



**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 2018.

### **FINANCIAL OVERVIEW**

Group profit after tax attributable to shareholders for the year ended 31 December 2018 amounted to \$118.3 million, equivalent to 26.6 cents per share. The results for the year were arrived at after net recoveries of doubtful debts amounting to \$2.2 million against additional net loss allowance of \$3.8 million in 2017.

Loans and advances (before loss allowances) increased to \$10.30 billion from \$9.99 billion in 2017, an increase of 3.1% over the previous year. Deposits and balances of customers registered an increase of 6.4%, closing at \$11.34 billion as at 31 December 2018. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled \$1.87 billion, equivalent to \$4.20 per share. The Group continues to maintain a strong capital adequacy ratio of 15.7% as at 31 December 2018, higher than the prescribed requirement.

An interim dividend of 5 cents per share (tax exempt one-tier) was paid on 12 September 2018. 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 2018. The aggregate distribution for the year will amount to approximately \$67 million, compared to \$58 million for 2017.

### **OPERATING PERFORMANCE**

China's and Eurozone economies expanded at a slower pace though growth in the key ASEAN and United States economies remained firm. The on-going United States-China trade conflict had adversely impacted business sentiments.

The Singapore economic growth moderated in 2018. It eased from 4.7% in the first quarter to 4.2%, 2.4% and 1.9% on a year-on-year basis for the subsequent three quarters.

#### Supporting SMEs' Growth

Based on our first SME market survey 2017/2018 on about 200 SMEs, 75% of local SMEs put sales growth as their top priority, while 36% are burdened with high business costs.

As a result, Hong Leong Finance ("HLF" or the "Company") rolled out 'Hong Leong Finance Empowers Me' campaign to reach out to SMEs and empower them towards sustained growth and effective cost management by providing smart funding.

Through collaboration with the Infocomm Media Development Authority on 'SMEs Go Digital' Programme and Enterprise Singapore on government-assisted loans, HLF also capitalised on its leadership position to help SME customers by customising funding solutions to meet their specific needs and boost their competitiveness by offering solution partnerships. Our relationship managers were equipped with information and guidance regarding the key government support aimed at SMEs, ensuring that they get favourable funding support.

With the relaxation of the Finance Companies Act effective in late 2017, the Company had been expanding our services to better serve SME customers. The increase in limit for writing unsecured business loans had represented more opportunities for us to support the SMEs in their working capital. A Business Appreciation Loan Campaign was launched to reward our loyal SME customers, offering them preferential rate on unsecured term loans for their cash flow and cost management. Furthermore, SMEs in HDB precincts were availed with cash flow based borrowing under the enhanced HDB SME Loan. Option for clean loan disbursement in multiple tranches, instead of a single lump sum only, to match with cash flow timing needs was introduced. The loan provided SMEs with the much-needed capital to market and to advertise their goods or services, improve their inventory management, increase their workspace and hire experienced staff. By empowering SMEs to gain the competitive edge to improve their business, the revenue they made allow them to fortify their cash flow position.

For aspiring SMEs seeking to list on the Catalist board, HLF had successfully guided them in their journey. Like Vividthree Holdings Ltd, a virtual effects and computer generated imagery studio that develops and creates digital intellectual property assets that primarily consists of storylines with accompanying characters and visual elements, the Company acted as their Sponsor, Issue Manager, Underwriter and Placement Agent. Gross proceed of \$12.95 million was raised from the Catalist board listing. Likewise, HLF was Continuing Sponsor for a number of Catalist companies as well as provided independent financial advisory services for listed companies in their corporate exercises.

### Fulfilling Individuals' Dreams

To promote HDB home ownership, HLF rolled out a series of competitive fixed rate home loan packages during the year. These packages protected borrowers from rising interest rates. With the introduction of residential property cooling measures on adjustments in the Additional Buyer Stamp Duty rates and Loan-to-Value ("LTV") limits, demand for residential properties had slowed down. To keep our loan growth, we stepped up on referral business by collaborating with digital portals such as SRX to complement with those from our traditional partners.

