



HONG LEONG FINANCE

Full Year Financial Statements And Dividend Announcement

Condensed interim consolidated financial statements for the six months and full year ended 31 December 2021.

A. Condensed interim consolidated statement of profit or loss and other comprehensive income

	Note	6 months ended 31 Dec 2021 \$'000	6 months ended 31 Dec 2020 \$'000	+ / (-) %	12 months ended 31 Dec 2021 \$'000	12 months ended 31 Dec 2020 \$'000	+ / (-) %
Interest on loans		88,106	98,126	(10.2)	179,765	230,360	(22.0)
Hiring charges		21,633	24,854	(13.0)	44,668	52,086	(14.2)
Other interest income		7,136	9,636	(25.9)	15,544	28,339	(45.1)
Interest income/hiring charges		116,875	132,616	(11.9)	239,977	310,785	(22.8)
Less: Interest expense	E10	28,132	67,936	(58.6)	62,011	163,937	(62.2)
Net interest income/hiring charges		88,743	64,680	37.2	177,966	146,848	21.2
Fee and commission income		6,510	5,416	20.2	11,181	10,229	9.3
Other operating income	E6	113	1,631	(93.1)	270	1,714	(84.2)
Income before operating expenses		95,366	71,727	33.0	189,417	158,791	19.3
Less: Staff costs		31,948	27,563	15.9	64,506	54,678	18.0
Depreciation of property, plant and equipment		4,020	3,969	1.3	8,011	7,922	1.1
Other operating expenses		7,951	7,008	13.5	14,896	13,739	8.4
Total operating expenses		43,919	38,540	14.0	87,413	76,339	14.5
Profit from operations before allowances		51,447	33,187	55.0	102,004	82,452	23.7
Less: Allowances for doubtful debts and other financial assets net of reversal or recovery of doubtful debts		3,099	986	214.3	60	7,733	(99.2)
Profit before tax		48,348	32,201	50.1	101,944	74,719	36.4
Less: Income tax expense	E8	8,212	4,811	70.7	17,123	10,810	58.4
Profit for the year/ Comprehensive income attributable to owners of the Company		40,136	27,390	46.5	84,821	63,909	32.7
Annualised earnings per share (cents)							
- Basic		17.93	12.24		18.95	14.28	
- Diluted		17.92	12.24		18.94	14.28	

B. Condensed interim statements of financial position

	Note	Group		Company	
		31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
		\$'000	\$'000	\$'000	\$'000
Assets					
Cash at banks and in hand		528,208	613,775	527,198	612,762
Statutory deposit with the Monetary Authority of Singapore ("MAS")		298,598	317,621	298,598	317,621
Singapore Government debt securities, MAS Bills and MAS Floating Rate Note ("FRN")		1,357,675	1,405,434	1,357,675	1,405,434
Hire purchase receivables		1,476,391	1,584,613	1,476,391	1,584,613
Loans, advances and factoring receivables		9,246,176	9,390,068	9,246,176	9,390,068
		10,722,567	10,974,681	10,722,567	10,974,681
Allowances for doubtful debts		(27,073)	(26,772)	(27,073)	(26,772)
		10,695,494	10,947,909	10,695,494	10,947,909
Other receivables, deposits and prepayments		16,963	19,070	16,962	19,069
Subsidiaries and long-term investments		-	-	535	535
Property, plant and equipment		55,325	61,253	55,325	61,253
Total assets		12,952,263	13,365,062	12,951,787	13,364,583
Liabilities					
Deposits and balances of customers		10,806,871	11,194,359	10,811,206	11,198,668
Trade and other payables	E10	164,710	232,213	163,365	230,874
Current tax payable		17,165	19,480	17,163	19,474
Deferred tax liabilities		970	897	970	897
Total liabilities		10,989,716	11,446,949	10,992,704	11,449,913
Equity					
Share capital		889,771	889,117	889,771	889,117
Reserves		778,592	756,941	778,592	756,941
Accumulated profits		294,184	272,055	290,720	268,612
Equity attributable to owners of the Company		1,962,547	1,918,113	1,959,083	1,914,670
Total equity and liabilities		12,952,263	13,365,062	12,951,787	13,364,583
Acceptances, guarantees and other obligations on behalf of customers		1,978	4,054	1,978	4,054
Number of shares in issue		447,817,233	447,552,473	447,817,233	447,552,473
Net asset value per share (\$)		4.38	4.29	4.37	4.28

