



## HONG LEONG FINANCE

### Third Quarter and Nine Months Financial Statements

Third quarter and nine months financial statements on consolidated results for the period ended 30 September 2016. These figures have not been audited.

#### 1(a). Unaudited Group Statements of Comprehensive Income For The Quarter and Nine Months Ended 30 September 2016

	3rd Qtr 2016	3rd Qtr 2015	+ / (-)	9 Months 2016	9 Months 2015	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	<b>57,778</b>	59,517	(2.9)	<b>182,260</b>	171,523	6.3
Hiring charges	<b>9,756</b>	8,402	16.1	<b>27,998</b>	25,124	11.4
Other interest income	<b>6,882</b>	7,013	(1.9)	<b>24,061</b>	19,679	22.3
Interest income/hiring charges	<b>74,416</b>	74,932	(0.7)	<b>234,319</b>	216,326	8.3
Less: Interest expense	<b>42,414</b>	34,025	24.7	<b>130,764</b>	95,869	36.4
Net interest income/hiring charges	<b>32,002</b>	40,907	(21.8)	<b>103,555</b>	120,457	(14.0)
Fee and commission income	<b>3,012</b>	2,729	10.4	<b>8,351</b>	9,404	(11.2)
Other operating income	<b>61</b>	126	(51.6)	<b>157</b>	282	(44.3)
Income before operating expenses	<b>35,075</b>	43,762	(19.9)	<b>112,063</b>	130,143	(13.9)
Less: Staff costs	<b>14,043</b>	16,767	(16.2)	<b>46,406</b>	51,121	(9.2)
Depreciation of property, plant and equipment	<b>1,012</b>	1,158	(12.6)	<b>3,112</b>	3,192	(2.5)
Other operating expenses	<b>5,330</b>	5,168	3.1	<b>15,918</b>	16,509	(3.6)
Profit from operations before allowances/provision	<b>14,690</b>	20,669	(28.9)	<b>46,627</b>	59,321	(21.4)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	<b>749</b>	(598)	(225.3)	<b>(304)</b>	(3,984)	(92.4)
Profit before tax	<b>15,439</b>	20,071	(23.1)	<b>46,323</b>	55,337	(16.3)
Less: Income tax expense	<b>2,654</b>	3,243	(18.2)	<b>7,954</b>	8,984	(11.5)
Profit for the period/Comprehensive income attributable to owners of the Company	<b>12,785</b>	16,828	(24.0)	<b>38,369</b>	46,353	(17.2)
Annualised earnings per share (cents)						
- Basic	<b>11.52</b>	15.17		<b>11.53</b>	13.93	
- Diluted	<b>11.52</b>	15.16		<b>11.53</b>	13.92	

