



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 2015.

FINANCIAL OVERVIEW

Group profit after tax attributable to shareholders for the year ended 31 December 2015 amounted to \$72.9 million, equivalent to 16.4 cents per share. The results for the year were arrived at after writing back provision/recoveries (net of top up of provision) amounting to \$3.6 million against an additional net charge of \$2.0 million in 2014.

The Group achieved steady growth in its core activities during the year. Loans and advances (before allowances) rose to \$10.20 billion from \$9.69 billion in 2014, an increase of 5.3% over the previous year. Deposits and balances of customers registered an increase of 9.3%, closing at \$11.44 billion as at 31 December 2015. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled \$1.69 billion, equivalent to \$3.80 per share. The Group continues to maintain a strong capital adequacy ratio of 15.1% as at 31 December 2015, higher than the prescribed requirement.

An interim dividend of 4 cents per share (tax exempt one-tier) was paid on 9 September 2015. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 7 cents per share (tax exempt one-tier) in respect of 2015. The aggregate distribution for the year will amount to approximately \$49 million, compared to \$44 million for 2014.

OPERATING PERFORMANCE

While the advanced economies were recovering, the slowdown in emerging market economies, led by China, put a drag on the global economic output during the year.

Singapore was faced with additional domestic structural challenges including a tight labour market and negative inflation. This put pressure on growth in the Singapore economy which moderated from 2.7% (revised) in the first quarter to 1.7%, 1.8% (revised) and 1.8% in the subsequent three quarters. The softer economy and labour constraints weighed down on businesses particularly those in manufacturing, wholesale and rig building activities as well as labour-intensive sectors. Many SMEs attempted to remodel and refocus their businesses to enhance cost efficiency and target higher growth niches.

Hong Leong Finance actively engaged and assisted these SMEs in their transitions. Besides providing them financial support, we also offered advisory services and took the extra mile in connecting them with our wide network of partners and customers to build relationships for mutually beneficial gains.

Continued rapid changes of business environment drove Hong Leong Finance to innovate and invest in infrastructure and technology to meet changing customer needs. With increased deployment of resources in expanding the SME Centre @ Hong Leong Finance network we have achieved excellent results. This year, we added two more SME Centres, bringing the count to ten to provide greater convenience of one-stop financial services to SMEs.

Hong Leong Finance also took customer engagement to a higher level with the unveiling of a modernised branch at Jurong East. The expanded branch was complete with a new digital space equipped with convenient self-service terminals for customers to make loan applications and related computations. To interact with customers more effectively during financial consultation, tablets were deployed for use by our relationship managers.

Further, a host system technology refresh initiative was launched to enhance the capacities and capabilities of our internal systems and processes to enable faster and more flexible ways of doing things.

The company website was also revamped to adopt a more responsive and interactive interface to target the busy and digitally-savvy customers. In addition to being mobile- and tablet-friendly, the new website offered intuitive suggestions to users based on the products or services they looked at. Predictive search function to help users learn more about Hong Leong Finance's products and services and state-of-the-art calculators to obtain real time deposit interest and loan instalment computation results were some of the latest features added.

On the vehicle market, sales were brisk in 2015 for new vehicles due to higher supply of COE following an increase in car deregistration. However competition for car loan business intensified with new entrants such as credit companies. Our counter measure of building strong strategic alliances with our car dealer partners served us well in sustaining our pipeline of new car loans.

The unrelenting property cooling measures continued to negatively impact on property purchases. Lower numbers of new Singapore permanent residents (SPR) combined with tighter SPR eligibility criteria to purchase HDB homes caused a further drop in HDB purchasers. Increase in Build-To-Order launches and higher income ceiling eligibility for loans from HDB shifted some demand away from resale to new build HDB purchases. The proportion of new HDB purchasers taking up loans from HDB rose taking business away from financial institutions. We focused on encouraging HDB home loan borrowers at other financial institutions to refinance with us by offering fixed rate loans to protect against rising interest rate risk, and achieved good success with loans demand and acquisitions outpacing our expectations. For private home loans, we wrote loans selectively in view of the uncertain private residential market.

The volatile local capital market and weak sentiments led to fewer corporate listings. Hong Leong Finance remained committed in helping SMEs with listing potential. We provided advisory services to them and acted as their Catalyst Sponsor, Issue Manager, Underwriter and Placement Agent. Since entering the market with the first Catalyst Initial Public Offering on the Stock Exchange of Singapore three years ago, we have grown and now act as Continuing Sponsor for seven Catalyst companies.

With the rising interest rate environment contributed by the US interest rate hike and ongoing implementation of the Basel III liquidity requirements, competition by banks for deposits to build up their bases has been keen. Issuance of retail corporate bonds and the launch of the government's Singapore Savings Bond in the second half of 2015 further added pressure on market liquidity and raised deposit interest rates. To defend our deposit portfolio and grow it in tandem to support our loan growth, Hong Leong Finance launched a series of deposits promotions with varied tenures to appeal to different customers, catering to their different needs. Loan-to-deposit ratio was carefully managed to optimise loan funding cost.

Our staff did us proud again with their exemplary customer service. At the Excellent Service Awards Ceremony organised by Spring Singapore and administered by the Association of Banks in Singapore, May Lim Guek Eng a customer services officer at our Jurong East branch was accorded the Service Excellence Silver Award.