C. Condensed interim statements of changes in equity

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Group							
At 1 January 2021	889,117	744,744	2,307	2,397	7,493	272,055	1,918,113
Issue of shares under share option scheme	602						602
Value of employee services received for issue of share options				418			418
Value of employee services transferred for share options exercised or lapsed	52			(347)		295	-
Final dividend of 5.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(24,618)	(24,618)
Interim dividend of 3.75 cents per share (tax exempt one-tier) paid in respect of year 2021						(16,789)	(16,789)
Adjustment under MAS 811					374	(374)	-
Comprehensive income for the year						84,821	84,821
Transfer to Statutory reserve		21,206				(21,206)	-
At 31 December 2021	889,771	765,950	2,307	2,468	7,867	294,184	1,962,547
At 1 January 2020	889,051	728,766	2,307	3,279	15,562	275,278	1,914,243
Issue of shares under share option scheme	62						62
Value of employee services received for issue of share options				319			319
Value of employee services transferred for share options exercised or lapsed	4			(1,201)		1,197	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2019						(44,756)	(44,756)
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(15,664)	(15,664)
Adjustment under MAS 811					(8,069)	8,069	-
Comprehensive income for the year						63,909	63,909
Transfer to Statutory reserve		15,978				(15,978)	-
At 31 December 2020	889,117	744,744	2,307	2,397	7,493	272,055	1,918,113

C. Condensed interim 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 2021	889,117	744,744	2,307	2,397	7,493	268,612	1,914,670
Issue of shares under share option scheme	602						602
Value of employee services received for issue of share options				418			418
Value of employee services transferred for share options exercised or lapsed	52			(347)		295	-
Final dividend of 5.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(24,618)	(24,618)
Interim dividend of 3.75 cents per share (tax exempt one-tier) paid in respect of year 2021						(16,789)	(16,789)
Adjustment under MAS 811					374	(374)	-
Comprehensive income for the year						84,800	84,800
Transfer to Statutory reserve		21,206				(21,206)	-
At 31 December 2021	889,771	765,950	2,307	2,468	7,867	290,720	1,959,083
At 1 January 2020	889,051	728,766	2,307	3,279	15,562	271,899	1,910,864
Issue of shares under share option scheme	62						62
Value of employee services received for issue of share options				319			319
Value of employee services transferred for share options exercised or lapsed	4			(1,201)		1,197	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2019						(44,756)	(44,756)
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(15,664)	(15,664)
Adjustment under MAS 811					(8,069)	8,069	-
Comprehensive income for the year						63,845	63,845
Transfer to Statutory reserve		15,978				(15,978)	-
At 31 December 2020	889,117	744,744	2,307	2,397	7,493	268,612	1,914,670

D. Condensed interim consolidated statement of cash flows

	12 months ended 31 Dec 2021 \$'000	12 months ended 31 Dec 2020 \$'000
Operating activities		
Profit for the year	84,821	63,909
Adjustments for:		
Impact of accrual of interest income	(2,653)	4,414
Impact of accrual of interest expense	(29,087)	(68,726)
Allowances for doubtful debts	587	8,219
Interest expense on lease liabilities	339	633
Depreciation of property, plant and equipment	8,011	7,922
(Gain)/loss on disposal of property, plant and equipment	1	(1,357)
Value of employee services received for issue of share options	418	319
Income tax expense	17,123	10,810
	79,560	26,143
Changes in working capital:		
Loans, advances and receivables	251,828	598,174
Other receivables, deposits and prepayments	4,760	(1,324)
Singapore Government debt securities, MAS Bills and MAS FRN	47,759	126,329
Deposits and balances of customers	(387,488)	(1,112,690)
Trade and other payables	(42,464)	45,409
Cash used in operations	(46,045)	(317,959)
Income taxes paid	(19,365)	(14,055)
Cash flows used in operating activities	(65,410)	(332,014)
Investing activities		
Purchase of property, plant and equipment	(399)	(349)
Proceeds from disposal of property, plant and equipment	-	1,750
Cash flows from/(used in) investing activities	(399)	1,401
Financing activities		
Payment for lease liabilities	(6,917)	(6,370)
Proceeds from exercise of share options	602	62
Proceeds from borrowings	8,941	42,914
Dividends paid	(41,407)	(60,420)
Cash flows used in financing activities	(38,781)	(23,814)
Net decrease in cash and cash equivalents	(104,590)	(354,427)
Cash and cash equivalents at beginning of year	931,396	1,285,823
Cash and cash equivalents at end of year	826,806	931,396

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

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Cash at banks and in hand	528,208	613,775
Statutory deposit with the Monetary Authority of Singapore ("MAS")	298,598	317,621
Cash and cash equivalents	826,806	931,396

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities, MAS Bills and MAS FRN amounted to \$1,357,675,000 (31 December 2020: \$1,405,434,000) for the Group.

