

**RESPONSE TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)**

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The Board of Directors of Hong Leong Finance Limited (“**Hong Leong Finance**” or the “**Company**”) refers to the Company’s announcement dated 30 March 2022 on the alternative arrangements for its 62<sup>nd</sup> Annual General Meeting to be held on 29 April 2022 (“**AGM**”), in particular, the invitation to shareholders to submit questions related to the resolutions to be tabled for approval at the AGM, by 12 April 2022 (“**Cut-Off Date**”). No questions from the shareholders were received as of the Cut-Off Date. The Company, however, has received questions from the Securities Investors Association (Singapore) (“**SIAS**”) relating to the Company’s Annual Report 2021 and the Company’s responses to the questions raised are set out below:

**Q1.** Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **What is management’s view of the trend of interest rates and how is the group positioning itself?**

Hong Leong Finance’s response

The global interest rates are on the uptrend as the US Fed has signaled a faster pace of rate normalisation following the interest rate hike in Mar 2022. It is noted that the SGD benchmark rates have started to track behind and trending upwards. The management is of the view that a progressive normalisation of interest rates in the coming quarters is expected. We expect the interest rate hikes to provide a gradual uplift in interest income, and remain watchful of its implication on the cost of fund.

The management will continue to calibrate on the prudent assets and liabilities management to effectively manage the interest rate repricing gap and market liquidity costs.

(ii) There has been a substantial increase in customer (fixed) deposits with tenure of over 1 year to 3 years (page 84). **Is the group actively managing up the tenure of customers’ deposits?**

Hong Leong Finance’s response

Yes, the management has been actively managing the deposits collection in the longer tenure (>1 to 3 years) since beginning of last year as we foresee the rate hikes by the Federal Reserve would have some impact on the interest rate market in Singapore.

(iii) Loans are lower for a second year (\$11.55 billion → \$10.95 billion → \$10.70 billion). Similarly, deposits have fallen for two years (\$12.31 billion → \$11.19 billion → \$10.81 billion), in tandem with the lower loan book. **Can management provide shareholders with greater clarity on its view of the market and its risk management strategy (in terms of loan book growth)? How much operational flexibility does the group have given the current level of funds?**

#### Hong Leong Finance's response

Our loan customer base is mainly local small-medium-sized enterprises (SMEs) and retail consumers. During the pandemic, many of them were badly affected. The management adopted a very prudent stance in granting loans and providing financing supports under government relief assistance schemes. We wrote smaller loans on the back of pandemic-hit economy. As a result, our loan book has slightly decreased. Nonetheless, the Company continues to maintain healthy capital and liquidity position to capitalize on emerging business opportunities.

As more countries are opening up, the economies are expected to recover. Hence, the Company is expecting to grow its loan books.

**(iv) How significant are the risks to the group with regard to the property market and the cooling measures introduced by the government; the high COE prices with regard to the car loans/hire purchase; and new variants of COVID-19 which may cause further disruption to the construction industry?**

#### Hong Leong Finance's response

The management has adopted a calibrated approach towards the financing of the property market. We maintain strict KYC standards, performing rigorous due diligence for our financing of companies in the property market. Continued Risk management of the property loans portfolio will be carried out, including periodic stress tests.

Property Market – HLF's Asset quality remains healthy. Credit underwriting is holistically assessed and within guidelines of MAS 825 and MAS 831. Our portfolio of borrowers are largely Singaporeans and Singapore PR. This group of borrowers are typically property owners for "own-stay", thus HLF is less affected by the stricter cooling measures which affect property investors as opposed to home owners.

Car Loans/Hire Purchase – HLF's HP portfolio remains healthy. Similar to property market, credit underwriting is holistically assessed and within guidelines of MAS829 with a cap on MOF. In a market with increasing COE prices, the overall value of the collateral is strengthened as the "paper value" of the COE is maintained irrespective of market forces. Thus, the credit write off or losses from this category of borrowers is minimal and the relative risk of loss reduces over the loan period.

COVID-19 Pandemic – HLF's portfolio of development loans remain healthy. This is despite the increase in construction costs brought about by COVID-19 border closures and its related effect on cost of raw materials and labor. By maintaining good KYC standards and due diligence, combined with holistic assessment of credit applications, based on our track record since the "circuit breaker" period, we expect that overall risks to the group will be successfully mitigated.

**Q2.** As at 31 December 2021, the loan portfolio includes secured non-performing loans of 1.5% of the portfolio in 2021, an increase from 0.9% in 2020.

Unsecured non-performing loans remained at 0.1% of the portfolio.

The group maintains full ECL allowances for all non-performing loans where the net outstanding debt is not covered by the value of the collateral held, taking into consideration the net realisable value of the collaterals. The NPL ratio increased to 1.6% (2020: 1.0%) mainly attributed to slow repayment of a few files which are fully collateralised.

