-store* is a new concept of bringing the bank to where the people shop. Located at Carrefour outlets and a Giant hypermarket, the *in-store* is the one-stop financial services shop which offers customers the ultimate convenience of applying for car loans, housing loans, unit trusts, Bancassurance, share margin financing and even credit cards while carrying out their shopping.

advancing with technology

As we work with other businesses to deliver better financial services, our internal processes and support systems are also

queueing at several counters and the need to return to the branch to get one's drafts. Finally, customers can get their remittances directly at one counter and save on time and hassle.

Having replaced the existing SPEEDS system for interbank payments with RENTAS (Real Time Electronic Transfer of Funds and Securities) system, we interfaced Globus Treasury system to SWIFT and RENTAS as well as ORS to RENTAS. HLB and HLF are now allowed to share RENTAS Disaster Recovery (DR) arrangements.

We are also slicing the time and paperwork needed for customers to receive their money when they deposit cheques. In this respect, we completed phases 1 to 3 of the cheque and signature imaging system implementation which enables cheque clearing at branches without the physical cheques sent to the respective branches.

We rolled out the Interest Rates and Currency Board (IRCB) to replace the existing Light Emission Diode (LED) boards at Penang, Alor Setar and Segamat branches. IRCB which displays the Bank's interest and foreign exchange rates also



Being easily accessible
and available to our
customers is a **Top
Priority**
for us



being upgraded and integrated to create a seamless and efficient experience for each customer. No matter how many businesses or locations are involved, we aim to deliver the fastest and best results for each transaction.

Our regionalisation programmes are proceeding as planned. Todate, we have our regional loan processing hubs which centralise marketing support and credit management functions at designated branches. Numbering 10 throughout Malaysia, the hub branches are intended to free up branch staff to concentrate on customer service and development of targeted sectors. In addition, the establishment of 2 more regional cheque clearing centres in Johor Bahru and Penang, as well as a pilot Trade Finance Centre at our headquarters will provide more efficient workflow and speed up banking transactions. This transformation of branches is expected to steer our staff towards a culture of excellent sales and service.

The Group has always regarded automation and computerisation as one of the key factors for our long-term growth. With the successful computerisation and integration of our payment system, the ORS or Online Remittance System is now available at HLB branches nationwide after successful pilots at a few branches. The ORS eliminates the tedious routine of

functions as an information medium for products and services of the HLB Group as well as other financial services such as insurance. The IRCB system is implemented using Internet Web technology which centralises dissemination of information from the Bank's headquarters (HQ) in Kuala Lumpur. All updates will only need to be keyed in at the control site at HQ thus eliminating input by local users and hence duplication of effort. It will also improve the accuracy of information.

We have already gained approval from Bank Negara Malaysia (BNM) to merge the information technology (IT) operations of HLB and HLF and this IT merger is progressing as planned. This will further enhance our operational efficiency and effectiveness.

launching e-commerce

To succeed in today's connected and competitive markets, customers need ready access to timely and accurate information so that they can better seize opportunities. Hence, transmission of that information is of utmost importance to serving our customers anytime and anywhere. More than ever, electronic access channels play an increasingly important role in a financial services industry such as ours.

Hence, central to our developmental work thus far is the application of technology, both information and telecommunication. This serves to deliver new service channels like self service banking that will vault us to the forefront of electronic banking in Malaysia.

SET

We are 1 of the 4 banks in Malaysia to offer credit cardholders immediate access to the national SET Payment Gateway. With SET or Secure Electronic Transaction, customers can conveniently shop online and make payment via credit cards in a more secure environment. To do so, HLB credit cardholders need only apply for their e-wallet and digital certificate. Merchants who wish to participate in e-commerce can also sign up with HLB. Currently, HLB is issuing MasterCard certificates and acquiring merchants for MasterCard brand only.

The Bank was also the first in the country to offer bulk Cash Deposit Machine (CDM) which was piloted at our Bangsar branch. Instead of having to deposit cash notes one by one, HLB customers can now deposit cash notes in bundles at one go, and have the cash credited to their accounts immediately. HLB plans to offer this facility at key branches in the near future. Following this, we moved into the next phase of development with our pilot self service banking, also at Bangsar branch.



