



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 2014.

FINANCIAL OVERVIEW

Group profit after tax attributable to shareholders for the year ended 31 December 2014 amounted to \$62.8 million, equivalent to 14.2 cents per share. The results for the year were arrived at after charging a topping up of provisions (net of write back of provisions/recoveries) amounting to \$2.0 million against a write back of \$2.3 million in 2013.

The Group achieved steady growth in its core activities during the year. Loans and advances (before allowances) rose to \$9.69 billion from \$9.19 billion in 2013, an increase of \$500 million or 5.4% over the previous year. Deposits and balances of customers registered a corresponding increase of 5.7%, closing at \$10.47 billion as at 31 December 2014. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled \$1.66 billion, equivalent to \$3.74 per share. The Group continues to maintain a strong capital adequacy ratio of 16.4% as at 31 December 2014, higher than the prescribed requirement. Under the enhanced risk-based capital framework effective from 2015, the capital adequacy ratio translates to 16.2%.

An interim dividend of 4 cents per share (tax exempt one-tier) was paid on 15 September 2014. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 6 cents per share (tax exempt one-tier) in respect of 2014. The aggregate distribution for the year will amount to approximately \$44 million, compared to \$53 million for 2013.

OPERATING PERFORMANCE

Global economic growth remained subdued for another financial year in 2014, with worldwide recovery slow and uneven. This was further shaped by a strained geo-political situation, incorporating rising tensions in East Asia, Ukraine and the Middle East. External cross-border demand has been stalling.

The Singapore economy grew by 4.6% in the first quarter on a year-on-year basis and slowed to 2.3%, 2.8% and 2.1% in the subsequent three quarters. For the whole of 2014, the economy expanded by 2.9%. Domestically, there were formidable headwinds ranging from labour shortage, consumer deleveraging and low productivity to the slowdown in both property and motor vehicle markets.

Local SMEs were faced with multiple challenges from industry competition to manpower scarcity which were limiting their growth. In this difficult and trying environment, companies were optimising their product and service quality to differentiate their offerings and taking concrete steps to boost productivity with technology solutions in ensuring sustained growth in the long run. In order to achieve higher levels of productivity, productivity-enhancing investments were required.

Hong Leong Finance continues to be committed in helping SMEs in their productivity drive. The popular and successful Productivity Loan Promotion, rolled out in 2013, to incentivise and motivate SMEs to take up government assistance under the Quality Growth Programme and sign up for our productivity-enhancing loans, was extended for another year to promote and support the efficiency efforts of SMEs.

With more than 50 years of experience, Hong Leong Finance understands the success drivers for SME businesses. Many SMEs have found our one-stop professional financial services offered at the strategically located SME Centre @ Hong Leong Finance apt and convenient. We therefore focused our resources on what we do best that creates sustainable competitive advantage. We continued emphasising investment in physical capital and infrastructure and expanded the SME Centre @ Hong Leong Finance network to eight island-wide this year. Alongside this, we grew our SME sales force and managed good growth in our SME loan portfolio.

Our non-lending fee income from the capital markets continued to improve as more SMEs were tapping into it. Our Corporate Finance team was amongst the Top Sponsors for Catalist IPOs in 2014, a major milestone for Corporate Finance. We worked with a broad range of customers on significant engagements, including a Reverse Takeover and IPOs for approximately 20% of the new companies listed on SGX Catalist board. Acting as Continuing Sponsor and Right Issue Manager for Catalist companies have also provided us with a steady fee income stream.

Building strategic alliances with key business partners such as property developers, real estate agents, car dealers and equipment suppliers enabled us to gain greater access to their resources, including markets, capital and people. The team-up with our partners has provided immense opportunities for all and helped us to grow.

The car loan business remained slow due to restrictive credit regulations. New car sales in Singapore recovered slightly in 2014 and some pick up is anticipated in 2015 with moderate but stable growth on the back of a slew of Certificates of Entitlement to be deregistered, freeing up additional supply for the market.

