



HONG LEONG FINANCE

First Quarter Financial Statements

First quarter financial statements on consolidated results for the three months ended 31 March 2016. These figures have not been audited.

1(a). Unaudited Group Statement of Comprehensive Income For The Quarter Ended 31 March 2016

	1st Qtr 2016	1st Qtr 2015	+ / (-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	63,555	53,750	18.2
Hiring charges	8,922	8,360	6.7
Other interest income	8,975	6,060	48.1
Interest income/hiring charges	81,452	68,170	19.5
Less: Interest expense	43,921	29,844	47.2
Net interest income/hiring charges	37,531	38,326	(2.1)
Fee and commission income	2,231	3,594	(37.9)
Other operating income	40	37	8.1
Income before operating expenses	39,802	41,957	(5.1)
Less: Staff costs	16,524	16,934	(2.4)
Depreciation of property, plant and equipment	1,079	906	19.1
Other operating expenses	5,507	5,128	7.4
Profit from operations before allowances/provision	16,692	18,989	(12.1)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	853	(348)	(345.1)
Profit before tax	17,545	18,641	(5.9)
Less: Income tax expense	2,999	3,075	(2.5)
Profit for the period/Comprehensive income attributable to owners of the Company	14,546	15,566	(6.6)
Annualised earnings per share (cents)			
- Basic	13.11	14.04	
- Diluted	13.11	14.02	

1(b). Other Information In Relation To The Group Statement of Comprehensive Income

Other operating income includes gain on disposal of plant and equipment amounting to \$1,000 (31 March 2015 : loss on disposal of plant and equipment of \$1,000).

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Mar 2016	31 Dec 2015	31 Mar 2016	31 Dec 2015
Number of shares in issue	443,784,033	443,784,033	443,784,033	443,784,033
	\$'000	\$'000	\$'000	\$'000
Share capital	879,279	879,279	879,279	879,279
Reserves	629,643	629,821	629,643	629,821
Accumulated profits	193,801	179,011	190,753	175,979
Equity attributable to owners of the Company	1,702,723	1,688,111	1,699,675	1,685,079
Liabilities				
Deposits and balances of customers	11,092,007	11,443,999	11,096,012	11,448,002
Trade and other payables	136,671	139,848	135,385	138,540
Current tax payable	15,387	15,171	15,381	15,165
Total liabilities	11,244,065	11,599,018	11,246,778	11,601,707
Total equity and liabilities	12,946,788	13,287,129	12,946,453	13,286,786
Assets				
Cash at banks and in hand	1,348,629	1,495,006	1,347,759	1,494,129
Statutory deposit with the Monetary Authority of Singapore	295,762	300,979	295,762	300,979
Singapore Government securities	1,329,144	1,333,205	1,329,144	1,333,205
Hire purchase receivables	1,398,733	1,343,363	1,398,733	1,343,363
Loans, advances and factoring receivables	8,636,772	8,856,287	8,636,772	8,856,287
	10,035,505	10,199,650	10,035,505	10,199,650
Allowances for doubtful debts	(108,393)	(108,557)	(108,393)	(108,557)
	9,927,112	10,091,093	9,927,112	10,091,093
Other receivables, deposits and prepayments	17,908	37,478	17,908	37,477
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	26,864	27,897	26,864	27,897
Deferred tax assets	823	925	823	925
Total assets	12,946,788	13,287,129	12,946,453	13,286,786
Acceptances, guarantees and other obligations on behalf of customers	10,478	14,026	10,478	14,026

