



HONG LEONG FINANCE

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present this annual report of the Group and the Company for the financial year ended 31 December 2019.

FINANCIAL OVERVIEW

Group profit after tax attributable to shareholders for the year ended 31 December 2019 amounted to \$103.1 million, equivalent to 23.1 cents per share. The results for the year were arrived at after net loss allowances of doubtful debts amounting to \$1.6 million against net recoveries of \$2.2 million in 2018.

Loans and advances (before loss allowances) increased to \$11.57 billion from \$10.30 billion in 2018, an increase of 12.4% over the previous year. Deposits and balances of customers registered an increase of 8.5%, closing at \$12.31 billion as at 31 December 2019. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled \$1.91 billion, equivalent to \$4.28 per share. The Group continues to maintain a strong capital adequacy ratio of 15.0% as at 31 December 2019, higher than the prescribed requirement.

An interim dividend of 5 cents per share (tax exempt one-tier) was paid on 11 September 2019. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 10 cents per share (tax exempt one-tier) in respect of 2019. The aggregate distribution for the year will amount to approximately \$67.1 million, compared to \$66.9 million for 2018.

OPERATING PERFORMANCE

Trade conflicts, geopolitical tensions and de-globalisation are among the primary drivers of market volatility for 2019, resulting in a weaker global economic environment.

The slump in the global electronics cycle, in particular, was a drag on Singapore's manufacturing sector. The Singapore economy grew marginally by 0.7 per cent in 2019 compared with the 3.4 per cent expansion in 2018.

Driving SMEs Forward

Hong Leong Finance (HLF) journeyed with SMEs to assist them in sales growth and productivity gain through business digitalisation. Collaborating with Infocomm Media Development Authority for SMEs Go Digital Programme and Enterprise Singapore's SME assistance loans, HLF provided much needed guidance and funding to the SMEs.

HLF also strengthened our product range to help the underserved SMEs. Our new SME Property Loan offering 6-monthly step-up board rates is Singapore's first and only such loan package where market norm offers yearly step-up rates. The unique gradual rate change allowed SMEs to better manage budgeting for their biggest asset (i.e. commercial property). The innovative loan was awarded The Mortgage of the Year 2019 by Asian Banking & Finance.

To empower cash-strapped SMEs in retail and service sectors to meet higher festive sales demand, we created a Business Seasonal Loan to bridge the seasonal financing needs. SMEs welcomed fast drawdown of the unsecured short-term working capital loan, packaged with a low-cost Business Current Account for convenient depositing of daily sales taking. With more SME parameter-based lending schemes in place, customers could access funding quickly.

HLF also teamed up with Millennium Hotels & Resorts (MHR) to launch an Exclusive Privileges Loyalty Programme to help SMEs manage entertainment costs. Through this programme, SMEs gained access to a host of benefits and savings for accommodation, dining and hosting of events at MHR hotel chain in Singapore.

To make services more accessible, HLF expanded its SME Centre network with the opening of a 12th Centre at Potong Pasir Branch. Business Current Account, previously offered at Head Office only, is now available at all the 12 SME Centres.

Local capital markets faced volatility given the subdued economy. With HLF's deep Corporate Finance expertise, it successfully sponsored Jason Holding Ltd in its reverse takeover of REVEZ Group Pte Ltd. HLF also acted as a Continuing Sponsor for another 10 Catalist companies and was financial advisor to several listed and unlisted companies on their corporate exercises.

Staying Relevant and Deepening Strategic Partnerships

With deposits interest rates trending downwards towards the last quarter of 2019, short-term depositors faced repricing risk. Addressing the concerns, HLF created a new rate feature called Renewal Rate Lock-In for selected short-term Fixed Deposits, with the option of renewing their deposits at the same rate as when they first placed. This scheme proved to be very popular with younger customers. The unique rate feature for short term deposits complemented HLF's wide range of other savings and fixed deposits products.

HLF continued to rationalise its branch network for optimisation. A new branch was set up at Potong Pasir to serve residents there as well as 700,000 new homes at the nearby upcoming Bidadari Estate. HLF closed its Ang Mo Kio Ave 4 Branch given its proximity to its Ang Mo Kio Ave 1 Branch.

Strengthening relationships with our strategic partners is as important as developing connections with new alliances and customers.

We leveraged a strong referral network of property agents and actively sought new customers to offer our flexible home financing options. We also fortified rapport with our key car partners to deliver customer-centred car loan packages to their customers, resulting in business market share growth. For a second consecutive year, HLF won "Top Contributor Porsche Financial Services" award in 2019 for the highest Porsche market penetration worldwide. The Company continued to expand relationships with other car distributors to serve more car owners.