#### 1(b). Other Information In Relation to The Group Statements of Comprehensive Income

Other operating income includes loss on disposal of plant and equipment amounting to \$2,000 (30 September 2015: gain on disposal of plant and equipment of \$61,000) and \$3,000 (30 September 2015: gain on disposal of plant and equipment of \$121,000) for the quarter and nine months ended 30 September 2016 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015
Number of shares in issue	<b>443,784,033</b>	443,784,033	<b>443,784,033</b>	443,784,033
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Share capital	<b>879,279</b>	879,279	<b>879,279</b>	879,279
Reserves	<b>629,280</b>	629,821	<b>629,280</b>	629,821
Accumulated profits	<b>173,739</b>	179,011	<b>170,628</b>	175,979
Equity attributable to owners of the Company	<b>1,682,298</b>	1,688,111	<b>1,679,187</b>	1,685,079
Liabilities				
Deposits and balances of customers	<b>10,537,748</b>	11,443,999	<b>10,541,806</b>	11,448,002
Trade and other payables	<b>156,779</b>	139,848	<b>155,459</b>	138,540
Current tax payable	<b>12,162</b>	15,171	<b>12,157</b>	15,165
Total liabilities	<b>10,706,689</b>	11,599,018	<b>10,709,422</b>	11,601,707
Total equity and liabilities	<b>12,388,987</b>	13,287,129	<b>12,388,609</b>	13,286,786
Assets				
Cash at banks and in hand	<b>1,042,985</b>	1,495,006	<b>1,042,072</b>	1,494,129
Statutory deposit with the Monetary Authority of Singapore	<b>287,036</b>	300,979	<b>287,036</b>	300,979
Singapore Government securities	<b>1,262,157</b>	1,333,205	<b>1,262,157</b>	1,333,205
Hire purchase receivables	<b>1,513,068</b>	1,343,363	<b>1,513,068</b>	1,343,363
Loans, advances and factoring receivables	<b>8,351,977</b>	8,856,287	<b>8,351,977</b>	8,856,287
	<b>9,865,045</b>	10,199,650	<b>9,865,045</b>	10,199,650
Allowances for doubtful debts	<b>(109,631)</b>	(108,557)	<b>(109,631)</b>	(108,557)
	<b>9,755,414</b>	10,091,093	<b>9,755,414</b>	10,091,093
Other receivables, deposits and prepayments	<b>15,109</b>	37,478	<b>15,109</b>	37,477
Subsidiaries and long term investments	<b>546</b>	546	<b>1,081</b>	1,081
Property, plant and equipment	<b>25,052</b>	27,897	<b>25,052</b>	27,897
Deferred tax assets	<b>688</b>	925	<b>688</b>	925
Total assets	<b>12,388,987</b>	13,287,129	<b>12,388,609</b>	13,286,786
Acceptances, guarantees and other obligations on behalf of customers	<b>15,525</b>	14,026	<b>15,525</b>	14,026

2(b). Net Asset Value

Net asset value per share (\$)	<b>3.79</b>	3.80	<b>3.78</b>	3.80
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2(c). There are no outstanding borrowings and debt securities as at 30 September 2016 (31 December 2015: \$Nil) for the Group and the Company.

### 3. Consolidated Statement of Cash Flows

	<b>3rd Qtr 2016 \$'000</b>	3rd Qtr 2015 \$'000	<b>9 Months 2016 \$'000</b>	9 Months 2015 \$'000
Operating activities				
Profit for the period	<b>12,785</b>	16,828	<b>38,369</b>	46,353
Adjustments for:				
Impact of accrual of interest income	<b>1,919</b>	1,526	<b>2,018</b>	965
Impact of accrual of interest expense	<b>5,658</b>	2,746	<b>17,546</b>	19,686
Allowances for doubtful debts and receivables	<b>22</b>	1,207	<b>4,713</b>	5,569
Depreciation of property, plant and equipment	<b>1,012</b>	1,158	<b>3,112</b>	3,192
Loss/(gain) on disposal of property, plant and equipment	<b>2</b>	(61)	<b>3</b>	(121)
Value of employee services received for issue of share options	<b>66</b>	113	<b>197</b>	339
Income tax expense	<b>2,654</b>	3,243	<b>7,954</b>	8,984
	<b>24,118</b>	26,760	<b>73,912</b>	84,967
Changes in working capital:				
Loans, advances and receivables	<b>282,017</b>	(47,307)	<b>330,966</b>	(387,357)
Other receivables, deposits and prepayments	<b>(1,402)</b>	(2,010)	<b>20,351</b>	6,487
Singapore Government securities	<b>62,934</b>	73,640	<b>71,048</b>	(53,516)
Deposits and balances of customers	<b>(445,978)</b>	120,504	<b>(906,251)</b>	449,317
Trade and other payables	<b>619</b>	(55,724)	<b>(615)</b>	1,721
Cash generated from/(used in) operations	<b>(77,692)</b>	115,863	<b>(410,589)</b>	101,619
Income taxes paid	<b>(4,022)</b>	(3,720)	<b>(10,726)</b>	(9,919)
Cash flows from/(used in) operating activities	<b>(81,714)</b>	112,143	<b>(421,315)</b>	91,700
Investing activities				
Purchase of property, plant and equipment	<b>(103)</b>	(126)	<b>(273)</b>	(4,234)
Proceeds from disposal of property, plant and equipment	<b>1</b>	62	<b>3</b>	130
Cash flows used in investing activities	<b>(102)</b>	(64)	<b>(270)</b>	(4,104)
Financing activities				
Proceeds from exercise of share options	-	5	-	548
Dividends paid	<b>(13,314)</b>	(17,751)	<b>(44,379)</b>	(44,374)
Cash flows used in financing activities	<b>(13,314)</b>	(17,746)	<b>(44,379)</b>	(43,826)
Net increase/(decrease) in cash and cash equivalents	<b>(95,130)</b>	94,333	<b>(465,964)</b>	43,770
Cash and cash equivalents at beginning of period	<b>1,425,151</b>	1,314,885	<b>1,795,985</b>	1,365,448
Cash and cash equivalents at end of period	<b>1,330,021</b>	1,409,218	<b>1,330,021</b>	1,409,218