Central to our developmental work is the
Application of Technology,
both information
and telecommunication

With the IT merger of HLB and HLF, we upgraded our ATM (automated teller machine) system to enable us to handle more transactions. This would also facilitate our participation in MasterCard Cirrus and Visa Plus for credit cards encashment.

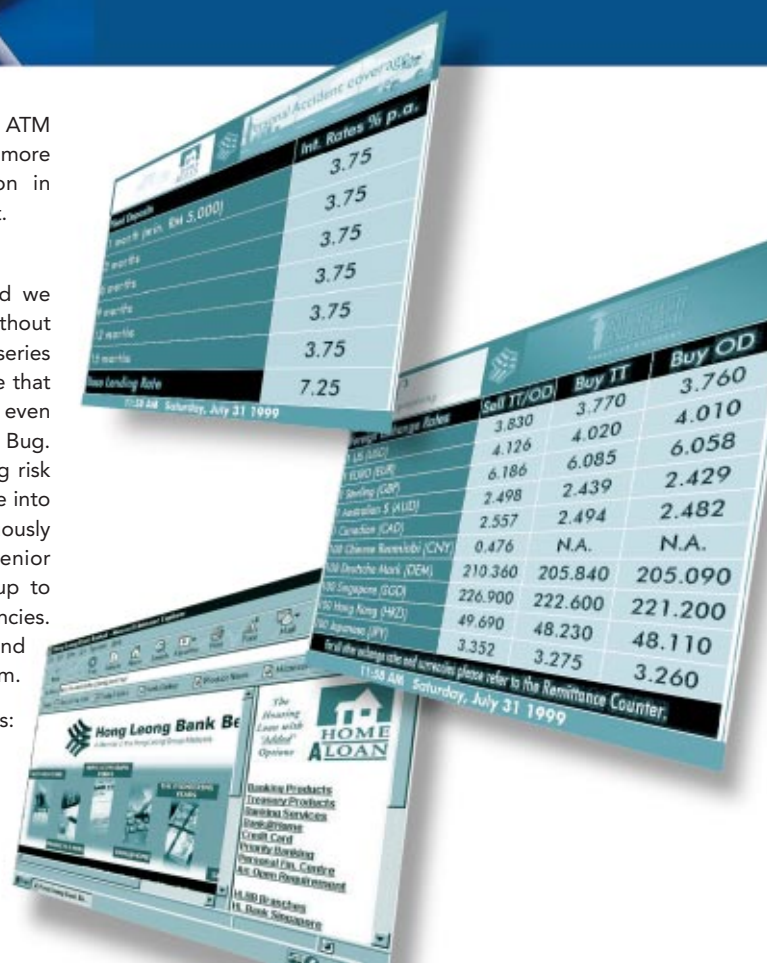
year 2000 compliance

The Group has completed Y2K testing of its systems and we expect all companies within the Group to operate without disruptions into the Year 2000. We have also put in place a series of Business Resumption Contingency Plans (BRCP) to ensure that business and operations will not be significantly interrupted even if internal or external disruptions occur due to the Millennium Bug. These plans are designed towards mitigating and managing risk exposure to the business. Testing of these plans will continue into the 3rd and 4th quarters of 1999 and will be continuously enhanced. A Y2K Command Centre comprising senior management of the respective companies has been set up to oversee the Y2K Crossover Plan and to manage all contingencies. The Bank's subsidiaries have similar plans and command centres to ensure a smooth transition into the new millennium.

More information about us can be accessed at our websites:

