IFS Capital Limited

(Incorporated in the Republic of Singapore)
(Company Registration No. 198700827C)

ANNUAL GENERAL MEETING TO BE HELD ON 22 APRIL 2022 ("AGM")
RESPONSES TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION SINGAPORE ("SIAS")

IFS Capital Limited (the "**Company**") and together with its subsidiaries, (the "**Group**"), has received the following questions from SIAS in relation to the Annual Report for the financial year ended 31 December 2021 and wishes to respond as follows:

Q1. As shown on page 4 of the annual report, profit attributable to owners of the company was $7.95 million for FY2021 despite the challenges of the pandemic. This is the highest level in the past 5 years (see Group financial highlights reproduced below), and in fact, the highest in the past decade, comparable with profit of $7.94 million achieved in FY2012.

GROUP FINANCIAL HIGHLIGHTS

S$000	2021	2020	2019#	2018*	2017
INCOME STATEMENT					
Net operating income	**40,392**	34,984	46,584	53,964	43,065
– net interest income	**26,896**	20,996	25,288	20,028	19,029
– net earned premium	**5,398**	4,830	6,169	6,853	11,071
– fees & commission	**6,380**	6,497	8,632	8,493	6,687
– investment income	**785**	709	4,982	1,797	5,803
– other income	**914**	461	1,513	16,793	475
– grant income	**19**	1,491	–	–	–
Profit/(loss) before tax – by business segment					
– Lending business	**13,099**	9,229	18,301	11,780	10,508
– Insurance	**(410)**	(6,692)	(4,892)	(5,509)	(4,730)
Profit/(loss) – Overall					
– before tax	**12,689**	2,537	13,409	6,271	5,778
– after tax	**9,649**	2,361	9,171	3,545	3,614
– attributable to Owners of the Company	**7,951**	795	6,454	1,669	1,956

 # gain of $2.934 million arising on fair value gain on unquoted equity securities have been excluded from profit before & after tax and attributable to Owners of the Company

** gain of $16.318 million arising on sale of Suntec office have been excluded from profit before & after tax and attributable to Owners of the Company*

(i) As noted in the chairman's statement, the group delayed the recognition of interest income for loans that were past 90 days due. In FY2021, as economies and business activities stabilised, the group regularise around $90 million of these loans and recognised the corresponding interest income. How much of the improved profit in the lending business was due to the change in the income recognition method which was implemented in FY2020?

<u>Company's Response</u>:

Resultant from NPL recovery, the Group managed to recognise $9.6 million in FY2021. As the transition took place in FY2020, which was also a year of severe economic disruption, it would be more meaningful to consider the Group's results by looking at FY2020 and FY2021 together.

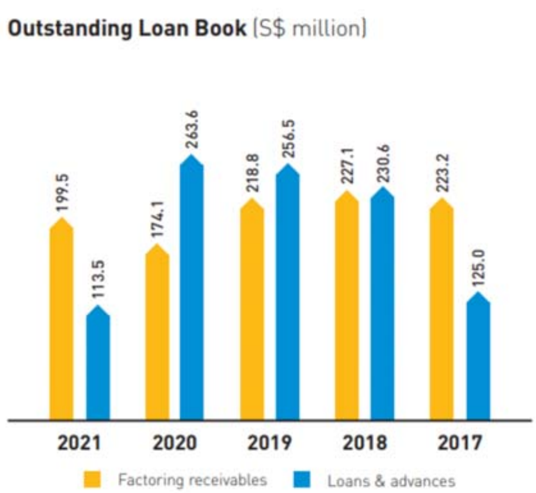
(ii) Can management share its view of Thailand's economic recovery? Approximately 40% of the group's total assets are invested in Thailand (page 174 – Note 43 Operating segments). How is the group positioning itself to benefit from the anticipated rebound?

Company's Response:

The Thai economy recovered slightly in 2021 with a GDP growth of 1.6% driven mostly by the strong performance of the export sector following a steep contraction of 6.1% in 2020 because of the Covid-19 pandemic. In 2022, the Thai economy is expected to continue its path of gradual recovery despite the inflationary impact that the Russia - Ukraine conflict has had on energy and commodities prices. GDP is forecasted to grow by between 3.0% - 3.5% assuming the war is not prolonged, supported mainly by strong exports, higher public and private investments, and the expected recovery of the tourism sector following the relaxation of travel restrictions. However, Thai GDP is not expected to return to pre-pandemic level until the second quarter of 2023.

