

**ANNUAL  
REPORT  
2008**



# Our Corporate Vision

An Outstanding Financial  
Services Organisation,  
Highly Competitive and Profitable,  
Where People Make  
the Difference.

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## Corporate Section

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# The Hong Leong Bank Story

Hong Leong Bank Berhad, a public listed company on the Malaysian Stock Exchange, is a member of the Hong Leong Group Malaysia (the Group). Headquartered in Malaysia, the Group has been in the financial services industry since 1968 through Hong Leong Finance Berhad and since 1982 through Dao Heng Bank Ltd in Hong Kong. Dao Heng Bank Ltd has since been sold to another banking institution.

With more than 100 years of banking knowledge and experience, Hong Leong Bank has a strong market position and well-recognized business franchise. Hong Leong Bank, one of the leading local banks in Malaysia has won many recognitions and accolades over the years: the Finance Asia 2002 Asia's Best Companies Award, the KPMG 2003 Shareholder Value Award, the CGC Top SMI Supporter Award 2004, The Asian Banker's Best Credit Card Product Award 2006, the 2006 JPMorgan Chase MT202 Elite Quality Recognition Award, and The Asian Banker's Best E-Banking Project 2007. Independent valuations have also placed Hong Leong Bank among the top 10 largest brands in the country.

Hong Leong Bank Berhad started its humble beginnings in 1905 in Kuching, Sarawak, Malaysia under the name of Kwong Lee Mortgage and Remittance Company and later in 1934, incorporated as Kwong Lee Bank Limited. In 1989, it was renamed MUI Bank, operating in 35 branches. In January 1994, the Group acquired MUI Bank through Hong Leong Credit Berhad (now known as Hong Leong Financial Group Berhad). This milestone saw the birth of Hong Leong Bank and in the same year in October, Hong Leong Bank was listed on the Kuala Lumpur Stock Exchange.

In 2004, the finance company business of Hong Leong Finance Berhad was acquired by Hong Leong Bank. Today, the enlarged, merged entity has over 185 branches in Malaysia, Singapore and Hong Kong, 17 Business Centres in Malaysia, and a range of alternate and electronic channels including self-service terminals, telemarketing, call centre, Hong Leong Online, Hong Leong Phone Banking and Hong Leong Mobile Banking.

In 2007, Hong Leong Bank acquired a 20% stake in Chengdu City Commercial Bank Co., Ltd China, the first strategic investment of any Malaysian bank into the Chinese banking sector.

Hong Leong Group Malaysia (the Group) is one of the largest business groups in Malaysia and internationally. The strong foundation and solid growth of the Group is attributed to the Power of Vision – the Vision of its Chairman and Chief Executive Officer, Tan Sri Quek Leng Chan. Today the Vision is manifested and entrenched in the Group's corporate culture, which is firmly rooted on the Group's core values of Quality, Entrepreneurship, Innovation, Honour, Human Resource, Unity, Progress and Social Responsibility.

The Group believes in embedding itself in the country and community within which it operates. Through its financial services arm Hong Leong Financial Group Berhad, which comprises Hong Leong Bank, Hong Leong Islamic Bank, Hong Leong Assurance, HLG Capital and Hong Leong Tokio Marine Takaful, the Group is well positioned as an integrated financial services provider.



QUALITY  
ENTREPRENEURSHIP  
INNOVATION  
HONOUR  
HUMAN RESOURCE  
UNITY  
PROGRESS  
SOCIAL RESPONSIBILITY

# Relationships + value

Transformation of the entire value chain, including customer service, has made Hong Leong a growth story

Why do you think your brand has been so successful?

Hong Leong Bank's brand philosophy of "reaching our goals" complemented by the brand attributes of building relationships and adding value by providing clarity in financial decisions is realized through a network of 186 branches and 17 business centres throughout Malaysia. Coupled with over 600 self-service terminals and a state-of-the-art call centre, this philosophy has enabled our bank to be within the community. We are well known for our core values of integrity, trust and service.

Could you share with us specific brand strategies that helped HLB get where it is today?

