



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 2017.

FINANCIAL OVERVIEW

Group profit after tax attributable to shareholders for the year ended 31 December 2017 amounted to \$85.7 million, equivalent to 19.3 cents per share. The results for the year were arrived at after topping up provision (net of write back of provision/ recoveries) amounting to \$3.8 million against \$1.1 million in 2016.

Loans and advances (before allowances) increased to \$9.99 billion from \$9.63 billion in 2016, an increase of 3.8% over the previous year. Deposits and balances of customers registered an increase of 2.1%, closing at \$10.66 billion as at 31 December 2017. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled \$1.74 billion, equivalent to \$3.91 per share. The Group continues to maintain a strong capital adequacy ratio of 15.8% as at 31 December 2017, higher than the prescribed requirement.

An interim dividend of 4 cents per share (tax exempt one-tier) was paid on 12 September 2017. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 9 cents per share (tax exempt one-tier) in respect of 2017. The aggregate distribution for the year will amount to approximately \$58 million, compared to \$40 million for 2016.

OPERATING PERFORMANCE

The global economy continued to strengthen with broad-based expansion. Recovery is buoyed by synchronised upturn across developed and emerging markets. Singapore's economic growth was also lifted by the worldwide electronics demand and consumer confidence.

First quarter's GDP of 2.5% rapidly gained momentum to register a growth of 2.8% and 5.5% in second and third quarter respectively. The year ended off with the Republic's economy growing 3.6% in the fourth quarter, pushing the full-year GDP growth to 3.6% as the country pressed on with its economic restructuring plan to bring about higher productivity and sustainable future growth.

Understanding SMEs

Based on key finding of the inaugural SME Market Survey conducted by Hong Leong Finance Limited ("HLF" or the "Company") in November/December 2017 with about 200 SMEs taking part, the top three challenges faced by SMEs were stiff competition, followed by hiring difficulty, and high operating costs. Their priorities were to grow their businesses locally and overseas with focus on branding, marketing and products and services enhancement; manage operation cost as well as hiring and retaining staff.

Disruption is taking place across businesses as a result of technological innovations and low barriers to entry by disruptors. SMEs are faced with more competition today than before. This is exacerbated by consumers having higher expectations around digital experiences.

HLF, being a strong SME supporter, understands their predicament. The Company provided value-added services and innovative financing solutions to support them.

Support for SMEs in the Smart Nation Master Plan

A Memorandum of Intent was signed with Infocomm Media Development Authority ("IMDA") in August, to help SMEs to go digital. Activities were carried out to reach out to SMEs to introduce the SMEs Go Digital Programme launched by IMDA, in support of the Smart Nation Master Plan.

Through partnership with IMDA, HLF aimed to work with corporate customers who are industry leaders, to seek and pilot emerging technology solutions to help uplift productivity and competitiveness for their sectors.

Under HLF's enhanced SME Capability Ready (CARE) Programme, SMEs were able to take up bridging loans to wait out government capabilities grants to defray costs in their capabilities building investments and be guided on how to go digital. HLF also partnered with SPRING Singapore to promote the Government-Assisted SME loans and capability development grants. SMEs leveraged on the Programme, loans and grants to build their capabilities, promote growth, manage operation efficiency and reduce labour dependency.

Innovative Solutions and Convenient Services for SMEs

HLF continued to assist SMEs with their cash flow through a slew of innovative SME loan schemes including Accounts Receivable Financing, Factoring, Project Financing and Trade Advance for specific business transaction needs as well as property loans for their business expansion. Hassle-free Working Capital Loan Online Application was also introduced in the year to give SMEs a new loan application channel.

HLF welcomes the Monetary Authority of Singapore's ("MAS") announcement in granting some exemptions from the Finance Companies Act to enhance the industry's ability to finance and support SMEs. An example is on the increase in the limit for writing unsecured business loans. The relaxation represented further opportunities for the Company to support SMEs in their quest to grow and expand both domestically and overseas.

To be closer to the SME community, HLF expanded its SME Centre @ Hong Leong Finance footprint further to 11 Centres island-wide with the latest being at Clementi West Branch.

For SMEs seeking for corporate advisory services to grow their businesses to the next level, the newly launched SME Connector Programme at SME Centres allowed them to access introductory service to Corporate Finance specialists. The full implementation at the Centres was the result of a successful pilot at SME Centre @ Upper Bukit Timah last year.

While the local capital markets remained challenging, market sentiments improved along with both local and global economic growth. More companies were listed on the Catalist Board and Mainboard of the SGX-ST in 2017 as compared to 2016. HLF was the Sponsor, Issue Manager, Underwriter and Placement Agent to UnUsUaL Limited, an investment holding company which is primarily involved in the business of promotion and production of concerts and events in Singapore, Malaysia and Hong Kong. The share price of the company stock more than doubled since its trading debut on the Catalist Board of SGX-ST. The Company also acted as Continuing Sponsor for 9 Catalist companies and independent financial advisor to a listed company for their corporate exercise.