2(b). Net Asset Value

Net asset value per share (\$)	3.84	3.80	3.83	3.80
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2(c). There are no outstanding borrowings and debt securities as at 31 March 2016 (31 December 2015 : \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	31 Mar 2016 \$'000	31 Mar 2015 \$'000
Operating activities		
Profit for the period	14,546	15,566
Adjustments for:		
Impact of accrual of interest income	1,020	1,249
Impact of accrual of interest expense	(1,616)	(702)
Allowances for doubtful debts and receivables	1,620	868
Depreciation of property, plant and equipment	1,079	906
(Gain)/loss on disposal of property, plant and equipment	(1)	1
Value of employee services received for issue of share options	66	113
Income tax expense	2,999	3,075
	19,713	21,076
Changes in working capital:		
Loans, advances and receivables	162,361	9,723
Other receivables, deposits and prepayments	18,550	8,571
Singapore Government securities	4,061	(15,623)
Deposits and balances of customers	(351,992)	155,049
Trade and other payables	(1,561)	(1,654)
Cash generated from/(used in) operations	(148,868)	177,142
Income taxes paid	(2,681)	(2,478)
Cash flows from/(used in) operating activities	(151,549)	174,664
Investing activities		
Purchase of property, plant and equipment	(47)	(1,373)
Proceeds from disposal of property, plant and equipment	2	-
Cash flows used in investing activities	(45)	(1,373)
Financing activities		
Proceeds from exercise of share options	-	72
Cash flows from financing activities	-	72
Net increase/(decrease) in cash and cash equivalents	(151,594)	173,363
Cash and cash equivalents at 1 January	1,795,985	1,365,448
Cash and cash equivalents at 31 March	1,644,391	1,538,811

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

	31 Mar 2016 \$'000	31 Mar 2015 \$'000
Cash at banks and in hand	1,348,629	1,255,204
Statutory deposit with the Monetary Authority of Singapore	295,762	283,607
Cash and cash equivalents at 31 March	1,644,391	1,538,811

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,329,144,000 (31 March 2015 : \$1,274,311,000) for the Group.

4. Statements of Changes in Equity

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total \$'000
Group						
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				66		66
Value of employee services transferred for share options exercised or lapsed				(244)	244	-
Comprehensive income for the period					14,546	14,546
At 31 March 2016	879,279	620,024	2,307	7,312	193,801	1,702,723
At 1 January 2015	878,664	601,809	2,307	7,776	168,012	1,658,568
Issue of shares under share option scheme	72					72
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed	9			(25)	16	-
Comprehensive income for the period					15,566	15,566
At 31 March 2015	878,745	601,809	2,307	7,864	183,594	1,674,319
Company						
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				66		66
Value of employee services transferred for share options exercised or lapsed				(244)	244	-
Comprehensive income for the period					14,530	14,530
At 31 March 2016	879,279	620,024	2,307	7,312	190,753	1,699,675
At 1 January 2015	878,664	601,809	2,307	7,776	165,081	1,655,637
Issue of shares under share option scheme	72					72
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed	9			(25)	16	-
Comprehensive income for the period					15,554	15,554
At 31 March 2015	878,745	601,809	2,307	7,864	180,651	1,671,376

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,927 million at the end of the period under review. This was a reflection of the slowing economy, giving a decrease of 1.6% or \$164 million over the previous year's base of \$10,091 million as at 31 December 2015, although an increase of 3.7% or \$355 million over the figure of \$9,572 million as at 31 March 2015.

Competition for customer deposits remained keen. Deposits and balances of customers amounted to \$11,092 million as at 31 March 2016. This was a decrease of 3.1% or \$352 million over the previous year's base of \$11,444 million as at 31 December 2015, and an increase of 4.4% or \$468 million over the base as at 31 March 2015. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,974 million as at 31 March 2016.

The Group recorded profit from operations before allowances/provision of \$16.7 million for the period under review, a decrease of 12.1% from \$19.0 million for the previous corresponding period. Group profit before tax was arrived at after writing back provision/recoveries (net of top up of provision) amounting to \$853,000 against an additional net allowance of \$348,000 in the previous corresponding period. Accordingly, Group profit after tax for the period under review amounted to \$14.5 million, a decrease of \$1.0 million or 6.6% over the previous corresponding period. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio in line with the practice in prior years.