We realise there is consistency in the implementation of our brand philosophy, that is, building relationships and adding value by providing clarity



through "win-win-win" tactics. The foundation believes that providing relationships is about providing opportunities - giving deserving students the chance to have the higher education necessary to become tomorrow's leaders.

At least one million Ringgit is allocated each year for scholarship grants for the public for diploma and undergraduate studies at local universities and selected institutions of higher learning. Incubators are also included to the scholars for industrial training at Group companies to help ensure that scholars graduate into the workforce with sufficient knowledge and relevant experience.

Apart from these, a separate fund is set aside to scholarship grants for deserving children of Group staff. Both grants for the public and Group staff's children are unconditional.



## Hong Leong Bank Q2 net profit at RM214m

Revenue for the quarter rises to RM524mil

**KUALA LUMPUR:** Hong Leong Bank Bhd, the country's sixth largest lender by assets, posted a 37.46% jump in net profit to RM214.84mil for the second quarter ended Dec 31 from the previous corresponding quarter.

This was achieved on the back of a growing loan base, strong non-interest income, rising assets under management and improving net interest margins.

Revenue was up 20.6% to RM524.22mil against the previous corresponding quarter while earnings per share for the first half ended Dec 31 rose 363 to 27.7 sen compared with a year earlier.

Average return on shareholder funds also improved to 17% on an

**«The momentum of our investment in people, capacity and capex showed up strongly in our results»**

YVONNE CHIA

people, capacity and capital expansion (capex).

tern adjust their capital view. Such as emerging Asia may not be enough attractive. That's where we look for opportunities."

She said the bank would continue to push for assets and loans growth while remaining focused on profitable financial services and the medium enterprise segment.

"We see a lot of potential in customer segment of the market while there are opportunities for franchise growth in the region," said.

She said Hong Leong Bank will only consider a strategic pursuit for certain parts of its business, added that it was not looking for any

## HLB terima anugerah

**KUALA LUMPUR 27 Julai:** Hong Leong Bank (HLB) menerima Anugerah Pengiktirafan Kualiti Elit JPMorgan Chase MT2014 atas kualiti perkhidmatannya dalam pengurusan operasi pemindahan dana-danannya.

Kajian pada tahun lalu menukilkan HLB mempunyai rekod

## 豐隆35間分行 榮獲ISO證書

豐隆銀行宣布，該行旗下35間位於吉隆坡的分行榮獲ISO 9001:2000 證書。這項證書主要是針對完成和維持質量管理體系，提升客戶服務的持續性以及分行的聯合服務質量。

豐隆銀行執行董事祖基菲禮哈欣強調，"這項證書是我們承諾達到客戶全面滿意的證明。我們提供產品書也



Maya Tan (left) and Yvonne Chia of the product branch.

## HLB eyes RM1bil home loans this year

It aims to achieve this via latest offering

**KUALA LUMPUR:** Hong Leong Bank Bhd hopes to grow its home loan portfolio by at least RM1bil and expand customer base in the segment by 10% from the existing 15,000 this year.

The bank aims to achieve this through the latest product offering in home loans.

Chief operating officer for personal financial services Mayya Tan said Hong Leong Bank was currently one of the top five providers of home loans and expected its market share to grow from the current 16 to 19.

"We hope to further accelerate our growth

from in the banking industry. So, we hope to maintain or even enhance that by a bigger margin," she added.

The bank's latest home loan offers customers a repayment option and up to 10% margin of financing. It is applicable to completed property with a minimum loan amount of RM200,000.

The cash back will be automatically credited into the customer's savings or current account monthly from year six onwards. For a loan of RM1,000,000, the first payment is RM1,000 and every year, the applicant will receive a 2%

## HLB launches EPF e-payment service

By Adeline Paul Raj

**KUALA LUMPUR:** Hong Leong Bank Bhd (HLB) officially launched its e-payment service, enabling its retail bank customers to make payments to other agencies in online

form next time they go to visit their payments.

"There is less transaction cost in increasing the use of online channels and we hope more customers will consider using these services for greater

security, reliability and convenience," he added.

Other banks which EPF has similar arrangements with are Maybank, Public Bank, CIMB

Bank, Amanah Nasional and

HLB Bank.

HLB group managing director Yvonne Chia said the service not only helps employees save time but

also helps agencies save time in processing their bills.