In line with the recovery of the Thai economy, our Thai subsidiary is expected to continue growing its core factoring and equipment financing businesses. For factoring, we plan to acquire more export-oriented clients, as well as clients operating in the government and tech sectors. One key initiative is the promotion of our new supply chain finance platform to support the SMEs of Thailand. For equipment financing, we plan to expand our portfolio through greater collaboration with equipment manufacturers and dealers.

(iii) On page 5 (Performance at a glance), it can be seen that outstanding loans & advances are significantly lower at $113.5 million, compared to $230-$260 million in FY2018-FY2020. What are the reasons for the decrease in the outstanding loans & advances? As seen in Note 41 (page 145 – Credit risk), the decrease appears to be due to the decline in loans to the property sector and from Singapore.



Company's Response:

The decrease in our loans & advances is mainly driven by the decline in loans secured by property from Singapore. This is largely due to the progress made in our recovery from NPL accounts and a slowdown in the origination of new loans in FY2021.

(iv) Factoring: On the other hand, the group's higher factoring receivables is due to increase exposure to the Services sector outside of Singapore. Is this a deliberate move by management to capture the opportunities as the SE Asian economies recover from COVID?

Company's Response:

We continuously design and calibrate our programs to support clients in both the manufacturing and services sectors in each country that we serve. The higher receivables in FY2021 were mainly contributed by the strong performance of the logistics sector as a result of the spike in freight rates especially for shipping containers worldwide. We expect freight rates to eventually normalize and other sectors associated with the re-opening of economies to pick up.

Q2. In addition to the core financing business, the group has invested into a diverse portfolio of businesses that range from insurance to FinTech.

(i) Who is overseeing the group's investments into these other businesses, including FinTech?

Company's Response:

It should be noted that insurance and financing are the core businesses for our Group. Each business is managed by the respective Business/Country Heads, with oversight from the Group Management Team. Our fintech units, Lendingpot and Friday Finance, as well as IFS Asset Management were started from scratch and incubated internally with dedicated teams, supervised by the Singapore Country Head.

(ii) Has the board set a limit on the capital allocated to these other businesses? What are the investment criteria used to evaluate these investees?

(iii) How synergistic are these investments to the group's core business of factoring and invoice financing?

(iv) Is the company investing in these start-up businesses with the goal of nurturing them into significant revenue and profit generators?

Company's Response to (ii), (iii) & (iv):

Yes, capital allocation to all businesses are governed by internal investment and budgeting processes. With credit and insurance as our core competencies, we continuously look for opportunities to expand into adjacent segments that utilize our strengths and can reinforce our core. The three principles that guide our investment decisions are (i) the business must be financially viable over time with attractive economics, (ii) the business must be of strategic importance to the Group's growth roadmap, and (iii) we must have the expertise to understand and operate these businesses.

(v) In addition, the group's general insurance business, under ECICS Limited, has performed relatively well. It was disclosed that the ECICS team de-risked the legacy bond portfolio and grew the core insurance lines profitably. The team is working to transform ECICS's technology stack so that it can capture more opportunities in the market. Can management elaborate further on the value proposition of ECICS? What is its target market and how does it compete against its competitors? What are the insurance lines that management is seeking to grow?

Company's Response:

ECICS has a long history in Singapore as a homegrown insurer and we understand the local needs that allow us to serve our clients and business partners better. We are positioning ourselves as Singapore's friendly neighbourhood insurer, combining technology with the human touch. At our core, we have streamlined our focus to auto, home and office insurance products and we will differentiate ourselves through delivering product innovation to our target clients and partners, building a brand that humanises the insurance experience, and delivering competitive prices through a strong segmentation practice. Having said that, we are still in the midst of our turnaround program and much work remains to be done.

(vi) How is the private credit fund by IFS Asset Management Private Limited different from the group's business of secured lending to small and medium enterprises in Singapore? What is the size of the fund now?

Company's Response:

IFS Asset Management launched its maiden fund, the IFSAM Private Credit Fund (the Fund), in December 2021. As of March 2022, the AUM was $5.3m and targeted to hit $20m by year-end.

The Fund aims to provide a platform for third-party investors to directly access the growing private credit deal opportunities in Singapore by leveraging the credit and operations policy expertise and technology infrastructure within the Group. The Fund is run independently by a dedicated team and sources as well as evaluates its deals on its own. Building on the maiden fund, the IFS Asset Management team will gradually roll out other sub-funds focusing on areas such as receivables financing.

We believe that the addition of the IFS Asset Management arm will increase the capacity and reach of the Group in our mission to ensure that all deserving SMEs have access to capital through simple and affordable solutions.