Focus on Retail Loans and Deposits

Car ownership reportedly dropped but rental car population rose. The move towards a shared proposition seemed to be gaining traction. With the changing consumer behavior, some car dealers entered the rental market to get a slice of the shared economy. Competition for end-user financing remained keen and the Company fortified its partnership with the car dealers by differentiating through fast and efficient service. HLF also made in-roads into financing the car rental business to keep up with the market needs.

In October, Land Transport Authority announced that the vehicle growth rate for private passenger cars and motorcycles in Singapore would be slashed to zero from February 2018, down from the current 0.25%. The marginal reduction may not have much adverse impact on the auto industry.

The residential market remained weak despite prices stabilising. While developers drove up collective sale fever, the Government maintained a consistent tightly calibrated supply approach on both the private and public housing fronts to prevent the property bubble from forming. Homebuyers were notably more cautious in their choice of home loan in the rising interest rate market. The Company launched several competitive fixed rate loan packages during the year to serve the mass market who bought HDB homes.

In March, MAS relaxed borrowing against the value of private properties to enable borrowers to monetise their assets in their later years. Total Debt Servicing Ratio no longer applied to mortgage equity withdrawal loans with Loan-to-Value ratios of 50% and below. HLF was the first and only financial institution that rolled out a dedicated loan programme for such borrowers. Called Mortgage Equity@50 (ME@50), individuals in their retirement years were able to borrow against their properties to have more lifestyle choices. Furthermore, they could enjoy the unique added convenience option of making early loan payment to save on interest cost, without incurring any prepayment penalty.

With risks of higher interest rates following signals from the US Federal Reserve Bank, more emphasis was placed on the Company's liquidity management. Promotions on fixed deposits of multiple tenures were marketed in the course of the year. The highly popular Fixed Savings Account, rolled out to the public the year before, was also further promoted to staff of SMEs. The account provides a hassle-free option of saving and growing money faster by using Giro and earning attractive bonus interest.

Stringent Risk Management and Compliance Framework

In the light of uncertainties, HLF continued with its risk and customer-focus strategies. The Company's robust risk management framework covering areas from Credit to Liquidity, Market and Operations enabled it to harness new business opportunities.

To meet the increasing compliance requirements, the Company invested heavily in human and technology resources to put in place a cost efficient and effective system to protect its business and customers' assets.

Feathers in the Cap

Pace of change in the financial industry has quickened with Financial Technology ("FinTechs") entering the financial eco-system. The Company had been exploring opportunities to collaborate with FinTechs to innovate and transform and bring about process simplification to meet the evolving needs and aspirations of customers.

HLF was honoured to be recognised for its creative and relevant customer solutions and be awarded for the fourth consecutive year as the top finance company in the region, winning the "ASEAN Finance Company of the Year" accolade at the Asian Banking and Finance Retail Banking Awards 2017. The Company was also among the Top 100 Most Valuable Brands in Singapore for 2017, announced by Brand Finance, a world-leading independent brand valuation and strategy consultancy.

First Sustainability Reporting

This year, HLF embarked on its first sustainability report, in compliance with the guidelines set by the Singapore Exchange, outlining important sustainability issues for our business. An internal working committee was formed to manage the sustainability efforts of the Company. A Board Sustainability Committee was appointed by the Board to provide guidance and oversight on sustainability issues.

Although this is the first year the Company is producing a standalone sustainability report, the commitment to be a good corporate citizen is not new. HLF has been committed to creating greater value for the communities it serves while maintaining long-term shareholder value for decades. This tradition will continue with the sustainability report guiding the Company in its journey towards contributing and building a more sustainable society.

OUTLOOK FOR 2018

The Ministry of Trade and Industry's projection for Singapore's economic growth for 2018 is between 1.5% and 3.5%. Major drivers for growth are expected to be from stronger growth in the US and some emerging markets and developing economies while that of demand markets such as China and the Eurozone may ease. As a small and open economy, Singapore is exposed to developments in the global economy. With the support from the government, local companies will be assisted in upgrading technologically and competing internationally to build sustainable businesses.

The conditions of changing customer behavior, new competitors and framework are making things challenging for all industries. HLF will continue to strive in productivity and innovation to remain relevant to the business and individual customers. Good customer experiences are a high priority focus area for the Company. By listening to customers' aspirations and needs, HLF is confident in creating new and better products and services that are valuable and appealing to them. The Company is committed to ensuring that processes are customer-centric and efficient, and resources are prudently managed. Our people aim to have a continuous improvement mindset to look at better ways of doing what we do daily.

HLF will aggressively seek to expand its customer relationships and drive partnership and collaboration in the sharing economy to achieve greater success. Digitalisation along with the technology will further bring about opportunities for the Company to serve its customers in a more contemporary manner.

These straight forward business priorities are augmented by our continued conservative management of strong capital, high levels of liquidity, stringent underwriting parameters and robust management of our portfolio of assets.

APPRECIATION

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 2017.

KWEK LENG BENG

Chairman

27 February 2018