## HLB unveils real time forex rates

Bank among the first to go live with system



launch yesterday.

"Further roll-out will depend on supply and demand over two to three years," he said.

Reuters Malaysia managing director Simon Soo He said HLB would be among the first five major banks in Malaysia to adopt the RET-AD system.

Two banks in Malaysia had gone "live", and apart from HLB, two more banks would be coming online soon, he added.

Among the system's multinational users are financial institutions such as JP Morgan and UBS.

In his speech, Soo said RET-AD allowed financial institutions such as HLB and their customers to conduct real-time online foreign exchange and money market transactions.

According to a Reuters estimate statement, the majority of the daily volume of foreign exchange transactions totalling US\$3bil was predominantly trade related.

HLB in a press statement said it live streaming forex rates through the RET-AD system was a key component in its plan to grow its treasury business in Malaysia.

# Hong Leong Bank acquires stake in Chengdu Bank

By Koh Thean En  
koththeanen@ntp.com.my

**HONG Leong Bank Bhd,** the country's sixth largest lender by assets, is making its entry into China by buying a 19.99 per cent stake in Chengdu City Commercial Bank Co Ltd (Chengdu Bank) for about RM877.5 million cash.

The banking group, controlled by tycoon Tan Sri Goh Koon Leong Chan, signed a conditional share sale

subscription agreement yesterday.

It is believed that Hong Leong Bank won the stake in a competitive bid that included rival banks from Asia and Europe.

"We believe in growth potential of China, and this will be our main investment in China. We are pleased to be able to partner with Chengdu Bank and we are confident that the investment will strengthen and diversify the earnings base of Hong Leong Bank."



assistance fund of not less than RM520 million.

Chengdu Bank, set up in December 1994, has a registered capital of RMB1.25 billion divided into 1.25 billion shares. It will be increased to RMB3.25 billion divided into 3.25 billion shares once the subscription is completed.

It has 29 branches and 114 outlets in Chengdu City. The bank has



# The Business

The Bank is a major financial services company in Malaysia. Its core commercial banking business consists of Personal Financial Services, Wholesale Banking and Islamic Financial Services within its core domestic market. It also has a regional boutique Investment

Banking and Private Banking franchise through HL Bank Singapore, its Singapore Branch, as well as a branch in Hong Kong.

The Bank is the main distribution franchise for the Hong Leong Financial Group that includes the Bank's subsidiaries, Hong Leong Islamic Bank and Hong Leong Tokio Marine Takafu, as well as its sister companies, Hong Leong Assurance and HLG Capital.

The Bank today serves its customers through a network of 185 Branches and 17 Business Centres throughout Malaysia and 1 Branch each in Singapore and Hong Kong, more than 600 Self-Service Terminals and a state-of-the-art, full service Call Centre. To serve high net worth customers, the Bank provides Priority Banking Centres and Private Banking Centres. The Bank also offers Hong Leong Online, Hong Leong Phone Banking and Hong Leong Mobile Banking.

Hong Leong Bank's "Reaching Out to You" has embedded the Bank well within the community. The Bank has also won many recognitions and accolades over the years for its banking products and services, and is known for its Integrity, Trust and Service.

The Hong Leong Bank Brand is well respected today. "Building relationships and adding value by providing clarity in financial decisions" to its customers is the essence of the Brand. As part of the Bank's Brand values, the organisation is relationship-focused, sells honestly and lives up to its heritage values.

Hong Leong Bank's key business pillars are outlined below:

## Personal Financial Services

Personal Financial Services is a core segment of the Bank. Its principal business activities cover the provision of retail loans, deposit products, wealth management and priority banking services to individuals.

## Wholesale Banking

Wholesale Banking marks the convergence of the Bank's HL Markets (Treasury), Corporate and Commercial, and Debt Capital Markets and Structured Finance businesses. Wholesale Banking provides a holistic solutioning platform for business clients. It targets small and medium-sized businesses, middle-market companies and large corporates.

## Hong Leong Islamic Financial Services

The Bank currently conducts its Islamic financial services business through 2 subsidiaries, Hong Leong Islamic Bank and Hong Leong Tokio Marine Takafu. This segment focuses on Syariah-compliant Commercial Banking, Islamic Wholesale and Investment Banking as well as Islamic Wealth Management.