Transformational Change and Digitisation

Customer preferences are continually evolving with the emergence of new technologies and the shift in market trends. We believe our success to remain relevant and cater to growing customer needs and expectations, depend on driving transformational organisational change, bearing in mind the different generational needs in doing so.

At the back office, an Operations Improvement Team, comprising experienced cross-functional staff, setup last year, continued to review operations policies and processes to drive improvement, automation, compliance and standardisation. By re-organising the Operations Departments from product silos to functional units, we achieved synergy by banding common processes together; centralised controls for better risk management; improved governance practices and oversight. Likewise, a Customer Experience Committee consisting of senior management and managers was formed to oversee customer feedback and to redesign customer-facing processes to delight customers.

Besides AXS, we started accepting PayNow digital payment mode for easy loan payments through mobile devices based on customers' feedback. To provide a hassle-free car loan customer experience, digitalisation via online loan application using MyInfo data and API connectivity with car partners is underway. Upon its successful implementation, this would serve as a framework for other loan applications, enhancing customer data privacy protection and service levels. We also embarked on a Robotic Processing Automation pilot to increase productivity and engaged in collaborative efforts with fintech companies to innovate products.

In line with Smart Nation and cashless society initiatives, we adopted electronic fund transfer for our Treasury's back office settlement and cash management functions as well as third parties' supplier payment. By using the e-platform, manual cheque issuance and paper payment instructions were phased out, reducing transactional cost and improving operational efficiency.

HLF is also in conversation with GovTech to understand the national initiatives and identifying areas which the Company can work on for our transformation.

We recognise that the on-going transformational change cannot be achieved without the tireless efforts of our employees. We value them and our talent management policy to attract, retain and develop our talented people is in place.

Balanced Risk Management

We added three more independent directors with diverse expertise to strengthen the Board's leadership bench and to guide the Company in manoeuvring the transformational changes in a sea of risks and opportunities.

We continued to ensure that business strategies were balanced against sound and effective risk management processes and framework, emphasising on credit and liquidity stress testing, strengthening operational risk controls and closely monitoring the weak credits to safeguard strong credit quality in our loans portfolio.

Given the Company's healthy Tier 1 Capital, HLF was named as Top 1000 World Banks and Top 100 ASEAN Banks for a second year by The Bankers. We exercised prudence in credit underwriting and maintained the mandatory liquidity ratios as we grew our loan book and achieved the Top 100 Singapore Brands Award 2019 by Brand Finance.

HLF was also humbled to clinch the Most Transparent Company in the Finance Sector – Runner-Up Award by Singapore Investors Association (Singapore) for two years running; was ranked Top 30 listed companies on the Singapore Governance and Transparency Index by Centre of Governance, Institutions and Organisations and was placed on Singapore Exchange's Fast Track for two years to be accorded prioritised clearance for selected corporate action submissions to Singapore Exchange Regulation.

In the area of cybersecurity, we strengthened our defences against cyberattacks, ensuring the protection of our employee and customer data.

2020 OUTLOOK

HLF looks to the year ahead with great caution. While there is interim de-escalation of trade hostilities between China and the U.S, the uncertainties in geopolitics and the impact of novel coronavirus (Covid-19) outbreak have contributed to sluggish interest rates and weak global growth outlook. The Ministry of Trade and Industry forecasted growth range between -0.5 per cent and 1.5 per cent for Singapore. HLF serves domestic customers only. We have no operations in China or overseas. Hence the economic impact from the Covid-19 outbreak is somewhat cushioned.

We will pursue our transformation journey to remain relevant to customers by managing our resources to enhance investment and shareholder returns. Building on our strengths, we will continue to strengthen risk management, streamline and simplify operations using technology, innovate responsibly and grow our partnerships and customer relationships. The goal of all these efforts is to become even more customer-focused, innovative and better positioned for the future – creating long-term value for our shareholders.

APPRECIATION

I wish to extend once again a warm welcome to Mr Peter Chay Fook Yuen, Mr Tan Tee How and Ms Tan Siew San who joined the Board on 11 June 2019 as Independent Non-Executive Directors. I am sure the Company will benefit from their contributions from their respective management and professional experience and am confident that they will provide further diversity to the core competencies of the Board and allow for fresh perspectives on the Company's strategies and business.

On behalf of the Board of Directors, I would like to convey our sincere gratitude to all our valued customers, shareholders and business partners for their continued support, trust and confidence in us. I would also like to express my appreciation and thanks to my fellow Directors for their invaluable advice and guidance during the year and to the management and staff for their commitment and efforts in 2019.

KWEK LENG BENG

Chairman

27 February 2020