Going beyond reliability and convenience, in land-scarce Singapore, car ownership was commonly seen as a status symbol. To help individuals who wish to own them, HLF offered affordable car loans. The Company increased our reach via building close engagement with a wider network of distributors and dealers. HLF was appointed as the 'Authorized Financial Partner' by Inchcape Automotive Services and was recognised as the 'Top Contributor Porsche Financial Services' for the highest Porsche market penetration worldwide in 2017 too.

There was an increase in demand for Prevailing Quota Premiums financing for Certificate of Entitlement ("COE") renewal. This was led by COE declining prices with more car owners keeping their vehicles registered beyond the COE expiry date.

Mortgage Equity @50 ('ME @50') launched in March 2017 was awarded 'Housing Loan and Mortgage Loan of the Year 2018' by Asian Banking & Finance. The product innovation had created positive impact on many retirees' lives, enabling them to make more lifestyle choices. Customers were able to use the loan to meet their diverse needs from new business ventures to business transformation, home renovation and children's education, without having to sell their properties. Financing was up to 50% of LTV of private residential property value and Total Debt Servicing Ratio requirement was waived.

### Balancing Business and Risk

As part of the Company's business strategy, we balanced business opportunities against sound company-wide risk management principles and processes. We took a prudent and responsible approach in providing products and services to our customers by considering relevant risks relating to environment, social and governance. Through this measure, we remained committed to achieving long term sustainable profitability and growth.

We sought to anticipate material future risks, learn from events that had resulted in adverse outcomes and ensure awareness of known risks facing the Company.

For the year, HLF continued to maintain high quality loans, strong capital and robust liquidity ratios.

While cost of funds had increased, HLF managed to cushion the impact in the rising loan yield environment. Funding requirements were met in advance with our fixed deposit base. To promote higher savings balance, campaigns to attract fixed deposit customers to put part of their deposits into savings account were implemented.

### Transforming Digitally

The Company had embarked on a digital transformation journey with the initiation of several projects. To be an active participant in Singapore's Smart Nation and cashless society initiatives, HLF would continue to grow and transform to stay relevant to our customers. AXS loan payment service was rolled out for customers' convenience in the year. The Company was also exploring strategic partnership with Financial Technology that could fill the gaps of knowledge, technology and skills required in the digital environment for some projects. Internally, processes were re-engineered around customer experience to increase operational efficiency and reduce process and back office costs.

Investing in our employees' development remained as our top priority. We continuously upgraded the skills of our employees to enable them to deepen their functional skills and future-ready capabilities. We focused on developing digital and innovation skills to empower our employees to navigate the competitive business environment and evolving customers' needs. We invested in new training programmes which complemented our national SkillsFuture movement.

## Offering Award-Winning Services

The continued support, confidence and trust from our customers as well as the dedicated services from our staff had enabled HLF to win accolades year after year. The Company was honoured to be ranked in the 'Top 1000 World Banks', 'Top 100 ASEAN Banks' and 'Top 50 in Singapore Governance and Transparency Index' for 2018. HLF was also humbled to be awarded the 'ASEAN Finance Company' for four consecutive years from 2014 to 2018, 'Fastest-Growing Company, Finance 2018' in the Edge Singapore Billion Dollar Club and 'Most Transparent Company, Finance 2018 – Runner-Up'.

## **OUTLOOK FOR 2019**

Although momentum is expected to wane in 2019 as the contribution from the manufacturing sector may weaken, we are cautiously optimistic about the growth due to strong domestic demand. However, escalation of trade dispute between U.S. and China could dent consumer confidence and spending and disrupt the global economy. Slowdown in China's economy would also have severe consequences.

HLF will continue to build customer relationships in innovative ways. Customer experience is the differentiator and customer-centricity needs to be at the center of the changes the Company is investing in.

To embrace the disruptive economy, HLF leverages on data analytics, digitalisation and agility to meet customers' expectations. Customer interactions will be easier and faster.

The Company will focus on writing more quality loans to drive higher revenue based on robust cost control measures and prudent risk management framework in place. HLF will expand our business partner collaboration network to achieve synergistic exponential business growth.

With technology driving the future of financial services, we will continue to invest in our system infrastructure, enhance our business capabilities and introduce new training programmes to reskill our employees to equip them with the relevant skills to stay ahead in a dynamic financial industry.

## **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 2018.

**KWEK LENG BENG**

**Chairman**

27 February 2019