HLB: www.hlbb.hongleong.com.my

HUTM: www.unitrust.hongleong.com.my



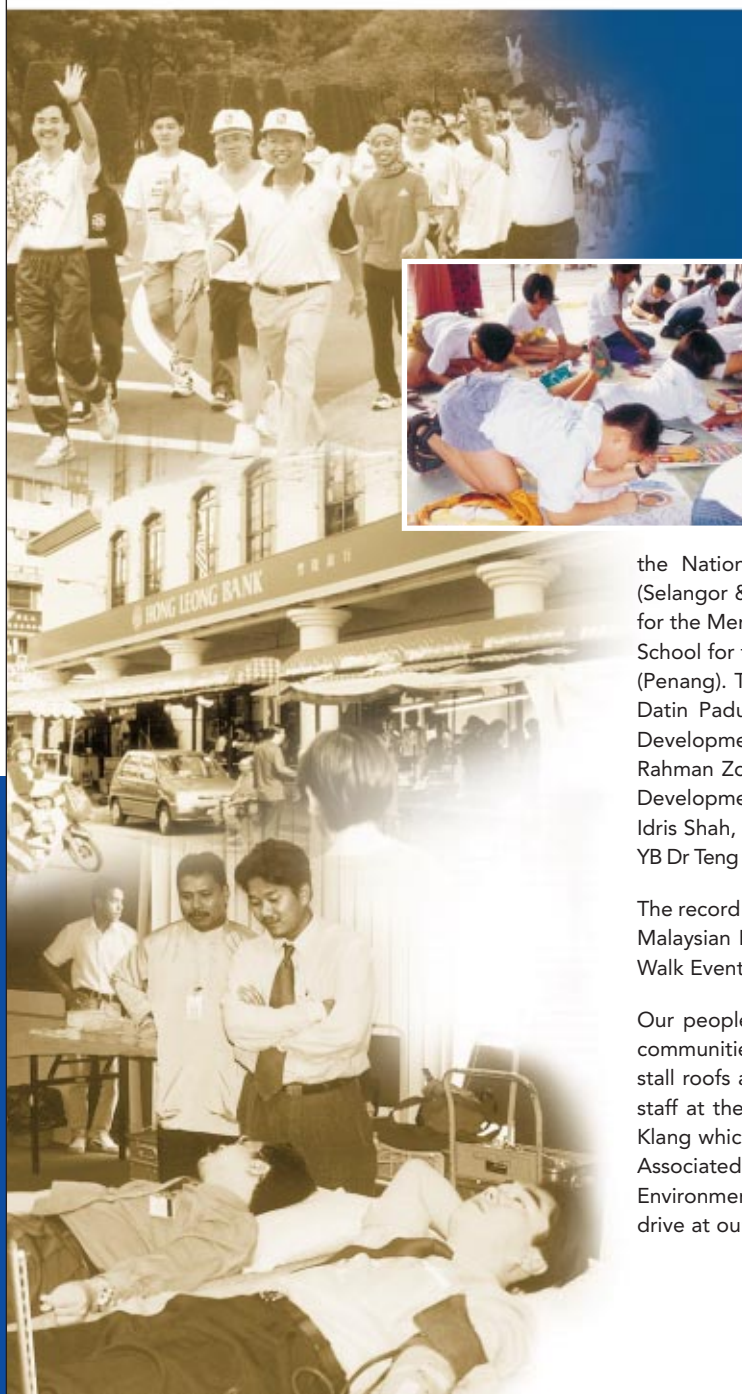


making it work

Products and technology are important but these alone cannot make it work. Ultimately, it is our people who will make it work for customers. That is why we continued to invest forward to attract, retain, motivate and reward the best people. Given that banking is an information intensive service industry where knowledge workers are a must, we pay particular attention to equipping our people with the right training whether in the classroom, on-the-job or via *Click'N'Learn* (our computer based training facility) and the right information through the e-mail and the Group's Intranet. This, combined with quality and productivity management and also continuous process improvement are part and parcel of our people's life towards a culture of learning, teaching and thinking.

being a friend to our community

We care about our community. In the tradition of being a responsible corporate citizen, the Bank Group has been involved in various community programmes. As always, we hoped that our contributions would benefit the organisations that are dedicated to helping the less fortunate in our society, especially those that could not help themselves like the children. The Bank organised "Walk-A-Child" to raise funds for special children. This is our first nationwide charity project which was held simultaneously at 4 locations in Malaysia: Kuala Lumpur, Penang, Johor Bahru and Kuching. We collected more than RM660,000 in support of 7 children's organisations:



Our people are frequently encouraged to do their bit for their Respective Communities

the National Autistic Society, the Mentally Retarded Children's Society (Selangor & Federal Territory), the National Society for the Deaf, the School for the Mentally Retarded (Sarawak), the School for Spastic Children and the School for the Mentally Retarded (Johor), and the Spastic Children's Society (Penang). The 5 km Walk-A-Child had the honour of being officiated by YB Datin Paduka Hajjah Zaleha Ismail, Minister of National Unity and Social Development at Padang Merbok in Kuala Lumpur, YB Datuk Abang Abdul Rahman Zohari bin Tun Abang Haji Openg, Sarawak's Minister of Industrial Development at Padang Merdeka in Kuching, YAM Raja Zarith Sofiah Sultan Idris Shah, Crown Princess of Johor at Dataran Merdeka in Johor Bahru and YB Dr Teng Hock Nan, Member of Penang State Council at Youth Park in Penang.