E. Notes to the condensed interim consolidated financial statements

1. Corporate information

Hong Leong Finance Limited (the “Company”) is incorporated and domiciled in Singapore and whose shares are publicly traded on the Mainboard of the Singapore Exchange. These condensed interim consolidated financial statements as at and for the half year ended 31 December 2021 comprise the Company and its subsidiaries (collectively, the “Group”). The principal activities of the Company are those relating to financing business and provision of corporate advisory services. The principal activities of the subsidiaries are the provision of nominee services.

2. Basis of preparation

The condensed interim financial statements as at and for the half year ended 31 December 2021 have been prepared in accordance with Singapore Financial Reporting Standards (International) SFRS(I) 1-34 *Interim Financial Reporting* issued by the Accounting Standards Council Singapore. The condensed interim financial statements do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance of the Group since the last interim financial statements for the period ended 30 June 2021.

The adoption of the new/revised/amendments to SFRS(I)s which came into effect from 1 January 2021 does not have a material impact on the financial statements of the Group and the Company for the period under review.

For Interest Rate Benchmark Reform – Phase 2 (Amendments), the Group applied the Phase 2 amendments retrospectively. However, in accordance with exceptions provided in the Phase 2 amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on opening equity balances as a result of retrospective application.

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The Phase 2 amendments do not have significant impact on the financial statements.

Other than the above, the accounting policies and methods of computation used in the condensed interim financial statements as at and for the half year ended 31 December 2021 are consistent with those applied in the audited financial statements for the year ended 31 December 2020.

The condensed interim financial statements are presented in Singapore dollar which is the Company’s functional currency.

E. Notes to the condensed interim consolidated financial statements (continued)

3. Use of estimates and judgements

The preparation of the condensed interim financial statements in conformity with SFRS(I) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2020.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

4. Seasonal operations

The Group's businesses are not affected significantly by seasonal or cyclical factors during the financial period.

5. Segment information

The majority of the revenue for the Group is from the same business segment. Its principal activities relate to financing business augmented by secondary non-lending activities such as provision of corporate advisory services and provision of nominee services. All activities are carried out in the Republic of Singapore.

E. Notes to the condensed interim consolidated financial statements (continued)

6. Other operating income includes loss on disposal of plant and equipment amounting to \$1,000 (2H 2020: gain on disposal of plant and equipment of \$1,358,000) for the second half of 2021 and \$1,000 (31 December 2020: gain on disposal of plant and equipment of \$1,357,000) for the year ended 31 December 2021.

7. Profit after tax

	2021	2020	+ / (-)
	\$'000	\$'000	%
- first half year	44,685	36,519	22.4
- second half year	40,136	27,390	46.5

The increase in the profit after tax for the second half of 2021 as compared to the same period in 2020 was mainly attributed to the substantial reduction in cost of fund as a result of proactive management of deposits.

8. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense are:

	Group			
	6 months ended	6 months ended	12 months ended	12 months ended
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
	\$'000	\$'000	\$'000	\$'000
Current year	8,501	5,068	17,163	12,327
Adjustment for prior years	-	(620)	(113)	(620)
Current tax expense	8,501	4,448	17,050	11,707
Deferred tax expense relating to origination and reversal of temporary differences	(289)	(257)	73	(1,517)
Adjustment for prior years	-	620	-	620
Deferred tax expense	(289)	363	73	(897)
Total income tax expense	8,212	4,811	17,123	10,810

The effective tax rate for the year ended 31 December 2021 is 16.8% (31 December 2020: 14.5% mainly due to tax effect of exempt income not taxable for tax purposes including Jobs Support Scheme).

E. Notes to the condensed interim consolidated financial statements (continued)

9. Financial instruments

Accounting classifications and fair values

(i) Loans, advances and receivables and deposits and balances of customers

The fair value of fixed rate loans, advances and receivables and deposits and balances of customers, which will mature and reprice more than six months after the reporting date, has been determined by discounting the relevant cash flows using current interest rates for similar instruments at the reporting date. The carrying amounts of financial assets and financial liabilities with a maturity of six months or less (including other loans, advances and receivables, and other deposits/savings accounts) approximate their fair values.