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	<b>30 Sep 2016 \$'000</b>	30 Sep 2015 \$'000
Cash at banks and in hand	<b>1,042,985</b>	1,117,874
Statutory deposit with the Monetary Authority of Singapore	<b>287,036</b>	291,344
Cash and cash equivalents at 30 September	<b>1,330,021</b>	1,409,218

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,262,157,000 (30 September 2015: \$1,312,204,000) for the Group.

4. Statements of Changes in Equity

<b>Group</b>	<b>Share capital \$'000</b>	<b>Statutory reserve \$'000</b>	<b>Capital reserve \$'000</b>	<b>Share option reserve \$'000</b>	<b>Accumulated profits \$'000</b>	<b>Total \$'000</b>
At 1 January 2016	879,279	620,024	2,307	7,490	179,011	1,688,111
Value of employee services received for issue of share options				131		131
Value of employee services transferred for share options exercised or lapsed				(397)	397	-
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Comprehensive income for the period					25,584	25,584
At 30 June 2016	879,279	620,024	2,307	7,224	173,927	1,682,761
Value of employee services received for issue of share options				<b>66</b>		<b>66</b>
Value of employee services transferred for share options exercised or lapsed				<b>(341)</b>	<b>341</b>	-
Interim dividend paid of 3 cents per share (tax exempt one-tier) in respect of year 2016					<b>(13,314)</b>	<b>(13,314)</b>
Comprehensive income for the period					<b>12,785</b>	<b>12,785</b>
At 30 September 2016	<b>879,279</b>	<b>620,024</b>	<b>2,307</b>	<b>6,949</b>	<b>173,739</b>	<b>1,682,298</b>
At 1 January 2015	878,664	601,809	2,307	7,776	168,012	1,658,568
Issue of shares under share option scheme	543					543
Value of employee services received for issue of share options				226		226
Value of employee services transferred for share options exercised or lapsed	67			(121)	54	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Comprehensive income for the period					29,525	29,525
At 30 June 2015	879,274	601,809	2,307	7,881	170,968	1,662,239
Issue of shares under share option scheme	5					5
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed				(650)	650	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2015					(17,751)	(17,751)
Comprehensive income for the period					16,828	16,828
At 30 September 2015	879,279	601,809	2,307	7,344	170,695	1,661,434

