



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 2018. These figures have not been audited.

1(a). Unaudited Group Statement of Comprehensive Income For The Quarter And Nine Months Ended 30 September 2018

	3rd Qtr 2018	3rd Qtr 2017	+ / (-)	9 Months 2018	9 Months 2017	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	66,771	57,273	16.6	191,720	165,589	15.8
Hiring charges	13,468	12,441	8.3	39,679	35,600	11.5
Other interest income	9,371	7,383	26.9	25,958	21,669	19.8
Interest income/hiring charges	89,610	77,097	16.2	257,357	222,858	15.5
Less: Interest expense	34,956	29,727	17.6	98,997	96,563	2.5
Net interest income/hiring charges	54,654	47,370	15.4	158,360	126,295	25.4
Fee and commission income	3,751	3,803	(1.4)	10,869	11,520	(5.7)
Other operating income	60	68	(11.8)	446	152	193.4
Income before operating expenses	58,465	51,241	14.1	169,675	137,967	23.0
Less: Staff costs	16,580	14,329	15.7	48,841	44,548	9.6
Depreciation of property, plant and equipment	426	956	(55.4)	1,559	2,848	(45.3)
Other operating expenses	4,646	4,859	(4.4)	14,380	14,792	(2.8)
Profit from operations before allowances/provision	36,813	31,097	18.4	104,895	75,779	38.4
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts, other financial assets and provision for settlements and costs relating to distribution of wealth management products	7,353	(2,762)	(366.2)	5,732	(2,520)	(327.5)
Profit before tax	44,166	28,335	55.9	110,627	73,259	51.0
Less: Income tax expense	7,504	4,779	57.0	18,549	12,372	49.9
Profit for the period/Comprehensive income attributable to owners of the Company	36,662	23,556	55.6	92,078	60,887	51.2
Annualised earnings per share (cents)						
- Basic	32.90	21.19		27.55	18.27	
- Diluted	32.85	21.15		27.51	18.24	

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 2017: \$Nil) and gain on disposal of plant and equipment amounting to \$296,000 (30 September 2017: loss on disposal of plant and equipment of \$1,000) for the quarter and nine months ended 30 September 2018 respectively; and
- loss on disposal of Singapore Government securities close to their maturity amounting to \$Nil (30 September 2017: \$Nil) and \$Nil (30 September 2017: \$7,000) for the quarter and nine months ended 30 September 2018 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
Number of shares in issue	445,798,933	445,173,033	445,798,933	445,173,033
	\$'000	\$'000	\$'000	\$'000
Share capital	884,392	882,829	884,392	882,829
Reserves	697,834	662,574	697,834	662,574
Accumulated profits	265,697	196,449	262,429	193,235
Equity attributable to owners of the Company	1,847,923	1,741,852	1,844,655	1,738,638
Liabilities				
Deposits and balances of customers	11,298,341	10,658,850	11,302,508	10,662,965
Trade and other payables	129,626	123,862	128,299	122,548
Current tax payable	35,234	18,322	35,229	18,317
Deferred tax liabilities	2,263	-	2,263	-
Total liabilities	11,465,464	10,801,034	11,468,299	10,803,830
Total equity and liabilities	13,313,387	12,542,886	13,312,954	12,542,468
Assets				
Cash at banks and in hand	1,309,346	1,088,908	1,308,378	1,087,956
Statutory deposit with the Monetary Authority of Singapore	301,475	285,467	301,475	285,467
Singapore Government securities	1,324,847	1,248,850	1,324,847	1,248,850
Hire purchase receivables	1,640,394	1,626,849	1,640,394	1,626,849
Loans, advances and factoring receivables	8,714,496	8,362,366	8,714,496	8,362,366
	10,354,890	9,989,215	10,354,890	9,989,215
Allowances for doubtful debts	(15,988)	(112,636)	(15,988)	(112,636)
	10,338,902	9,876,579	10,338,902	9,876,579
Other receivables, deposits and prepayments	18,413	21,230	18,413	21,229
Subsidiaries and long term investments	-	-	535	535
Property, plant and equipment	20,404	21,324	20,404	21,324
Deferred tax assets	-	528	-	528
Total assets	13,313,387	12,542,886	13,312,954	12,542,468
Acceptances, guarantees and other obligations on behalf of customers	6,375	16,531	6,375	16,531