## Overseas Franchises

The Bank currently has 1 branch each in Singapore and Hong Kong. HL Bank Singapore, the Singapore Branch is positioned towards becoming a leading regional boutique investment bank focusing on Investment Banking, Private Banking, Treasury, Principal Investments and Islamic Banking. It has been ranked as high as number 1 for number of IPO deals in Singapore consecutively since 2005.

In October 2007, the Bank acquired a 20% stake in Chengdu City Commercial Bank Co., Ltd in Chengdu, Sichuan Province, China. This will be the platform for the Bank to expand its activities in western and central China.

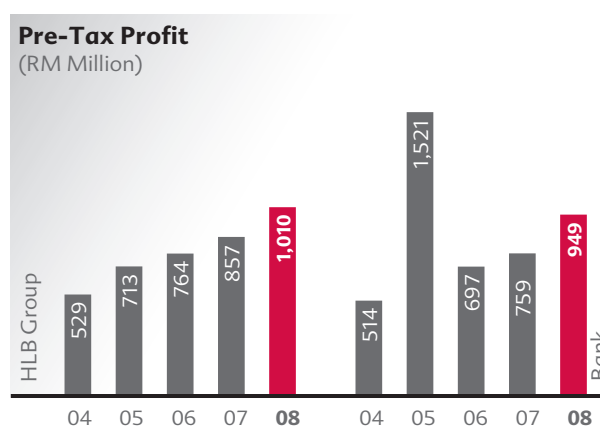
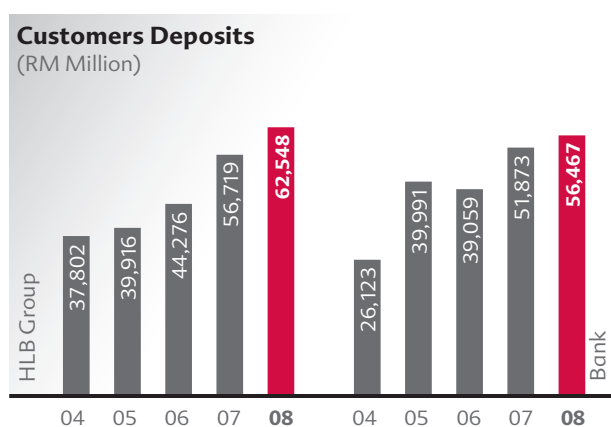
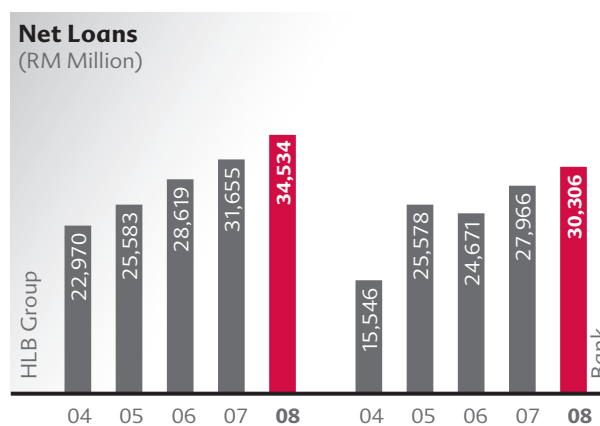
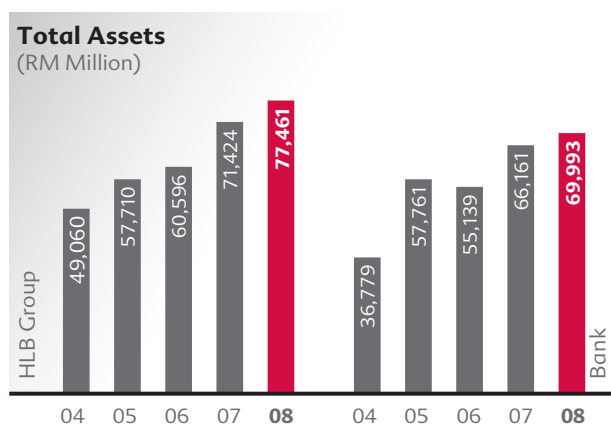
## Electronic Banking

The Bank uses an integrated mix of electronic channels that includes Self-Service Terminals, Hong Leong Online, Hong Leong Phone Banking and Hong Leong Mobile Banking. The Bank also leverages on various electronic payment capabilities, including MEPS Inter-bank Giro and cross-border ATM services. The focus is on electronic banking as a key enabler of business, and to enhance customer mind share, stickiness, the Bank's Brand and ultimately the Group's franchise value through alternate and electronic channels.