(ii) Singapore Government debt securities, MAS bills and MAS FRN

Fair value is based on quoted market bid prices at the reporting date.

(iii) Investments (long-term), other financial assets and financial liabilities

Investments (long-term) in unquoted securities amounted to \$12,000, are classified as fair value through other comprehensive income and fully impaired as at 31 December 2021 (31 December 2020: \$12,000, fully impaired).

The carrying amounts of other financial assets and financial liabilities with a maturity of less than one year (including other receivables, other deposits, cash, trade payables and other payables) are estimated to approximate their fair values in view of the short period to maturity.

In accordance with the accounting policy on Financial Instruments, certain financial assets and financial liabilities are not carried at fair value in the statements of financial position as at the reporting dates. The aggregate net fair values of these financial assets and financial liabilities are disclosed in the following table:-

	Group			
	Carrying amount	Fair value	Carrying amount	Fair value
	31 Dec 2021 \$'000	31 Dec 2021 \$'000	31 Dec 2020 \$'000	31 Dec 2020 \$'000
Financial assets				
Loans, advances and receivables	10,695,494	10,704,980	10,947,909	10,959,355
Singapore Government debt securities, MAS bills and MAS FRN	1,357,675	1,362,858	1,405,434	1,423,039
	12,053,169	12,067,838	12,353,343	12,382,394
Financial liabilities				
Deposits and balances of customers	(10,806,871)	(10,825,699)	(11,194,359)	(11,213,180)
	1,246,298	1,242,139	1,158,984	1,169,214

E. Notes to the condensed interim consolidated financial statements (continued)

9. Financial instruments (continued)

Accounting classifications and fair values (continued)

	Company			
	Carrying amount	Fair value	Carrying amount	Fair value
	31 Dec 2021 \$'000	31 Dec 2021 \$'000	31 Dec 2020 \$'000	31 Dec 2020 \$'000
Financial assets				
Loans, advances and receivables	10,695,494	10,704,980	10,947,909	10,959,355
Singapore Government debt securities, MAS bills and MAS FRN	1,357,675	1,362,858	1,405,434	1,423,039
	12,053,169	12,067,838	12,353,343	12,382,394
Financial liabilities				
Deposits and balances of customers	(10,811,206)	(10,830,037)	(11,198,668)	(11,217,494)
	1,241,963	1,237,801	1,154,675	1,164,900

Fair value hierarchy

Fair value measurements for financial assets and financial liabilities by the levels in the fair value hierarchy are based on the inputs to valuation techniques. The different levels are defined as follows:-

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: unobservable inputs for the asset or liability including prices of an item that is not identical.

*Group/Company financial assets and financial liabilities not carried at fair value but for which fair values are disclosed**

The fair value of the portion of loans, advances and receivables being Level 3 instruments amounts to \$2.47 billion (31 December 2020: \$2.41 billion) against a carrying value of \$2.462 billion (31 December 2020: \$2.396 billion). Singapore Government debt securities, MAS bills and MAS FRN are Level 1 instruments with fair value of \$1.36 billion (31 December 2020: \$1.42 billion). The portion of deposits and balances of customers being Level 2 instruments have a fair value of \$8.94 billion (31 December 2020: \$8.99 billion) against a carrying value of \$8.92 billion (31 December 2020: \$8.97 billion).

*Excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature or frequent repricing and where the effect of discounting is immaterial.

E. Notes to the condensed interim consolidated financial statements (continued)

10. Trade and other payables

Included in trade and other payables are borrowings from MAS SGD Facility as follows:

	Group and Company	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Borrowings from MAS SGD Facility (secured)		
- Amount repayable within one year	42,914	-
- Amount repayable after one year	8,941	42,914
	51,855	42,914

Borrowings from MAS SGD Facility are secured by assignment of eligible loan agreements as collaterals under Enterprise Singapore's Enhanced Enterprise Financing Scheme. Interest expense on MAS SGD Facility amounting to \$27,000 (2H 2020: \$13,000) for the second half of 2021 and \$52,000 for the year ended 31 December 2021 (31 December 2020: \$14,000).