2(b). Net Asset Value

Net asset value per share (\$)	4.15	3.91	4.14	3.91
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2(c). There are no outstanding borrowings and debt securities as at 30 September 2018 (31 December 2017: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	3rd Qtr 2018 \$'000	3rd Qtr 2017 \$'000	9 Months 2018 \$'000	9 Months 2017 \$'000
Operating activities				
Profit for the period	36,662	23,556	92,078	60,887
Adjustments for:				
Impact of accrual of interest income	2,572	1,591	1,398	1,538
Impact of accrual of interest expense	1,860	(20,857)	13,482	(48,796)
Allowances for doubtful debts	992	2,888	3,577	3,427
Depreciation of property, plant and equipment	426	956	1,559	2,848
(Gain)/loss on disposal of property, plant and equipment	2	-	(296)	1
Value of employee services received for issue of share options	56	48	168	145
Income tax expense	7,504	4,779	18,549	12,372
	50,074	12,961	130,515	32,422
Changes in working capital:				
Loans, advances and receivables	257,506	(217,627)	(375,944)	(260,397)
Other receivables, deposits and prepayments	(364)	(9,026)	1,419	3,722
Singapore Government securities	29,378	(34,063)	(75,997)	5,995
Deposits and balances of customers	134,751	539,117	639,491	272,405
Trade and other payables	(11,494)	1,697	(7,552)	1,954
Cash generated from operations	459,851	293,059	311,932	56,101
Income taxes paid	(5,308)	(3,389)	(14,163)	(9,036)
Cash flows from operating activities	454,543	289,670	297,769	47,065
Investing activities				
Purchase of property, plant and equipment	(18)	(41)	(673)	(485)
Proceeds from disposal of property, plant and equipment	-	-	330	-
Cash flows used in investing activities	(18)	(41)	(343)	(485)
Financing activities				
Proceeds from exercise of share options	146	591	1,445	2,734
Dividends paid	(22,289)	(17,791)	(62,399)	(44,468)
Cash flows used in financing activities	(22,143)	(17,200)	(60,954)	(41,734)
Net increase in cash and cash equivalents	432,382	272,429	236,472	4,846
Cash and cash equivalents at beginning of period, as restated*	1,178,439	1,217,629	1,374,349	1,485,212
Cash and cash equivalents at end of period	1,610,821	1,490,058	1,610,821	1,490,058

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

	30 Sep 2018 \$'000	30 Sep 2017 \$'000
Cash at banks and in hand	1,309,346	1,205,463
Statutory deposit with the Monetary Authority of Singapore	301,475	284,595
Cash and cash equivalents	1,610,821	1,490,058

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,324,847,000 (30 September 2017: \$1,252,403,000) for the Group.

* Cash and cash equivalents before the adoption of SFRS(I) 9 in relation to allowance on cash at banks as at 31 December 2017 stated at \$1,374,375,000 has been restated at \$1,374,349,000 as at 1 January 2018 after initial adoption.

4. Statements of Changes in Equity

Group	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
At 1 January 2018, as previously stated	882,829	654,713	2,307	5,554	-	196,449	1,741,852
Effect of initial adoption of SFRS(I) 9 (net of tax)		18,695				56,084	74,779
Amount set up under MAS 811					16,932	(16,932)	-
At 1 January 2018, as restated	882,829	673,408	2,307	5,554	16,932	235,601	1,816,631
Issue of shares under share option scheme	1,299						1,299
Value of employee services received for issue of share options				112			112
Value of employee services transferred for share options exercised or lapsed	106			(210)		104	-
Final dividend paid of 9 cents per share (tax exempt one-tier) in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					73	(73)	-
Comprehensive income for the period						55,416	55,416
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	250,938	1,833,348
Issue of shares under share option scheme	146						146
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	12			(769)		757	-
Interim dividend paid of 5 cents per share (tax exempt one-tier) in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					371	(371)	-
Comprehensive income for the period						36,662	36,662
At 30 September 2018	884,392	673,408	2,307	4,743	17,376	265,697	1,847,923
At 1 January 2017	879,279	633,291	2,307	7,024	-	175,207	1,697,108
Issue of shares under share option scheme	2,143						2,143
Value of employee services received for issue of share options				97			97
Value of employee services transferred for share options exercised or lapsed	205			(220)		15	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016						(26,677)	(26,677)
Comprehensive income for the period						37,331	37,331
At 30 June 2017	881,627	633,291	2,307	6,901	-	185,876	1,710,002
Issue of shares under share option scheme	591						591
Value of employee services received for issue of share options				48			48
Value of employee services transferred for share options exercised or lapsed	32			(1,423)		1,391	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2017						(17,791)	(17,791)
Comprehensive income for the period						23,556	23,556
At 30 September 2017	882,250	633,291	2,307	5,526	-	193,032	1,716,406