(Source: company annual report; graphics added)

Loans and advances to customers			Analysis of non-performing loans by industrial classification			
	2021	2020	2021		2020	
	\$'000	\$'000	\$'000	%	\$'000	%
Gross carrying amount	<b>10,722,567</b>	10,974,681				
Concentration by sector						
Hire purchase/block discounting	<b>1,476,391</b>	1,584,613				
Housing loans secured by property under finance	<b>838,837</b>	970,262				
Other loans and advances:-						
Manufacturing	<b>35,643</b>	47,399	261	-	355	-
Building and construction	<b>5,300,262</b>	5,042,100	15,405	9	23,426	22
General commerce	<b>76,645</b>	93,978	2,580	2	6,372	6
Transport, storage and communication	<b>163,034</b>	184,945	2,369	1	2,827	3
Investment and holding companies	<b>781,773</b>	706,467	-	-	48	-
Professional and private individuals	<b>230,836</b>	220,757	64,920	37	71,099	68
Others (including hotels, associations and charitable organisations)	<b>1,819,146</b>	2,124,160	88,034	51	661	1
Total	<b>10,722,567</b>	10,974,681	<b>173,569</b>	<b>100</b>	<b>104,788</b>	<b>100</b>

At the reporting date, there was no other significant concentration of credit risk.

As seen from the breakdown of loans and advances by sector (left), the total amount classified as “Others” decreased from \$2.12 billion to \$1.82 billion as at 31 December 2021.

(i) **What is the gross loan amount given to hotels/hospitality?**

Hong Leong Finance’s response

The gross loan amount given to hotels, restaurants and boarding houses was \$1.3 billion.

(ii) **Is this the reason that the non-performing loans increased under “Others”? If not, what contributed to the increase in NPL under “Others”?**

Hong Leong Finance’s response

The increase in NPL under “Others” was mainly due to downgrade of a few large loans to hotels in accordance with guidelines for COVID Re-term loans. The loans were fully secured and they have since been fully repaid.

(iii) **Would the AC look into how “Others” could be better classified?** Others account for 17% of the total loan book.

Hong Leong Finance’s response

The classification by sector was aligned with the industrial classification of the regulatory report for finance companies. We will review the key composition of this classification and enhance disclosures for future report.

(iv) For “Professional and private individuals”, the group recognised NPL of \$64.9 million out of gross carrying amount of \$230.8 million (FY2020: \$71.1 million out of \$220.8 million). **Is the group managing this exposure well?**

#### Hong Leong Finance's response

The percentage of non-performing loans measured against the loans and advances to this group of customers has improved year-on-year. Given that the ratio continues to improve, this exposure is managed well and we will continue to manage it based on existing guidelines.

**Q3.** In the chairman's statement, it was disclosed that the group saw high digital adoption for payment channels such as AXS and PayNow, with PayNow transaction volume and amount more than doubled, as compared to 2020.

**(i) Can management share the group's digital strategy with shareholders during the AGM?**

#### Hong Leong Finance's response

Besides introducing AXS and PayNow, the management has also introduced application systems to work with our major car dealers to enable customers to digitally submit vehicle hire purchase financing application using MyInfo. With the integration of the MyInfo capability, we have seen increase in the adoption of MyInfo functionality by our customers. In relation to digital applications for vehicle hire purchase financing, since its initial rollout in Jan 2020, the number of customers using this digital service has increased by 4-fold in 2021. We will continually improve our capabilities in this area to reach out to more dealers and customers. We will be rolling out the online application capabilities to our other car dealers.

In addition, as of April 2022, we have also rolled out the capability to process HDB loans received from the HDB via API.

We are planning to roll out front-end digital capabilities for our customers in their banking transactions with us. We are in the midst of finalising the project. We are also collaborating with partners to offer prepaid cards, multi-currency e-wallets, remittance and foreign currency options to our customers.

Besides digitalisation to serve our customers better, we are also digitalising internally to improve processes.

Whilst we understand the need to go digital, we are mindful in managing the risks associated with major system projects by implementing digitalisation in phases, ensuring proper integration with our existing systems. We also take into consideration cyber risks and cyber security including PDPA matters as part of our risk management on digitalization.

**(ii) What percentage of its customers have made use of the new digital capabilities and services?**

#### Hong Leong Finance's response

We have implemented online Letter of Instruction through our website for deposit placement/renewal/withdrawal. For receiving of deposit, we have enabled HLF Corp PayNow. For e-withdrawal, we ride on our banker's platform to perform e-transfer via e-Meps/PayNow(Fast).

Looking at our total loan repayment transactions, non-cash transactions (i.e., excluding cash, cheques, cashier's orders, including standing instructions, direct debit, GIRO) accounted for 94% of the total number of transactions in 2021.

Our customers have also been able to use the AXS and PayNow as a convenient digital channel for making their loan repayments. The transactions for 2021 averaged around 6,800 and 2,500 per month for the AXS and PayNow respectively. The average transactions per

month for PayNow more than doubled as compared to year 2020. These channels are in addition to the generally used GIRO, MEPS, and other forms of payment channel.

**(iii) Have most of the commonly used services been migrated to the digital platform?**

Hong Leong Finance's response

As shared above, we have migrated some commonly used services to digital platform. We will continue to enhance and rollout more digital channels to improve customer engagement and internal operations.

**(iv) In terms of cybersecurity and phishing, how is management proactively and pre-emptively managing these risks?**

Hong Leong Finance's response

We have established an operational cyber-security team within our IT Department, enhancing the capabilities to handle daily security threats. We continuously monitor new threats and improve the controls to proactively detect and respond to cybersecurity and phishing threats. All Hong Leong Finance employees are required to attend and pass security awareness training as part of an annual awareness training program. Collaborations with business and customer service teams to pro-actively ensure all customers are well-informed of modern day phishing attack campaigns and alerts on our website.

By Order of the Board

Yeo Swee Gim, Joanne  
Ng Siew Ping, Jaslin  
Company Secretaries

Date: 22 April 2022