

# Chairman's Statement

Last year, I wrote that we had refocused our vision towards creating a Hong Leong Bank Berhad (HLB or Bank) Group that is a "Customer-centric one-stop financial service provider". I am pleased to report that this vision is taking shape well, amidst the transformation sweeping across the domestic and global financial services industry.

In many respects, 1999/2000 was a landmark year for the HLB Group.

- We continued to score a number of **firsts in Malaysia**: The first and only American Express (AMEX) credit card. The first bulk cash deposit machine (CDM). The first in-store - a concept sales outlet - located at selected hypermarkets. The first online car loan application through the Internet via "autoworld.com.my". The first "Car Life Scheme", a concept similar to mortgage reducing term assurance (MRTA) for car hire purchase (HP) customers.
- The interactive telephone banking facility was launched recently as we continued to deliver our promise of "*Reaching out to you*".
- Our SMEs (Small and Medium Scale Enterprises) connection has grown from strength to strength, especially with our "Reaching out to the communities" programs.
- HLB was appointed as **Principal Dealer** by Bank Negara Malaysia (BNM).
- More significantly, we were named an **anchor bank**, one of ten to lead the domestic consolidation of the Malaysian banking sector. On 30 June 2000, we took a step closer towards being a lead bank with the signing of conditional sale and purchase agreements (SPAs) to acquire Credit Corporation (Malaysia) Berhad (CCM) and Wah Tat Bank Berhad (WTB).

## Strong Financial Performance

### Profitability

In the financial year just ended, HLB Group's earnings rebounded substantially as it benefited from the

improving Malaysian economy. The Bank Group produced a pre-tax profit of RM465.7 million for the current financial year, more than a four-fold increase as compared to RM107.1 million in the previous financial year. This much improved performance was made possible by considerable efforts made by the Bank Group to enhance its operations and customer service as well as to increase its profile in the local financial industry. As a result, business income grew by 27%, faster than the 20% growth in operating expenditure. A reduction in loan loss provisioning which resulted from lower specific provisions required for the year also contributed to the higher pre-tax profit. The Group's profit after tax surged to RM337.7 million and consequently, earnings per share improved to 58.5 sen compared to 20.4 sen.

HLB continued to be the main driver of this growth with pre-tax profit of RM313.2 million for the year, an increase of 186% or RM203.5 million over the previous year. This was attributed to the growth in net interest income of 10% due to a healthy year-on-year growth in gross loans of RM852 million, particularly in productive economic sectors such as the manufacturing and retail sectors which accounted for more than half of the Bank's lending. In addition, the Bank's greater emphasis on non-interest related income especially through its credit card and trade financing business resulted in a non-interest income growth of 35%. Operating expenditure increased by 24% due to increased resources to boost HLB's business and promote its brand name. Meanwhile, the Bank recorded a significant reduction in its loan loss provisioning of 47% or RM119.6 million as a result of its sound asset and risk management policies.

Hong Leong Finance Berhad (HLF), a wholly owned subsidiary of the Bank recorded an increase in profit of 877% or RM180.7 million, from RM20.6 million in the previous year to RM201.3 million for the year ended 30 June 2000. This was due mainly to better interest margins earned from its fixed-rate hire purchase loans against lower cost of funds as a result of the current low interest rate environment as well as lower loan loss provisioning in the current financial year due to significant provisions already made in previous periods.



The Bank's wholly owned unit trust subsidiary, HLB Unit Trust Management Berhad (HUTM) recorded increased operating revenue from RM151.6 million to RM294.2 million for the current financial year and as a result, managed an impressive 75% increase in its pre-tax profit from RM3.0 million to RM5.1 million. Improved investment sentiment as a result of the improved Malaysian economy, was the main reason for this encouraging performance.

### Balance sheet strength

A commendable growth in assets was registered by the HLB Group and the Bank amounting to RM4.7 billion and RM3.4 billion respectively, representing an increase of 19% and 23% respectively from the previous year end. This growth fueled predominantly by a robust growth in customer deposits of RM3.1 billion and RM2.3 billion respectively, was the result of the Group's marketing efforts. It also reflects the confidence that the local community has in the HLB Group.

Net non-performing loans (NPL) continued to be managed at a satisfactory level, based on the stringent 3-month classification guidelines, at 6% and 5% of total loans for the Group and Bank respectively (compared with industry average of 11% and 9% for the banking system and commercial banks), as a direct result of the Group's sound credit risk management policies. The Bank Group and Bank continued to maintain its buffer against adverse economic conditions with loan loss reserves at 63% and 60% respectively at 30 June 2000, compared to the industry average of 53% and 57% respectively based on the latest available figures.

As at 30 June 2000, the HLB Group and Bank remained strongly capitalized with Risk Weighted Capital Ratio (RWCR) of 12% and 13% respectively.