4. Statements of Changes in Equity (continued)

Company	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
At 1 January 2018, as previously stated	882,829	654,713	2,307	5,554	-	193,235	1,738,638
Effect of initial adoption of SFRS(I) 9 (net of tax)		18,695				56,084	74,779
Amount set up under MAS 811					16,932	(16,932)	-
At 1 January 2018, as restated	882,829	673,408	2,307	5,554	16,932	232,387	1,813,417
Issue of shares under share option scheme	1,299						1,299
Value of employee services received for issue of share options				112			112
Value of employee services transferred for share options exercised or lapsed	106			(210)		104	-
Final dividend paid of 9 cents per share (tax exempt one-tier) in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					73	(73)	-
Comprehensive income for the period						55,380	55,380
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	247,688	1,830,098
Issue of shares under share option scheme	146						146
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	12			(769)		757	-
Interim dividend paid of 5 cents per share (tax exempt one-tier) in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					371	(371)	-
Comprehensive income for the period						36,644	36,644
At 30 September 2018	884,392	673,408	2,307	4,743	17,376	262,429	1,844,655
At 1 January 2017	879,279	633,291	2,307	7,024	-	172,072	1,693,973
Issue of shares under share option scheme	2,143						2,143
Value of employee services received for issue of share options				97			97
Value of employee services transferred for share options exercised or lapsed	205			(220)		15	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016						(26,677)	(26,677)
Comprehensive income for the period						37,288	37,288
At 30 June 2017	881,627	633,291	2,307	6,901	-	182,698	1,706,824
Issue of shares under share option scheme	591						591
Value of employee services received for issue of share options				48			48
Value of employee services transferred for share options exercised or lapsed	32			(1,423)		1,391	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2017						(17,791)	(17,791)
Comprehensive income for the period						23,538	23,538
At 30 September 2017	882,250	633,291	2,307	5,526	-	189,836	1,713,210

5. Review of The Performance of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$10,339 million at the end of the period under review. This was an increase of 4.7% or \$462 million over the previous year's base of \$9,877 million as at 31 December 2017, and an increase of 5.8% or \$567 million over the figure of \$9,772 million as at 30 September 2017.

In line with higher funding requirements, deposits and balances of customers closed at \$11,298 million as at 30 September 2018. This was an increase of 6.0% or \$639 million over the previous year's base of \$10,659 million as at 31 December 2017, and an increase of 5.5% or \$584 million over the base of \$10,714 million as at 30 September 2017. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,936 million as at 30 September 2018 (31 December 2017: \$2,623 million).

Group profit before tax for the quarter and nine months ended 30 September 2018 were arrived at after writing back provision/recoveries amounting to \$7.4 million (30 September 2017: additional net allowance of \$2.8 million), and \$5.7 million (30 September 2017: additional net allowance of \$2.5 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$36.7 million, an increase of \$13.1 million or 55.6% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2018 showed an increase of \$31.2 million or 51.2% over the previous corresponding period to \$92.1 million. The Group continues to maintain adequate loss allowances in respect of its loan portfolio.

Net interest income rose 15.4% to \$54.7 million for the quarter ended 30 September 2018 as compared to \$47.4 million for the quarter ended 30 September 2017. This was driven by an increase in net interest margin of 15 basis points led by a rise in average loan yield from floating rate loans outpaced a rise in funding costs, amid a rising interest rate environment. For the nine months ended 30 September 2018, the net interest income increased by 25.4% to \$158.4 million from \$126.3 million a year ago. It was attributed to the increase in net interest margin of 27 basis points supported by lower average cost of fund, as compared to corresponding period last year.