# Financial Highlights

HLB Group	June 04 RM Million	June 05 RM Million	June 06 RM Million	June 07 RM Million	June 08 RM Million
Total Assets	49,060	57,710	60,596	71,424	<b>77,461</b>
Net Loans	22,970	25,583	28,619	31,655	<b>34,534</b>
Customers Deposits	37,802	39,916	44,276	56,719	<b>62,548</b>
Pre-tax Profit	529	713	764	857	<b>1,010</b>

Bank	June 04 RM Million	June 05 RM Million	June 06 RM Million	June 07 RM Million	June 08 RM Million
Total Assets	36,779	57,761	55,139	66,161	<b>69,993</b>
Net Loans	15,546	25,578	24,671	27,966	<b>30,306</b>
Customers Deposits	26,123	39,991	39,059	51,873	<b>56,467</b>
Pre-tax Profit	514	1,521	697	759	<b>949</b>







Our Core Values  
Integrity • Trust • Service



## Relationship Focused

Valuing relationships with customers  
beyond the immediate opportunity



## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of the Hong Leong Bank Group ("Group") and Hong Leong Bank ("Bank") for the year ended 30 June 2008.

### Sustainable, Profitable Growth for Shareholder Value Creation

Hong Leong Bank Group ("Group") has achieved its first billion pre-tax profit at RM 1.01 billion for its full financial year results ended 30 June 2008.

The full year pre-tax profit rose by RM 153 million, up 18%, vs pre-tax profit of RM 857 million for the same corresponding period last year. After-tax profit grew RM 122 million, up 20% year-on-year.

The pace in the creation of value for shareholders continued in the right direction. Returns on average shareholder funds (ROSF) advanced by 150 basis points to 15.3%, compared to 13.8% reported for the whole 12 months last fiscal year.

Earnings per share (EPS) expanded by 21% to 51.2 sen compared to 42.4 sen last fiscal year. Similarly, net assets per share rose by 33 sen to RM 3.51 compared to RM 3.18 as of June 2007.

The financial performance of FY07/08 underscores the Group's vision, reputation for shareholder value creation, management strength and execution capability as a relevant and highly competitive participant in a fast changing market landscape.

I would like to take this opportunity to share with you the performance scorecard of the Group and the financial inflection points achieved since embarking on the Business Transformation programme for the Bank in FY04.

# Chairman's Statement (continued)

## Key Highlights of the Group's Full Year Financial Performance for FY07/08

The following summarises the key financial highlights of the year:

- Pre-tax profit for FYE June 2008 rose by 18% year-on-year to RM 1,010 million.
- After-tax profit for FYE June 2008 expanded by 20% year-on-year to RM 742 million.
- Returns on average shareholder funds (ROSF) increased to 15.3% on an annualised basis, up by 1.5% from 13.8% in FYE June 2007.
- Earnings per share (EPS) grew to 51.2 sen from 42.4 sen last year, up 21% year-on-year.
- Return on assets (ROA) improved by 6 basis points against the same period last year to 1.0%.
- Total net income crossed the RM 2 billion mark, ending at RM 2,018 million, up 14% year-on-year.
- Revenue growth was fuelled by an 18% growth in net interest income, 11% growth in net income from Islamic banking and 5% growth in other operating income (non-interest income).
- Net interest income expansion was driven by a combination of loans growth and margin enhancement from a proactive management of portfolio asset yields and cost of funds. Net interest margin improved by 25 basis points vs FY06/07.
- Non-interest income expanded to RM 479 million or up 5% year-on-year, on the back of improved earnings from core transactional sources, wealth management, trade finance, forex profits as well as advisory fees from the Singapore branch.
- Revenue growth was 2.4 times operating expense growth year-on-year, and cost-to-income ratio was flat at 42.1% vs 42.3% for FYE June 2007.
- Total assets grew 9% year-on-year to RM 77.5 billion.
- Gross loans grew 9% year-on-year to RM 35.4 billion.
- Customers deposits grew 10.3% year-on-year to RM 62.5 billion.
- The Group's Islamic assets expanded by 31%, and gross Islamic financing advanced by 15.3%.
- Gross non-performing loan (NPL) ratio and net NPL ratio decreased to 2.4% and 1.4% respectively in FYE June 08, from 3.2% and 1.9% in the last corresponding year.
- The Group's capital position remained strong, with the risk-weighted capital ratio (RWCR) at 16.4%.