There are no bank borrowings as at 31 December 2021 (31 December 2020: \$Nil). Interest expense on bank borrowings amounting to \$Nil (2H 2020: \$7,000) for the second half of 2021 and \$Nil for the year ended 31 December 2021 (31 December 2020: \$35,000).

11. There are no outstanding debt securities issuance as at 31 December 2021 (31 December 2020: \$Nil) for the Group and the Company.

F. Other information

1. Review

The consolidated statement of financial position of Hong Leong Finance Limited (the “Company”) and its subsidiaries (the “Group”) as at 31 December 2021 and its related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity of the Group and the Company and consolidated statement of cash flows of the Group for the year then ended and certain explanatory notes have been audited in accordance with Singapore Standards on Auditing. The condensed consolidated statement of profit or loss and other comprehensive income of the Group for the six-months ended 31 December 2021 and 31 December 2020 have not been audited or reviewed.

2. Review of the performance of the Group

The Group recorded a strong recovery in net attributable profit for second half 2021 at \$40.1 million, grew 46.5% from the same period last year. For the full year ended 31 December 2021, the Group reported operating profit of \$102.0 million before loan loss allowances and tax, up 23.7%. The net attributable profit was \$84.8 million, improved 32.7% from the previous year, driven by stepped-up effort in managing the cost of fund and lower loan loss allowances.

For second half 2021, net interest income rose by 37.2% to \$88.7 million, as the strategic management of deposit reap a substantial saving in funding cost, outpaced the prolonged low loan and asset yields. The net interest income for 2021 surged by 21.2% to \$178.0 million, on the back of improved net interest margin at 1.41%, lifted by 32 basis points.

The fee and commission income increased 20.2% to \$6.5 million for second half 2021 and 9.3% to \$11.2 million for the full year 2021 from both lending and corporate finance activities.

In second half 2021, staff and operating expenses after normalising the offset of budget relief measures of \$2.6 million was higher by 6.8% mainly attributed to enhancement of technology and compliance risk management. For the full year 2021, total staff and operating expenses increased by 14.5% to \$87.4 million for the year on lower base last year. Excluding budget relief grants totalling \$0.1 million in the current year and \$10.4 million in prior year mainly for the offset of staff cost from Jobs Support Scheme, there was a slight increase of 0.8% year-on-year with tightened cost management of discretionary expenses.

The net allowances for loans and other financial assets for the second half 2021 was higher at \$3.1 million mainly due to additional allowances for credit-impaired loan on a prudent approach. For the full year 2021, the net allowances for loans and other financial assets declined to \$0.06 million as the allowance for credit-impaired loans was partially offset by lower allowance for non credit-impaired loans with improved credit risk parameters and bad debt recovered.

The Group continues to stay vigilant in its credit risk management and set aside adequate loss allowances to cover its loan portfolio, taking into consideration the potential downside risk on the sectorial impact of the pandemic.

F. Other information (continued)

2. Review of the performance of the Group (continued)

Net loan assets totalling \$10,695 million as at 31 December 2021, came down by 2.3% or \$253 million over the previous year's base of \$10,948 million as at 31 December 2020. The loan portfolio remained well-secured.

In tandem with the lower net loan growth and to optimise funding costs, deposits and balances of customers were pared down to \$10,807 million as at 31 December 2021, representing a decrease of 3.5% or \$387 million over the previous year's base of \$11,194 million as at 31 December 2020. Cash and cash equivalents including statutory deposit with the Monetary Authority of Singapore ("MAS") together with Singapore Government debt securities, MAS Bills and MAS FRN held as liquid assets amounted to \$2,184 million as at 31 December 2021 (31 December 2020: \$2,337 million). The Group's balance sheet remained resilient with ample liquidity and strong capital to sustain lending activities and remains well-positioned to ride through the economy recovery, amid market uncertainties.

Group shareholders' funds as at 31 December 2021 totalled \$1,963 million (31 December 2020: \$1,918 million) with higher net asset value at \$4.38 per share (31 December 2020: \$4.29 per share).

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

3. Commentary on significant trends and competitive conditions in the industry

Based on the press announcement by the Ministry of Trade and Industry, the Singapore economy grew 2.3% in the fourth quarter, faster than the 1.5% growth in the preceding quarter. For the whole of 2021, the economy grew by 7.6%, rebounding from the 4.1% contraction in 2020. The economic recovery led by the manufacturing, trade-related and services sectors, is likely to extend to the domestic-oriented and travel-related sectors in the coming year with the progressive easing of domestic safe management measures and loosening of border restrictions. Taking into account the global and domestic economic environment, and barring the materialisation of downside risks in the global economy, the Singapore economy is projected to expand by 3.0 – 5.0% in 2022.

