Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Singapura Finance Ltd

Security: Singapura Finance Ltd

Meeting details:
Date: 26 April 2019
Time: 11.00 a.m.
Venue: 391A Orchard Road, Tower A, #26-00, Ngee Ann City, Singapore 238873

Company Description

Singapura Finance Ltd is engaged in finance business. The Company offers personal banking, including savings and fixed deposits, which include savings for juniors, savings for adults, savings for seniors and fixed deposits. The Company's personal deposits include Junior Savers, Adult Savers, Gold Savers, Fixed Deposits and Safe Deposit Box. The Company offers personal loans, such as mortgage loan, car loan, pleasure craft financing, gold share loan and WISE Share Loan. The Company's business banking includes commercial and industrial property financing; equipment and machinery financing; inventory financing; property development financing; commercial vehicle financing; vessel financing, and block discounting. The Company also offers other loans, which include property loans, hire purchase (HP) equipment loans and vessel loans. The Company operates throughout Singapore in Ang Mo Kio, Woodlands, Bedok, Serangoon and Jurong Gateway, among others.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S23)

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

1. As noted in the chairman's statement, the external operating environment remained challenging and the group's total income declined in the year. However, profit after tax increased to $7.7 million for the financial year mainly attributed to a net write back on loan impairment losses. Shareholders would like to ask the board/management for better clarity on the following operational matters. Specifically:

(i) **Total deposits:** The company has stated that it has actively managed its total deposits down by 10.1% to $727 million given the lower loan balance. **Would management elaborate further on the growth opportunities in the next 2-3 years? What would be the optimal loans-to-deposits ratio?**

(ii) **Market share: Does management have an estimate of the group's market share? Given the smaller loan book, would the group be operating at an efficient scale? What is the market positioning and value proposition of the group to allow it to compete against other finance companies, possibly banks?**

(iii) **Digitalisation: Can management elaborate further on the organisation's digitalisation strategy? How is the group transforming its operations by leveraging technology?**

2. Staff cost jumped from $7.77 million to $8.18 million even though total loan dipped 8.9% as at 31 December 2018. On the other hand, the group also recognised a drop in other operating expenses, by 20.3%, to $4.35 million.

However, the cost-to-income ratio actually increased from 59.6% in FY2017 to 62.5% in FY2018.

(i) **Would management help shareholders understand how it is pro-actively managing its staff cost?** The group reported profit of $7.71 million while staff costs amounted to $8.18 million. For reference, two other comparable finance companies listed on the SGX reported staff costs that were 57-63% of reported profit.

(ii) **In addition, can the company provide a breakdown of "Other operating expenses"?** It is shown as a single line item in the financial statement without a breakdown to show how it added up to $4.35 million.

2. In the Corporate Governance report, under Principle 3: Clear division of responsibilities between Chairman and CEO, the company has disclosed the following:

> *As recommended by the 2012 Code, the Chairman and the CEO are separate persons. Mr Teo Chiang Long is the Executive Chairman of the Company, while his son, Mr Jamie Teo is the CEO.*
>
> *There is a clear division of responsibilities between the Executive Chairman and the CEO, which are set out in writing and agreed by the Board. The Executive Chairman leads the Board to monitor and review the general progress and long-term*

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

development of the Company. He ensures the members of the Board receive accurate, timely and clear information in particular about the Company's performance, to enable the Board to make sound decisions, monitor effectively and provide advice to promote the success of the Company. He also encourages constructive relations between the Board and Management, and between the executive and non-executive Directors.

The CEO manages the daily operations of the Group and implements the Board's policies and decisions.

(i) Would the board clarify if the executive chairman has other primary roles and responsibilities? If not, based on the description above, would it be more apt to recognise the chairman as a non-executive chairman?

(ii) Would the board clearly state the roles and responsibilities of the executive chairman and of the CEO?

(iii) What are the key performance indicators used to measure the performance of the executive chairman and of the CEO?

3.In FY2018, the group wrote back impairment losses of $1.01 million while recognising impairment losses of $(3.53) million in FY2017.

As disclosed by the company, for the current financial year, the group has adopted all the relevant new or revised Singapore Financial Reporting Standards (International) ("SFRS(I)") which came into effect from 1 January 2018.

Except for SFRS(I) 9 Financial Instruments, the initial adoption of SFRS(I) does not have a material impact on the financial statements of the group and the company.

SFRS(I) 9 contains, inter alia, a new expected credit loss model ("ECL") for calculating impairment of financial assets. The company has stated that based on the ECL model under SFRS(I) 9, there was a reversal/decrease of $0.6 million in the opening balance of allowances for loan losses as at 1 January 2018, with a corresponding credit/increase to accumulated profits. The ECL model is also discussed by the external auditor in the key audit matter (Loan impairment losses amounting to $8,324,000 – page 60).

(i) Would the board/management elaborate further the new ECL model? How is the new ECL model different from the previous model before the adoption of SFRS(I) 9 Financial Instruments?

(ii) How much of the write-back of the impairment losses of $1.01 million in FY2018 was due to the new ECL model?

In addition, in compliance with the revised regulatory requirement for loan loss allowance, the group has transferred $1.85 million from the accumulated profit to the Regulatory Loss Allowance Reserve for the year under review.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Also on 1 January 2018, a revised regulatory requirement of maintaining Minimum Regulatory Loss Allowance ("MRLA") for non-credit-impaired exposures became effective. If loss allowances under SFRS(I) 9 falls below the MRLA, the group will set aside the shortfall amount in the non-distributable Regulatory Loss Allowance Reserve ("RLAR") from accumulated profits.

(iii) Similarly, would the board/management elaborate, in layman's terms, the impact of the revised MRLA on the group's earnings and cash flow, if any?

4. Two of the independent directors, namely Mr Phua Bah Lee and Mr Teoh Eng Hong, have served the board for more than nine years from the date of their first appointment as director.

Mr Phua Bah Lee was first appointed to the board on 19 October 1988 and has served on the board for more than 30 years. Mr Phua is the chairman of the remuneration committee and a member of the audit and nominating committees. Mr Phua also served as the lead independent director until 12 February 2019.

Mr Teoh Eng Hong joined the board on 18 June 1992. Mr Teoh is the chairman of the risk management committee, and member of the nominating, remuneration, audit and executive committees.

At the annual general meeting scheduled to be held on 26 April 2019, Mr Phua and Mr Teoh are retiring by rotation pursuant to Article 97 of the Constitution of the Company and would be seeking re-election.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

(i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?

(ii) What is the search and nomination process for directors, especially independent directors? How are candidates for directors identified?

(iii) Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

(iv) Other than the appointment of Mr Terence Khoo Chi Siang on 2 July 2018, what are the company's other near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Singapura%20Finance%20Ltd&cid=6447,4295

The company's response could be found here: -----