## Putting The Pieces Together

In pursuing our customer-centric vision, we had identified 3 main priorities: to forge lifetime customer relationships, to e-Nable our business, and to instill a culture of service excellence and quality throughout the

HLB Group. We have been fast-tracking our efforts in these areas in order to endear ourselves to our customers and to embed the Bank Group in the communities it serves.

### Lifetime customer relationships

Forging lifetime customer relationships has taken many forms, from enhanced products and service options, to letting the customer know that we appreciate their decision to give us their business. This approach has been applied across our clients in business banking, personal banking as well as our communities.

#### ■ Business banking

Our focus on the SMEs has resulted in a significant contribution from this important sector. With more than 10,000 accounts and a combined total of RM3.3 billion, it accounted for 54% of the Bank's total commercial loans. We continued to cultivate and build our relationship with the SME sector, particularly those involved in the manufacturing, export and import, trading and services industries. The Bank has been gaining opportunities to interact and bond with the SMEs through seminars and business dialogue sessions with the various local and national trade associations as well as our "Reaching Out to You" programs. Our involvement with the SMEs is further extended to our strategic business alliances with identified multinational and local corporations where together, we offer our prospective and existing SME customers a one-stop solution to their business and financing requirements.

#### ■ Personal banking

Products introduced by the Bank last year included the HLB AMEX credit card which resulted from our strategic tie-up with AMEX, Hai-O co-branded cards, yield-enhanced convertible foreign currency account (FCA) fixed deposits and special foreign exchange rates for students. Besides these, we enhanced services at ATMs specifically those relating to credit cards like cash advances, balance inquiries and payment of credit card bills. In addition, electronic shares trading was brought to HLB's customers in 3 HLB branches, namely Rawang, Petaling Street and Bangsar. Known as "SharesDirect", this center enables customers to trade shares directly with HLG Securities Sdn Bhd which acts as the securities broker.





HLF launched "Graduate Bonanza", an attractive financial package for young graduates with benefits like the car loan package with free personal accident coverage and AAM membership, a personal computer loan with attractive margin of financing and free credit card with bonus gift redemption points, and high daily compounded interest on their "Generation Savings Account". HLF is also offering the "Car Life Scheme".

Customers have benefited from their long-term investment in funds managed by HUTM. For example, the HLB Growth Fund (GF) provided a 1-for-10 split on 30 June 2000 and a return of more than 50% since its launch in 1995 to 30 June 2000. The GF also earned recognition from Standard and Poor's Fund Services Asia Ltd as the top performer in terms of percentage of return among the 47 equity funds for 1999 (one-year category). Meanwhile, the HLB Penny Stock Fund recorded a good return of 32% since its launch last year up to 30 June 2000. Both funds outperformed the Kuala Lumpur Composite Index since their respective launches up to 30 June 2000.

## e-Nabling our business

More than ever, we are using information and communication technology to bring about our customer-centric vision throughout the Bank Group.

### ■ Electronic delivery channels

For the convenience of customers, we will continue to deliver financial services by upgrading our distribution channels. Having spent the last 5 years building up our physical infrastructure, we have been paying more attention lately to e-B2C, specifically the electronic

channels where customers of HLB and/or HLF can interact with us at their convenience.

Besides the Secure Electronic Transaction (SET) Payment Gateway System at HLB to enable Internet shopping, channels introduced over the past year are:

- Self service banking centers with bulk CDMs, cheque deposit machines, information kiosks and ATMs. The locations, HLB Bangsar and HLF SS2, Petaling Jaya, had been carefully selected to ensure maximum customer acceptance and usage.
- Interactive telephone banking facility for customers of HLB and HLF. Customers can, amongst other services, pay utility bills, transfer funds, stop payment on cheques, make inquiries on account balance via the ubiquitous telephone.

The HLB Group's financial services are also made accessible over the Internet 24 hours a day, for example, the secured online applications for HLF's car loans which are available via many local websites, one of which is "autoworld.com.my", Malaysia's first and largest public auto portal which was launched by Autoweb Sdn Bhd, a subsidiary of our parent Hong Leong Credit Berhad. The high traffic registered from this website reflects the quality contents and services it is providing. More products and services are in the pipeline to ensure that "autoworld.com.my" remains the premier auto portal for Malaysians.

### ■ Backroom e-Nabling

In order to create a seamless and efficient banking environment, the Bank continued to embrace centralization and integration of its backroom. For example, we automated the cheque clearing process together with interbranch online signature verification at our Malaysian branches. Customers can now either encash HLB cheques at any HLB branch or use their funds after 1 working day if they bank-in a HLB cheque at a non-domicile bank branch, regardless of clearing centers.

HLB also piloted the Teller Cash Dispenser Machines which are expected to improve teller productivity and security, reduce teller cash handling and expedite