Total staff costs, depreciation and other operating expenses for the quarter and nine months under review were largely under control.

Group shareholders' funds as at 30 September 2018 totalled \$1,848 million (31 December 2017: \$1,742 million) amounting to \$4.15 per share (31 December 2017: \$3.91 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

Based on advance estimates released by the Ministry of Trade and Industry, the Singapore economy grew by 2.6% in the third quarter of this year compared to the same period last year. This is a moderation from the 4.1% growth in the preceding quarter. However, on a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 4.7%, faster than the 1.2% growth in the previous quarter.

The drivers of economic activity have shifted, with the contribution from the manufacturing sector waning from the maturing of the global electronics cycle. Manufacturing, which has been the main driver of Singapore's economy, expanded 4.5% compared to a year ago. This is a significant slowdown from the 10.6% growth in the second quarter.

The construction sector contracted by 3.1% on a year-on-year basis in the third quarter, extending the 4.2% decline in the previous quarter. This sector has been weighed down by the weakness in public sector construction activities. Together with the property cooling measures announced in July this year, it is likely that this sector would be affected for some time.

The services producing industries expanded by 2.9% on a year-on-year basis in the third quarter, the same pace of growth as in the last quarter. Growth was largely supported by the finance and insurance, business services and wholesale & retail trade sectors.

According to the Monetary Authority of Singapore, the gross domestic product growth is likely to come in within the 2.5% to 3.5% range for this year and moderate slightly in 2019.

On the international front, the International Monetary Fund ("IMF") has warned that any further escalation in global trade tensions, together with rising geopolitical risks and policy uncertainty in major economies, could trigger a broad-based correction in global capital markets and cause a sharp tightening of global financial conditions. These would be on top of the rise in interest rates and oil prices. Based on the trade tariffs already in place, the IMF revised down its estimates of world growth this year and the next by 0.2% to 3.7%. A prolonged US-China trade war and a sharper downturn in the world economy will have serious implications for Singapore.

Under the above circumstances, Hong Leong Finance ("HLF") will continue to adopt a cautious stance to write loans selectively and to focus more on risks. We will also support our SMEs in these difficult times through various SME schemes. At the same time our 28 branches are actively writing HDB loans at competitive rates and terms. On the deposits side, HLF continues to promote deposit campaigns suitable for both consumers and corporates.

We have also embarked on a digital transformation journey with several projects on hand. Some are with FinTech companies while others are internally driven. We want to be an active participant in Singapore's Smart Nation and a cashless society initiatives so that HLF will continue to grow and be relevant to our customers. We are embracing the disruptive economy through innovation; being agile and able to think out of the box to meet customers' expectations.

7. Dividend

An interim dividend of 5 cents per share (tax exempt one-tier) in respect of the current year declared in the previous quarter was paid on 12 September 2018.

As at the date of this report, the directors are not recommending the payment of a further interim dividend (30 September 2017: 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 2,513,000 shares at an exercise price of \$2.58 per share were granted on 25 September 2018;

(ii) the Company issued the following 62,500 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.45	18,500
\$2.34	23,500
\$2.23	20,500
Total	62,500

(iii) options to 415,410 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and

(iv) options to 2,407,500 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 16,528,855 shares (30 September 2017: 18,296,400 shares).

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly, there were no treasury shares held as at 30 September 2018 and 30 September 2017. There were also no shares held as subsidiary holdings as at 30 September 2018 and 30 September 2017.

9. Accounting Policies

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s"). As previously announced, the Group adopted the SFRS(I)s which became effective for financial years beginning 1 January 2018. The initial adoption of SFRS(I)s does not have a material impact on the financial statements except SFRS(I) 9.

Under SFRS(I) 9, there is no material impact in the area of classification and measurement. At initial adoption on 1 January 2018, the Group accounted \$16.9 million as its regulatory loss allowance reserve account and booked a credit to accumulated profits amounting to \$39.2 million and to Statutory Reserve amounting to \$18.7 million.

Except as described above, the 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 2017.

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 13th day of November 2018

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 2018 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

13 November 2018