In its policy meeting statement, the Monetary Authority of Singapore ("MAS") cited that the emergence of the Omicron variant may temporarily dampen specific clusters of activity, but is unlikely to derail the broader ongoing economic recovery. As such, global GDP is still forecast to expand at an above-trend pace in 2022, even as uncertainties remain.

In the global economy, US Federal Reserve's Open Market Committee ("FOMC") signaled that US rate hikes would start soon after asset purchases end in March 2022. The market now expect four rate hikes with the first Fed funds target rate ("FFTR") hike in March 2022 by 25bps, bringing the FFTR to the range of 1.0 - 1.25% by end of 2022. It affirmed the move toward more aggressive and frequent Fed hikes in 2022, which will largely depend on the inflation pressure and downside risks from Omicron variant or virus mutations.

An uptick for short-term SGD benchmark rates are expected when the Fed starts to hike rates. The performance of SGD rates will also depend on the economy recovery path and tightening of monetary policy.

F. Other information (continued)

3. Commentary on significant trends and competitive conditions in the industry (continued)

With economic normalisation at work and bracing a rising interest rate environment, Hong Leong Finance (“HLF”) will continue to maintain strong capital position and prudent funding management to support lending activities. We will stay true to our commitment as a trusted financier and help our customers to navigate through their recovery journey.

On the back of rapid shift to a digital and contactless way of life accelerated by the pandemic, we apace the adoption of e-payment services for counter products such as Fixed Deposits, Savings and Business Current Accounts and the roll-out of Digital Loan Application and processing. We are working on a strategic partnership with a fintech company to provide global payment solutions via a digital platform. We remain steadfast to serve the needs of the customers with enhanced digital capabilities and connectivity.

With digital finance and sustainability gaining more traction, we will invest in digital and future enabled training to upskill our employees with the necessary competencies to meet the needs in a rapidly changing landscape. We will uphold strong corporate governance to drive long-term value creation for our stakeholders.

The reopening of the domestic and global economies will provide renewed impetus to growth over the next 12 months. We remain positive on the long-term outlook but are watchful of the near-term headwinds from the unpredictable arc of the pandemic prognosis.

F. Other information (continued)

4. Dividends

A Final Dividend of 8.25 cents per share (tax exempt one-tier) is recommended by the directors for approval by shareholders in respect of the year ended 31 December 2021. Subject to shareholders' approval at the Annual General Meeting to be held on 29 April 2022, the dividend will be payable on 27 May 2022.

Latest Year

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	8.25 cents per share
	Total Dividend	\$36,945,000*
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 8 September 2021)
	Dividend Type	Cash
	Dividend Rate	3.75 cents per share
	Total Dividend	\$16,789,000
	Tax Rate	Tax exempt one-tier

Previous Year

(i)	Name of Dividend	Final (Paid on 25 May 2021)
	Dividend Type	Cash
	Dividend Rate	5.5 cents per share
	Total Dividend	\$24,618,000
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 9 September 2020)
	Dividend Type	Cash
	Dividend Rate	3.5 cents per share
	Total Dividend	\$15,664,000
	Tax Rate	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at 31 December 2021. This amount is subject to change arising from the issue of shares upon exercise of options, if any, under the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme") between 31 December 2021 and the last day for exercise of options to determine shareholders' entitlement to the dividend.

F. Other information (continued)

5. Shares issued and outstanding convertibles

Since the end of the previous half year,

- (i) pursuant to the Hong Leong Finance Share Option Scheme 2001 (“Share Option Scheme”), market price options to subscribe for 1,835,500 shares at an exercise price of \$2.38 per share were granted on 22 September 2021;
- (ii) options to 210,500 shares under the Share Option Scheme to subscribe for shares granted on 22 September 2021 were not accepted;
- (iii) the Company issued the following 211,660 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.28	26,200
\$2.34	2,000
\$2.23	103,960
\$2.31	79,500
Total	<u>211,660</u>

- (iv) options to 371,920 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (v) options to 648,590 shares granted prior to 22 September 2021 under the Share Option Scheme lapsed upon expiry of options.