For the period under review, total interest income/hiring charges increased by 19.5% due to the increase in loan base and a higher loan yield compared to the previous corresponding period. Interest expense for the period under review registered an increase of \$14.1 million or 47.2% over the previous corresponding period. This was due to a higher interest payable on deposits resulting from a combination of a larger deposits base and higher prevailing interest rates. Longer term Singapore interbank rates had risen sharply compared to a year ago, compounded by intense competition for deposits from retail customers which comprise our core deposit base. Accordingly, net interest income/hiring charges for the period under review decreased 2.1% from the previous corresponding quarter.

Fee and commission income decreased by 37.9% to \$2.2 million with lower fee income from some lending products offset by an increase in non-lending fee income. Higher depreciation on computer equipment accounted for the increase in depreciation on property, plant and equipment. Staff costs were controlled. An increase of 7.4% in other operating expenses was due mainly to increased operating lease premises expenses.

Group shareholders' funds as at 31 March 2016 totalled \$1,703 million (31 December 2015 : \$1,688 million) amounting to \$3.84 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

The World Bank in its latest economic growth forecast for the Asia Pacific region noted that overall outlook is clouded by various risks including slowdown in China's growth prospects, volatility in the financial market and further falls in commodity prices. Singapore's Ministry of Trade and Industry ("MTI") statistics showed that the economy grew by 2.0% in 2015 and the forecast for 2016 is between 1% to 3% growth. Based on advance estimates by MTI, the Singapore economy grew by 1.8% on a year-on-year basis in the first quarter of 2016. This is the same pace of growth as the last quarter in 2015. On a quarter-on-quarter seasonally-adjusted annualised basis, the growth was flat in contrast to the 6.2% expansion in the preceding quarter. Some industries like the offshore marine and oil and gas industries are facing unprecedented challenges during this period.

There are signals of change in interest rate trends in this 1Q 16 with the US Federal Reserve Bank starting to raise rates in December 2015 but now more likely to be slowing down any further rate increases in 2016. This will lead to uncertainties in Singapore interest rates.

With all these uncertainties and volatility, Hong Leong Finance ("HLF") will stick to what we know and subject to due diligence, do our best to help the SMEs and the HDB householders. Following the recent budget, HLF will continue to partner the government agencies to assist our SMEs in their funding needs. SMEs now require to go through structural change and to innovate to keep up with the new economy. In addition we have also launched innovative schemes to help our SMEs in the HDB estates to tie over this challenging period. We also continue to provide competitive packages for the HDB financing market.

Meanwhile we continue to place strong emphasis on maintaining a robust balance sheet with good liquidity and cautious underwriting standards. We have also embarked on a tech journey to digitalise some of our branches to improve our productivity and to stay relevant to our customers.

7. Dividends

The directors are not recommending the payment of an interim dividend (31 March 2015 : Nil) in respect of the period under review.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) no shares were issued under the Hong Leong Finance Share Option Scheme 2001 (the "Share Option Scheme"); and
- (ii) options to 712,400 shares under the Share Option Scheme lapsed upon cessation of employment of participants.

As at the end of the period, unissued shares of the Company under option amounted to 21,716,995 shares (31 March 2015 : 23,024,455 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").

For the current year, the Group has adopted the following applicable FRSs:-

- FRS 114 : Regulatory Deferral Accounts
- Amendments to FRS 27 : Equity Method in Separate Financial Statements
- Amendments to FRS 16 and FRS 38 : Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to FRS 111 : Accounting for Acquisitions of Interests in Joint Operations
- Improvements to FRSs (November 2014)
- Amendments to FRS 1 : Disclosure Initiative
- Amendments to FRS 110, FRS 112 and FRS 28 : Investment Entities: Applying the Consolidation Exception (Editorial corrections in June 2015)

The adoption of these FRSs 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
YEO SWEE GIM, JOANNE
COMPANY SECRETARY

Dated this 21st day of April 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 ended 31 March 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

21 April 2016