The private and public residential property market was sluggish with the price index slipping QoQ. This was the result of numerous factors acting in conjunction with the cooling measures. Hong Leong Finance continued to write private residential property loans very selectively in view of stiff loan market competition and low interest yield. However, serving HDB dwellers with customised and innovative HDB Home Loans at the 28 branches remains our focal point.

With a rising interest rate environment and higher cost of funds which impinged on our net interest margins, Hong Leong Finance adopted a measured loan growth strategy with emphasis on higher yield SME loans.

While satisfying the financial needs of our customers and helping them succeed financially, we were committed in keeping up with our credit discipline, and maintaining and upholding a proper, robust and prudent management of our Governance, Risk and Compliance framework.

Hong Leong Finance recognises the need for economic growth to be balanced by providing opportunities and benefits for different communities. As a strong advocate in promoting SME growth, Hong Leong Finance has been a long-standing supporter of the Annual SMEs Conference and Infocomm Commerce Conference. We are proud to once again be a Gold Sponsor at this year's conferences.

In honour of Singapore's Pioneer Generation for their contribution in nation-building, Hong Leong Finance was the only financial institution that offered this special group of individuals, who are 65 years and older, one of the highest fixed deposit rates to enjoy. And in celebration of Singapore's Golden Jubilee in 2015, Hong Leong Finance also kicked off the celebratory activities with gifts and good rates for fixed deposit customers.

For the young, we participated as a key sponsor in the NTU Fest 2014 that raised funds for needy ITE students to facilitate them in pursuing their education and interests.

We do what is right for our customers and the community and this timeless value is embraced and well-exemplified by our staff who are our pride. Three staff members were bestowed Silver awards as service excellence champions at the Association of Banks in Singapore's Excellent Service Awards Ceremony 2014.

Hong Leong Finance also added another feather to our cap by clinching the top finance company title in the region, winning the "ASEAN Finance Company of the Year" in the Asian Banking & Finance Retail Banking Awards 2014. The award recognised our superior performance and practices in the banking and financing services sector in ASEAN. This is the fourth consecutive year that Hong Leong Finance received an award at the Asian Banking & Finance Retail Banking Awards for our service distinction. These successes would not have been possible without the collaboration and dedication of our customers, partners and staff.

Hong Leong Finance's business model is built on years of trust. Customers' deposits and investors' monies are placed with us based on our established track record of prudence, good returns and service excellence. Loans are made to individuals and businesses only after careful stringent credit assessment; investments are made in assets that meet regulatory requirements to provide sustainable future income; contributions are given to the community to help promote social and entrepreneurship growth. By operating efficiently and supporting our customers and local communities, we remain as a strong and sustainable profitable business. Hong Leong Finance together with other companies in the Hong Leong Group Singapore supported Securities Investors Association (Singapore) as a sponsor in their Investor Education Programmes during the year. Our employees also joined hands with others in the Hong Leong Group to touch lives of the seniors from Henderson Senior Citizens' Home at the annual Lunar New Year celebration and had a rewarding day making a difference in the lives of others.

OUTLOOK

The nature of challenges facing businesses is increasingly complex. The world is undergoing a series of transformational shifts. The geo-political tensions in a number of regions will have negative consequences on the global economic outlook. In the absence of a strong catalyst for global business growth combined with Singapore's ongoing restructuring efforts, the local economy is likely to face further headwinds.

The fast moving, interconnected economy requires Hong Leong Finance to respond quickly and adopt an integrated approach when choosing solutions. Close engagement with our valued customers, partners and communities will continue to be our priority for 2015 to promote healthy economic growth that supports a more-inclusive result, addressing challenges and creating enhanced opportunities.

At the same time, we will remain focused in being prudent and proactive in seeking new opportunities on ensuring healthy and measured balance sheet growth, in compliance with our policies and strong underwriting risk parameters. We will also streamline and rationalise our systems and processes to deliver high quality products and services to our customers while keeping tight control of our expenditure as a way to ensure long-term value creation.

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 2014.

KWEK LENG BENG

Chairman

26 February 2015