As at the end of the year, unissued shares of the Company under options amounted to 15,286,180 shares (31 December 2020: 15,235,950 shares).

Pursuant to the Finance Companies Act 1967, the Company does not hold treasury shares and accordingly, there were no treasury shares held as at 31 December 2021 and 31 December 2020. There were also no shares held as subsidiary holdings as at 31 December 2021 and 31 December 2020.

F. Other information (continued)

6. Closure of books

Notice is hereby given that, subject to shareholders' approval of the payment of a final dividend of 8.25 cents per share in respect of the year ended 31 December 2021 at the Annual General Meeting to be held on 29 April 2022, the Share Transfer Books and Register of Members of the Company will be closed from 5.00 pm on 11 May 2022 up to (and including) 12 May 2022. Duly completed registrable transfers received by the Company's Registrar, M & C Services Private Limited of 112 Robinson Road #05-01, Singapore 068902 up to 5.00 pm on 11 May 2022 will be registered to determine shareholders' entitlement to the dividend. In respect of shares in the securities accounts with The Central Depository (Pte) Limited ("CDP"), the said dividend will be paid by the Company to CDP which will distribute the said dividend to holders of the securities accounts.

7. 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 ("Listing Rules").

8. Confirmation pursuant to Rule 720(1) of the Listing Manual

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 in accordance with Rule 720(1) of the Listing Manual.

9. Disclosure of person occupying a managerial position in the Company or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company pursuant to Rule 704(13) of the Listing Rules.

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Kwek Leng Beng	81	Cousin of Mr Kwek Leng Peck and Mr Kwek Leng Kee; and uncle of Mr Kevin Hangchi.	Chairman/Managing Director Full responsibilities as Chief Executive Officer. Managing Director of the Company since March 1979. Chairman of the Company since 1984.	-

BY ORDER OF THE BOARD
YEO SWEE GIM, JOANNE
NG SIEW PING, JASLIN
COMPANY SECRETARIES

Dated this 23rd day of February 2022



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Independent auditors' report

Members of the Company Hong Leong Finance Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 72.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2021 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG LLP (Registration No. T08LL1267L), an accounting limited liability partnership registered in Singapore under the Limited Liability Partnerships Act 2005 and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Impairment of loans, advances and receivables

(Refer to Note 11 to the financial statements)

The key audit matter

The Group's loans, advances and receivables to customers represent 83% of its total assets.

SFRS(I) 9 "Financial Instruments" requires the Group to determine the probability weighted estimate of the expected credit loss ("ECL") of loans, advances and receivables to customers.

The Group has developed models to calculate the ECL allowances for non credit-impaired exposures. Significant judgement and assumptions are required in the development of the model parameters, including the probability of default, loss given default and exposure at default.

The ECL allowances for credit-impaired exposures are highly subjective due to the judgement applied by management in estimating the future cash flows, including the realisable value of collaterals, if relevant, and consequently the ECL.

Given the magnitude of loans, advances and receivables and coupled with the estimation uncertainty over ECL allowances, the impairment of loans, advances and receivables is considered a key audit risk.

In 2021, the resulting economic uncertainty from the Covid-19 pandemic has added further complexity to the level of judgement required by the Group in calculating the ECL.

How the matter was addressed in our audit

We tested the design, implementation and operating effectiveness of the key controls in place over the credit approval and review process. We performed sample checks of credit reviews on loans and advances to critically assess the appropriateness of the credit grading and any objective evidence of impairment.

In respect of non credit-impaired exposures, we assessed the appropriateness of the model methodology and parameters for compliance with SFRS(I) 9 requirements. We tested the accuracy and integrity of the inputs used to compute the ECL allowances. We also considered the modifications made by management to the ECL model to account for the effects of Covid-19.

For a sample of non credit-impaired exposures, we re-calculated the ECL allowance using the modelled attributes to test the mathematical accuracy of the calculations produced by the ECL model.

In respect of credit-impaired exposures, we assessed the controls over the determination of ECL allowances for credit-impaired exposures. For a sample of credit-impaired exposures, we critically assessed the expected recoveries from realisable values of collaterals and other possible sources of repayment. This includes checking the valuation of collaterals, where possible, to externally derived evidence, such as real estate valuations.

We found that the methodology and management's assumptions used in the ECL model were appropriate and the ECL allowances computation was consistent with the ECL model.

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for the analysis of shareholdings ("the Report") which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Ian Hong Cho Hor.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

23 February 2022