The record breaking collections for this campaign earned us an entry into the Malaysian Book of Records for the category "Highest Fund Raised From A Walk Event".

Our people are frequently encouraged to do their bit for their respective communities. Projects last year included the sponsorship of PVC covers over stall roofs at Kuala Lumpur's Chinatown by our Petaling Street branch. Our staff at the Klang branch participated in the Gotong Royong Campaign in Klang which was jointly organised by the Majlis Perbandaran Klang and the Associated Chinese Chamber of Commerce to clean up Klang as part of its Environmental and Beautification Campaign. We also held a blood donation drive at our headquarters.

More recently, we reached out to the youthful community by being one of the sponsors for the Youth Festival held in Bangsar - the heart of Kuala Lumpur - on 28 - 29 August 1999, organised by the Youth and Sports Ministry in conjunction with the 42nd National Day celebrations. Graced by our Prime Minister YAB Dato Seri Dr Mahathir bin Mohamad and witnessed by thousands, this exuberant display of talent and energy was an accolade to the achievements of young Malaysians and at the same time, sought to instil in them a sense of patriotism and respect for their self, family and community.

We care about people in need. During the JE viral outbreak, we provided financial assistance. Specifically, the Group donated RM200,000 to a special trust fund set up by BNM. We also set aside RM1 million under the Hong Leong Foundation Scholarship Programme for primary and secondary students from the afflicted families. In addition, we launched a RM10 million soft loan scheme to assist pig farmers and granted a 1-year moratorium on interest and principal repayments for housing and business loans.

We care for a better tomorrow. In doing our part to encourage students, a total of RM111,300 was awarded to outstanding students who achieved excellent academic results in the UPSR, PMR and SPM examinations. This was in conjunction with the Bank's "Smart-a-kid Education Bonus Award" presentation. We are happy to note that this year, the awards were given to nearly 800 Smart-a-kid account holders, more than double the number of account holders for our first round of awards.

Earlier in the year, HUTM embarked on a one year Corporate Campaign with the theme "For A Better Tomorrow". The campaign's objectives are to build investors' confidence in unit trust investment and to invite them to examine their financial goals and to invest with the company for a "better tomorrow". In conjunction with this campaign, a number of activities was carried out including the launching of new funds, bundled products, road shows, investment seminars and expositions.

We care about our heritage. We helped to preserve the historically rich heritage building where our Penang branch is located. We retained much of the colonial charm of the exterior of the building while modernising the interior - in look and in equipment (this branch is first to have the IRCB). Our renovations also incorporated the Heritage Gallery which features a collection of photos and exhibits relating to Penang and its history.



moving forward

For the new financial year, the Group expects the operating environment to improve as a result of the positive steps introduced by the Government to stimulate economic growth in the country. Accordingly, the Group will move into the new financial year with strong momentum and achieve the 8% loans growth target.

Although business conditions are expected to show further improvement, uncertainties still remain. But certainly competition will intensify as existing and new financial and non-financial service providers enter the playing field. With this in mind, we will definitely be stepping up our efforts to keep ourselves ahead.

As we entered into the 4th year of our masterplan and having taken stock last year during our mid-term review, we refocused our vision, i.e. we resolved to make our mark as the "Customer-centred, one stop financial service provider".

The year ahead will continue to be hard work for all of us as the HLB Group marshals its resources - people, technology, knowledge - to reshape and improve the way we do things. Be it in product innovation, service channels, processing or application of technology, we aim to better serve customers. While we make the necessary forward investments in resources, we will remain vigilant over risks and costs of doing business.

expressing our appreciation

On behalf of the Board of Directors, I thank you all, our customers and our shareholders, for your continued confidence and support for HLB Group's business and vision. We especially thank the great team of people who have worked with great dedication and made our vision work. We look forward to achieving sustained success together. We take this opportunity to thank Mr Seow Lun Hoo who resigned from the Board on 30 July 1999 for his past contributions to the Group. We also thank the authorities for their assistance and guidance.

QUEK LENG CHAN
Chairman

Kuala Lumpur
9 September 1999