The Group-wide Business Transformation programme to scale up the Group towards sustainable, profitable growth is not only in the right direction but also producing positive financial inflection points despite headwinds in a volatile global financial market and margin compression in the sector. The Group has been able to generate strong, consistent organic growth across all our businesses, and sustain that growth year-on-year.

## Underlying Business Growth

The businesses' core performance for the fiscal year was strong and broad-based, diversified balance sheet growth was achieved for the year.

The transformation of the Personal Financial Services (PFS) segment continued at a high pace, with segment revenue increasing 12% year-on-year to RM 1.4 billion and segment pre-tax profits up 17% year-on-year at RM 672 million. PFS assets grew 11% to RM 27.1 billion. PFS is a dominant contributor to Group profits with a 67% share of total profits.

The convergence of HL Markets (Treasury), Corporate and Commercial business including Trade Finance, and Debt Capital Markets and Structured Finance into Wholesale Banking as a segment has seen solid progress, delivering an 18% expansion in segment pre-tax profits to RM 338 million. HL Markets in particular was a strong performer, with profits up 77%. Treasury assets ended 6% higher than last year. The Corporate and Commercial business has been re-structured and streamlined into the following 2 organisations, namely a) Corporate and Large Commercial, and b) Commercial and SME. With the underlying structure strengthened through capacity building efforts and leadership refreshed, the Group would see better performance from the Corporate and Commercial segment in the coming financial year.

The Group's embedment in the community continues to anchor deposits growth, especially among individual depositors. Total deposits from customers ended at RM 62.5 billion versus RM 56.7 billion last year, or a growth of 10%. The Group is among the top 3 in size for deposits from individuals today.

The Wealth Management business, also driven via the boutique investment banking and private banking businesses out of the Singapore branch, is an emerging growth engine for the Group. For FY07/08, assets under management for the Group is at a size of over RM 13 billion.

Hong Leong Islamic Bank (HLISB), the Group's wholly-owned subsidiary registered a higher net profit of RM 64 million, up 13% year-on-year from RM 57 million. The balance sheet net financing grew to RM 4.2 billion or up by 16% from RM 3.7 billion as of June 2007. Depositor base stood at RM 6.2 billion, up 18% from RM 5.3 billion as of June 2007. During this fiscal year, HLISB has diversified into new Islamic Investment Banking and Wholesale Banking capabilities to complement the existing strong Personal Financial Services business. HLISB has secured new Investment Banking mandates over the fiscal year, and continues to maintain significant business momentum in this segment. Hong Leong Tokio Marine Takaful (HLTMT) commenced its first year of operations, and has progressed well, with gross contributions exceeding RM 170 million.

The transformation of E-Banking at the Group is another exciting story. Hong Leong Online has been rated the 3rd most popular Malaysian online banking site, based on combined average mean of reach and page views. It has also won The Asian Banker Best E-Banking Project in 2007.

On the back of a strong credit mantra and enhanced risk management practices, asset quality remained strong. The gross NPL ratio improved to 2.4%, down from 3.2% last June 2007. The net NPL ratio improved to 1.4% from 1.9% last June 2007. Total NPL also fell 19% to RM 840 million, from RM 1,033 million last June 2007. The loan loss coverage was higher at 103.8%, versus 86.6% last June 2007. The credit charge for the year was 0.4%, lower than 0.5% last year. These ratios put the Group solidly in the top tier among its peers.