4. Statements of Changes in Equity (continued)

<b>Company</b>	<b>Share capital \$'000</b>	<b>Statutory reserve \$'000</b>	<b>Capital reserve \$'000</b>	<b>Share option reserve \$'000</b>	<b>Accumulated profits \$'000</b>	<b>Total \$'000</b>
At 1 January 2016	879,279	620,024	2,307	7,490	175,979	1,685,079
Value of employee services received for issue of share options				131		131
Value of employee services transferred for share options exercised or lapsed				(397)	397	-
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Comprehensive income for the period					25,529	25,529
At 30 June 2016	879,279	620,024	2,307	7,224	170,840	1,679,674
Value of employee services received for issue of share options				<b>66</b>		<b>66</b>
Value of employee services transferred for share options exercised or lapsed				<b>(341)</b>	<b>341</b>	-
Interim dividend paid of 3 cents per share (tax exempt one-tier) in respect of year 2016					<b>(13,314)</b>	<b>(13,314)</b>
Comprehensive income for the period					<b>12,761</b>	<b>12,761</b>
At 30 September 2016	<b>879,279</b>	<b>620,024</b>	<b>2,307</b>	<b>6,949</b>	<b>170,628</b>	<b>1,679,187</b>
At 1 January 2015	878,664	601,809	2,307	7,776	165,081	1,655,637
Issue of shares under share option scheme	543					543
Value of employee services received for issue of share options				226		226
Value of employee services transferred for share options exercised or lapsed	67			(121)	54	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Comprehensive income for the period					29,472	29,472
At 30 June 2015	879,274	601,809	2,307	7,881	167,984	1,659,255
Issue of shares under share option scheme	5					5
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed				(650)	650	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2015					(17,751)	(17,751)
Comprehensive income for the period					16,806	16,806
At 30 September 2015	879,279	601,809	2,307	7,344	167,689	1,658,428

## 5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,755 million at the end of the period under review. This was a reflection of the slowing economy, giving a decrease of 3.3% or \$336 million over the previous year's base of \$10,091 million as at 31 December 2015, and a decrease of 2.1% or \$209 million over the figure of \$9,964 million as at 30 September 2015.

In line with lower funding requirements, deposits and balances of customers closed at \$10,538 million as at 30 September 2016. This was a decrease of 7.9% or \$906 million over the previous year's base as at 31 December 2015 and a decrease of 3.5% or \$380 million over the base as at 30 September 2015. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,592 million as at 30 September 2016 (30 September 2015: \$2,721 million).

The Group recorded profit from operations before allowances/provision of \$14.7 million for the quarter under review, a decrease of 28.9% from \$20.7 million for the previous corresponding quarter, due mainly to increases in interest expense. For the nine months ended 30 September 2016, the decrease was 21.4% from \$59.3 million to \$46.6 million. Group profit before tax for the quarter and the nine months ended 30 September 2016 were arrived at after writing back provision/recoveries (net of top up of provision) amounting to \$0.7 million (30 September 2015: additional net allowance of \$0.6 million) and additional net allowance of \$0.3 million (30 September 2015: \$4.0 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$12.8 million, a decrease of \$4.0 million or 24.0% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2016 showed a decrease of \$8.0 million or 17.2% over the previous corresponding period to \$38.4 million. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio in line with the practice in prior years.

Total interest income/hiring charges for the quarter under review decreased by 0.7% due to a slightly lower loan base. For the nine months under review, total interest income/hiring charges increased by 8.3% due to the increase in loan base and a higher loan yield. Interest expense for the quarter registered an increase of \$8.4 million or 24.7% over the previous corresponding quarter due to a higher interest payable on deposits resulting from higher effective rates partially offset by a lower deposits base. For the nine months ended 30 September 2016, interest expense increased by \$34.9 million or 36.4% over the previous corresponding period due mainly to a combination of a larger deposits base and higher interest rates. Accordingly, net interest income/hiring charges for the quarter and nine months under review decreased 21.8% and 14.0% respectively from the previous corresponding period.