Hong Leong Finance was also honoured to be bestowed the ASEAN Finance Company of the Year award for the second time at the Asian Banking and Finance Retail Banking Awards in recognition of our excellence and innovation in financial products and services.

OUTLOOK

We are cautious of the Singapore economy's growth prospects next year. There are several headwinds including the slowdown in global economies, increased tension in the Middle East and domestic structural challenges.

Our strategic priorities continue to expand selectively, deepen customer relationships, strengthen partnerships with our business alliances, increase interest and fee income and improve operating results. These are crucial in attaining sustainable growth and long-term value for our shareholders.

Our focus will be on specific high-yield products and robust growth sectors, to cultivate relationships we already enjoy with our existing customers in order to gain market share through cross-selling and to build on the strong connections that we have established with our business partners and grow the network for more referrals. The future is poised for even greater interdependence.

Amidst the increasingly demanding regulatory and compliance framework, Hong Leong Finance will continue to be prudent and responsible in all our lending. Achieving excellence in service delivery and customer experience remains our cornerstone to winning over and keeping our customers.

At the same time, we will take all necessary steps to keep the level of non-performing loans low by controlling concentration and ensuring compliance with our internal credit processes.

CORPORATE RESPONSIBILITIES

Hong Leong Finance has zero tolerance towards bribery, fraud and corruption, regardless of the identity or position of the originator or recipient of the bribe. The Company expects all staff to conduct business in accordance with the highest standards of ethical behaviour and honesty. This also means that we are committed to the prevention, deterrence and detection of bribery, fraud and corruption.

All staff have to observe a Code of Conduct which sets out the principles and standards of behaviour when dealing with customers, business associates, regulators and colleagues. The principles covered in the Code of Conduct include areas like confidentiality, conflicts of interest, professional integrity, fair dealings with customers, whistle blowing and competency of staff.

To attract and retain good staff, Hong Leong Finance regularly reviews our employees' remuneration to ensure competitiveness and alignment with the marketplace. To draw young and promising talents, the company offers internship placements for selected students in polytechnics and universities to gain their mind share in the career choices upon graduation.

As an employer of choice, we are committed to the learning and career development of our employees. Besides sponsoring staff for professional courses that are related to their work, there are award incentives to those who pursue and complete courses of their own choice under our Professional Education Incentive Scheme. Furthermore, individuals and teams with outstanding achievements and contributions are recognised with Star Service Awards. We also understand the importance of work-life integration and employee relations. Employees who have strong family demands have the flexibility to work on a part-time basis, subject to exigencies of service.

Hong Leong Finance also has in-place policies on Fraud and Whistleblowing, which define the processes and procedures for the escalation, investigation and follow-up of any reported wrong-doing by staff, customer, vendor or third party. The policies provide for any individual to report in good faith, without fear of reprisal, any suspected wrongdoing to the Head of Internal Audit, Head of Human Resources or Chairman of the Audit Committee.

All staff are required to read and acknowledge the Code of Conduct. Members of the public may also access the Whistleblowing policy on the company's website.

Hong Leong Finance has an established formal risk management framework to enable significant business risks to be identified, assessed, managed and reviewed regularly. More information can be found in the forthcoming Annual Report.

In addition, Hong Leong Finance practises disciplined adherence to our credit risk policies and management. Deep understanding and knowledge of customers and their associated credit risk are established for every new customer relationship acquired. Strategy is also in place to strengthen existing relationships with customers who started with a single loan or deposit account but have come to trust us as their financial partners.

Hong Leong Finance integrates responsible financing practices into our business model. As a financier, we recognise that we play an important influential role towards our employees and customers to take responsible actions. Our practices are aligned with the guidelines issued by the Association of Banks in Singapore.

The company uses the Workplace Safety & Health Act framework to promote strong safety culture in the workplace. We provide a safe work environment for our people and actively promote awareness on workplace occupational health. During the haze crisis, preparedness measures were implemented to protect our staff and customers. Employees were advised to minimise outdoor activities and given N95 masks to use in case air quality reached hazardous level. Air filters were installed at all our customer touchpoints to ensure our customers' health safety.

For our efforts in reducing environment footprint by saving energy at our offices such as at the eco-friendly Tampines Grande, Hong Leong Finance was conferred BCA Green Mark Certified Award under BCA Green Mark for Office Interior Scheme.

At Hong Leong Finance, we believe in paying it forward as a company and as individuals. As an ardent promoter of entrepreneurship, we have been a Gold Sponsor for the Annual SMEs Conference and Infocomm Commerce Conference year after year.

We also contributed to social causes relating to needy children, the elderly and disabled, and supported young adults to embrace the spirit of social responsibility and compassion. Our staff did their part as individuals by actively volunteering and serving the underprivileged through the charity activities organised by Hong Leong Foundation which touched the lives of many. More information can be found in the forthcoming Annual Report.

APPRECIATION

Our Board of Directors, management and employees were deeply saddened by the demise of Mr Kwek Leng Joo, non-Executive and non-Independent Director, in November 2015. The Board sincerely appreciates Mr Kwek's dedicated service over the years.

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 2015.

KWEK LENG BENG

Chairman

25 February 2016