(vii) The company had announced on 6 December 2021 that it signed a non-binding memorandum of understanding with Tat Hong Equipment Service Co., Ltd, for a potential collaboration to provide tower crane financing solutions in China. What is the experience of the group in China? What competitive advantage does the group have in China, if any? Has management analysed the track record of the potential partner?

Company's Response:

China is one of the fastest growing large economies and a key growth engine for Asia and the world. It is a market which IFS has been evaluating for geographical expansion since 2018, and we are keen to participate in its growth over the long term.

Having no direct operating experience ourselves in China, we intend to start our business there through a strategic JV partnership with Hong-Kong listed Tat Hong Equipment Service Co., Ltd. ("Tat Hong"), to provide leasing solutions with a focus on tower crane financing. It is worth noting that Tat Hong was the first foreign-owned tower crane service provider in China and has grown to become the second largest provider of tower crane services and manages a fleet of over 1,000 tower cranes. The JV brings together IFS Capital's credit expertise and technology stack with Tat Hong's extensive experience in China and the tower crane service industry. Both parties have conducted mutual due diligence prior to executing the JV MOU.

With the leasing business as a starting point, we aim to seek regulatory approvals for factoring and supply chain finance products to serve the Chinese SMEs. With our experience and footprint, we believe that we can become an effective SME trade finance bridge between China and South East Asia.

Q3. As noted in the corporate governance report, the group has an in-house internal audit function that is independent of the activities it audits.

The internal auditors' activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The internal auditors have full access to the group's documents, records and personnel necessary for the purpose of their duties. The internal auditors report functionally to the chairman of the audit committee on audit matters and to the Group chief executive officer on administrative matters.

(i) What is the size and the experience of the in-house internal audit function?

Company's Response:

Including the Head of Internal Audit, there are three members in the internal audit function. Two members are based in Singapore office and one is based in the Malaysia office.

The Head of Internal Audit who is based in Singapore, has more than 17 years of experience in external audit with a big four accounting firm as well as internal audit and risk management with financial institutions. He is a member of Institute of Singapore Chartered Accountants and Institute of Internal Auditors. The rest of the members have more than 10 years of experience in internal audit with commercial companies and they are members of the Institute of Internal Auditors.

(ii) Can the AC confirm that the foreign operating subsidiaries in Thailand, Malaysia and Indonesia were included in the internal audit in FY2021?

Company's Response:

Yes, we confirmed that subsidiaries in Thailand, Malaysia and Indonesia were included in the internal audit plan in FY2021. The internal audit of the subsidiaries in Malaysia and Indonesia were carried out by our in-house internal audit team. The internal audit for our subsidiary listed in Thailand was performed by an independent risk advisory and consulting firm, AMC International Consulting Co., Ltd., with the scope and timeline of the audit being determined by our in-house internal auditors and approved by the IFS Audit Committee.

(iii) Did the closure of national borders during the pandemic lead to difficulties in carrying out the internal audit for the IA?

Company's Response:

The current pandemic has given us an opportunity to explore new auditing techniques and optimise the use of technology to adjust the traditional way of working. Given the travel restrictions and employees being obliged to work from home, we have implemented remote auditing. The internal audit team employed video conferencing and file sharing technologies and data analytics to perform the audits remotely.

(iv) What was the scope of the internal audit in FY2021?

Company's Response:

The internal auditors had conducted internal audits on the Group's business development, credit risk management, underwriting, cash management and legal and compliance practices in FY2021. The scope of the internal audit for each financial year is typically determined by the internal auditors together in consultation with the Management, taking into account factors such as business strategy, level of business activities, key risks to the Group (including emerging and systemic risks), effectiveness of managing these risks, and the frequency and method of audit cycle coverage on the risk areas in preceding financial years. Prior to the commencement of the internal audit, the internal auditors will present their internal audit plans to the Audit Committee for review and approval.

(v) What were the key findings by the internal auditor?

Company's Response:

The findings raised by the internal auditors in respect of FY2021 were mainly related to the formalisation and/or standardisation of certain policies and procedures of the Group. These were observations highlighted by the internal auditors to enhance and tighten its current systems and policies, which were not considered as high risk findings to the Group. All recommendations made by the internal auditors were accepted by the Management and all internal audit findings were remediated with appropriate action plans put in place by the Management.

By Order of the Board

Chionh Yi Chian/Angeline Ng
Company Secretary/Assistant Company Secretary
14 April 2022