Fee and commission income for the quarter under review increased by 10.4% to \$3.0 million with higher non-lending fee income partially offset by a decrease in fee income from some lending products, whilst that for the nine months under review decreased by 11.2% to \$8.4 million with lower fee income from some lending products partially offset by an increase in non-lending fee income. Staff costs for the quarter and nine months under review decreased by 16.2% and 9.2% respectively mainly due to lower provision for bonus. Lower depreciation on renovation accounted for the decrease in depreciation of property, plant and equipment for both the periods under review. Other operating expenses were controlled.

Group shareholders' funds as at 30 September 2016 totalled \$1,682 million (31 December 2015: \$1,688 million) amounting to \$3.79 per share (31 December 2015: \$3.80 per share).

There has been no forecast or prospect statement previously disclosed to shareholders in respect of the period under review.

#### 6. Commentary On Significant Trends and Competitive Conditions In The Industry

According to advance estimates released by the Ministry of Trade and Industry, the Singapore economy grew by 0.6% on a year-on-year basis in the third quarter of 2016, easing from the 2.0% growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy contracted by 4.1%. This is a reversal from the 0.2% growth in the preceding quarter with the decline concentrated in the manufacturing sector.

External and domestic headwinds continue to impact the economy. Many uncertainties on the monetary policies and politics of major economies remain. These include the pace and quantum of US Fed's interest rate hikes, the future of Quantitative Easing and negative interest rate policies in the Eurozone and Japan, together with the impact of the US Presidential election just concluded, Brexit and the slowdown in the Chinese economy.

On the domestic front, we continue to be affected by low productivity, elevated manpower costs and the after effects of cooling measures in the property markets. Thus, together with the continuing slowdown of global trade and economy, overall growth in the Singapore economy is projected to take a step-down in second half of 2016 from the 2% recorded in first half of 2016. The Monetary Authority of Singapore's view is that full year GDP growth is likely to come in at the lower end of the 1% – 2% forecast range.

Taking cognizance of all of the above, Hong Leong Finance continues to focus on the SME markets and the HDB dwellers. We partner with the relevant Government agencies like SPRING and IE to help our SMEs tie over this difficult period. With our deposit customers in mind, we continue to roll out attractive deposit campaigns. Our SME Centres are also actively assisting the SMEs in the HDB estates with various innovative packages including Accounts Receivable Financing and Corporate Advisory Services.

#### 7. Dividend

An interim dividend of 3 cents per share (tax exempt one-tier) in respect of the current year declared in the previous quarter was paid on 16 September 2016.

As at the date of this report, the directors are not recommending the payment of a further interim dividend (30 September 2015: Nil) in respect of the current year.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) pursuant to the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme"), market price options to subscribe for 1,793,500 shares at an exercise price of \$2.23 per share were granted on 23 September 2016;
- (ii) no shares were issued under the Share Option Scheme;
- (iii) options to 212,605 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (iv) options to 1,291,100 shares under the Share Option Scheme lapsed upon expiry of options.

As at the end of the period, unissued shares of the Company under option amounted to 21,601,185 shares (30 September 2015: 22,503,595 shares).

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly there are no treasury shares held during or at the end of the current period.

9. Accounting Policies

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS").

As previously announced, the adoption of the FRSs which came into effect for the current year does not have a material impact on the financial statements for the period under review. Save as disclosed, accounting policies and methods of computation used in the financial statements for the period under review are consistent with those applied in the audited financial statements for the year ended 31 December 2015.

10. Shareholders' Mandate for Interested Person Transactions

The Company has not sought any shareholders' mandate for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

BY ORDER OF THE BOARD  
YEOW SWEE GIM, JOANNE  
COMPANY SECRETARY

Dated this 10<sup>th</sup> day of November 2016



### **Directors' Confirmation**

The Directors hereby confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the Group's unaudited interim financial statements for the quarter and the nine months ended 30 September 2016 to be false or misleading in any material aspect.

On behalf of the Board of Directors

**Kwek Leng Beng**

Director

**Po'ad bin Shaik Abu Bakar Mattar**

Director

**Singapore**

10 November 2016