Liquidity remains strong and healthy, and the loan to deposit ratio (including short-term corporate placements) stood at 56.7% or 71.8% (excluding short-term corporate placements).

On top of credit quality, another important attribute of an outstanding financial services organisation is its capital strength. The Group was able to maintain a strong capital adequacy ratio (RWCR) at 16.4% for the fiscal year, and which is in compliance with the new Basel II capital adequacy framework. The Group's capital ratios are also among the strongest in its peer group. Capital management via treasury shares buyback is ongoing, with 5.1% of total issued shares purchased.

The Bank had its RAM credit rating for its long and short term financial institution rating re-affirmed at AA2 and P1 while its subsidiary, Hong Leong Islamic Bank was newly rated, same as the mother bank at AA2 and P1.

The Bank is rated A2/P-1 and A3/P-1 by Moody's for its long-term global local currency deposit ratings and foreign currency obligations (at sovereign rating level) respectively. In Moody's bank financial strength rating scorecard, the Bank scored "A" for its profitability, capital adequacy and efficiency.

# Chairman's Statement (continued)

Standard & Poor rates the Bank's counterparty credit rating at BBB+/Stable/A-2. Fitch Ratings has the Bank's long-term Foreign Currency Issuer Default Rating (IDR) at 'BBB+' with a stable outlook.

The actual FYE June 2008 results were 9% ahead of analysts' consensus earning estimates for the Group at the start of the financial year in June 2007. The actual FY08 results were 98% of the consensus FY09 net profits forecast for the Group when those estimates were taken in June 2007, which essentially put the Group's earnings a year ahead of analyst expectations when we started the fiscal year. The stronger performance has led to progressive earnings upgrades in the market.

An independent evaluation of Malaysia's Most Valuable Brands 2007 by Interbrand and 4A's ranked Hong Leong Bank the 8th largest brand in the country, with a brand value of RM 3.1 billion, and bigger than the 4th and 5th largest financial services groups in the country.

The results above demonstrate clearly that the Group's franchise remains highly competitive in a liberalising sector, and the Group will continue to aggressively entrench itself in the market towards dominant positions in its chosen segments.

## Regional Embedment and International Businesses

Profits from the Group's two overseas branches in Singapore and Hong Kong collectively rose 3.5 times. Both branches contributed 6.5% of the Group profits. The niche boutique investment and private bank out of Singapore Branch expanded its profits by 67%. The Hong Kong Branch, due to the smaller size of its operations currently, would remain a strategic platform for the Group to seize opportunities in Greater China.

In October 2007, the Group made its move to enter the China market through its acquisition of a 20% equity interest in Chengdu City Commercial Bank Co., Ltd (Chengdu Bank), a leading city commercial bank in western China. This investment is part of the Group's long term goal of establishing a bigger presence in Asia. It officially marks the first strategic investment of any Malaysian bank into the Chinese banking sector.

The Group is confident that the investment in Chengdu Bank will strengthen and diversify its earnings base, and Chengdu Bank is a good business platform for the Group's expansion into western and central China. Both parties have complementary strengths and will be able to leverage on each other's capabilities and resources to grow the business.

Hong Leong Bank and Chengdu Bank have put in place a strategic alliance agreement on expert and technical assistance for Chengdu Bank, as well as training for Chengdu Bank's personnel. Chengdu Bank's growth over the long term is potentially one of the fastest growing franchise for the Group.

## Dividends

The Board is proposing a final dividend of 15 sen per share less tax of 25%, payable on 18 November 2008 subject to the approval by shareholders in the coming Annual General Meeting. Subject to the approval, total dividends in respect of the financial year ended 30 June 2008 would be 24 sen per share.

## Market Outlook and Strategic Progress

We are cautiously optimistic on the market outlook, and as an economy that integrates into the global economy, the Group is very mindful of the volatilities and risks. Global growth prospects remain at risk with record high oil prices, inflation and global imbalances. However, a resilient domestic sector is a positive.

The Group's growth strategy should remain steady, as the Business Transformation agenda over the last 4 years has strengthened the foundation and fundamentals of the business, while building new capabilities and growing new businesses. We are in the course of structural changes, and I believe the Group is prepared for the changes and would not be caught on the back foot. The Group has been quietly but effectively making structural changes to its operating structure, model and capacity to meet the challenges.

The ongoing and clear emphasis on enterprise risk management into the new fiscal year will continue, and there is a need to rationalise the risk-reward equation that arose out of the industry price war. We are cautious on the credit outlook. The Group's risk and credit philosophy, prudent risk management discipline and policies, and investments in risk and Basel II capabilities will support our business growth and risk-reward expectations.

The Group's strengths, from its strong value creation track record, to capital base, liquidity and entrepreneurialism, and to its global network and reach will position the Group for market opportunities.

I therefore remain confident of the Group's prospects. With the support of my fellow Board members and Management team, I believe we can build on the heritage of Hong Leong Bank in the community, embed the franchise as a relevant one in the region, and stride meaningfully towards our Vision of becoming an outstanding financial services organisation, highly competitive and profitable, where people make the difference.

### A Note of Appreciation

On behalf of the Board of Directors, I would like to record my gratitude to our customers, business partners and shareholders for their continuous support and confidence in the Group. A special note of appreciation goes to the Management team and employees of the Group for their passion, dedication, hard work and vision.

My sincere thanks also go to Bank Negara Malaysia, the Ministry of Finance, Government agencies, and regulatory authorities for their invaluable assistance, guidance and counsel.

**Quek Leng Chan**

Chairman

22 September 2008



# PEOPLE

Make the Difference

A company is not an organisation.  
It takes people to transform a company  
into an organisation.

**- Hong Leong Group Malaysia**







# Group Managing Director / Chief Executive's Review



FY07/08 was a milestone year. We achieved our first RM 1.01 billion pre-tax profit.

The Group's Business Transformation agenda towards sustainable, profitable growth started in 2004, and for the following 2 years, we stepped up the infrastructure and foundation to scale up, and developed new capabilities, from business to infrastructure and technology, and to human resources and strategic support. Those were the days of fortifying the building blocks, and the emphasis today has been to strengthen ourselves as a domestic core of prime value standards and to build a significant regional presence and franchise.

And this is a progress report of our Business Transformation journey, especially over the last 2 years – where we have done well, where we could have done better, the inflection points, and the visible changes to our market positioning, and franchise breadth and depth.

## Value Creation Transformation from Organic Growth

Profit before tax (PBT) from organic growth grew 1.91 times in 4 years to more than RM 1 billion from RM 529 million in FY04. Profit after tax (PAT) similarly grew 1.94 times over the same period. Return on average shareholder funds (ROSF) improved by 610 basis points from 9.2% in FY04 to 15.3% this year. Return on average assets (ROA) crossed 1.0% this financial year.

Earnings per share (EPS) was up 209% to 51.2 sen compared to FY04, and net tangible assets per share (NTA/share) expanded 25% over the same period to RM 3.51.

Assets grew 34% in the last 3 years. Loans were up 34% and deposits expanded by 57% over the same period. Despite margin compression from the sector's price war, net interest margin saw an uplift of 40 basis points vs FY06.

Scaling up the balance sheet has always been balanced against longer-term investments in the franchise. We put in an underlying structure to invest in infrastructure, technologies, new capabilities and operating capacity. More importantly, we look for a positive operating leverage where revenue growth exceeds expense growth. And we have a disciplined track record of making sure that we realise the returns on those investments (ROI). When we made significant investments in FY05, revenue growth stood at 0.9 times expense growth, but it rebounded strongly to 5.5 times the following year in FY06, allowing us to reap the ROI. Similarly, the pace of investments picked up in FY07, and the ratio was 1.0 times that year. This year, revenue growth rebounded to 2.4 times expense growth. The cost-income ratio ended at 42.1% for FY08, among the lowest for local banks.

Net non-performing loans (net NPL) ratio improved from 5.4% in FY04 to 1.4% for FY08, putting us among the top 3 of all local and foreign commercial banks for asset quality. Loan loss provision coverage almost doubled to 103.8% in the last 3 years, and credit charge has been halved to 0.4% over the same period.