



HONG LEONG FINANCE



梦想

mòng
dream

A cherished aspiration,
ambition or ideal.

HONG LEONG FINANCE LIMITED
ANNUAL REPORT 2012

Turning Dreams into Reality

For over 50 years we have worked closely with our customers to help them realise their personal and business goals. By delivering innovative products and services that support their diverse needs, we have forged lasting partnerships that underscore our commitment to mutual success. It is through this understanding and alignment that we are able to help turn our customers' dreams into reality. In this year's annual report, we feature four of our customers. Through these years of partnership, we have helped them and many other entrepreneurs in turning their dreams into reality.



On the Cover

Dr Vic Pearly Wong

Owner, Orange Orthodontics & Dentofacial Orthopaedics Pte Ltd
Immediate Past President (2011-2012)
President (2009-2011)
Association of Orthodontists, Singapore

梦

Dream: To run my own orthodontic clinic at my own premises so that I can give the care and treatment that my patients deserve.

真

Reality: Hong Leong Finance helped me fulfill my dream to be a proud owner of my own orthodontic clinic from assisting in locating the right property to giving financial advice and support. The hard work of setting up my own dream practice was made easy by the personalised service of Hong Leong Finance.

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zhēn
reality

That which becomes real
as we partner and support
our customers in their
continued growth

Loans

S\$8,896 mil

Shareholders' Funds

S\$1,625 mil

Net Profit

S\$77.6 mil

Deposits

S\$10,046 mil

Five-Year Financial Summary

		2012	2011	2010	2009	2008
Capital employed						
Total assets	\$ million	11,794	9,505	8,901	8,936	9,689
Net equity	\$ million	1,625	1,598	1,549	1,469	1,365
Net assets per share	\$	3.68	3.63	3.52	3.34	3.10
Share capital						
Number of shares in issue	million	441.2	440.5	440.4	440.2	440.2
Loans and deposits						
Loans net of allowances	\$ million	8,896	7,452	6,279	6,137	7,413
Deposits	\$ million	10,046	7,761	7,177	7,269	8,102
Profit and retained earnings						
Profit before tax	\$ million	78.5	119.7	146.3	134.1	94.6
Profit after tax	\$ million	77.6	99.8	122.0	111.2	78.0
Interim/final dividend(s) declared in the year	\$ million	52.9	52.9	44.0	8.8	57.2
Earnings retained for the year	\$ million	24.7	46.9	78.0	102.4	20.8
Earnings per share and dividends						
Earnings per share	cents	17.6	22.7	27.7	25.3	17.7
Dividend – tax exempt one-tier *	cents	12.0	12.0	12.0	8.0	5.0
Times covered *		1.5	1.9	2.3	3.2	3.5
Number of employees						
		662	653	640	655	690

* Dividend per share and times covered are stated based on the interim/final dividend(s) declared/proposed in respect of each financial year. This differs from the accounting treatment whereby dividends are accounted for in the year declared regardless of the financial year to which they relate.

DIVIDEND POLICY

The Group aims to maintain a strong capital position to ensure market confidence, to support its on-going business and to meet the expectations of depositors, customers and investors alike. Hong Leong Finance is also required to comply with regulatory standards of capital requirements through the maintenance of a minimum capital adequacy ratio at all times, and to transfer a requisite proportion of its annual net profit to the statutory reserve which is not available for distribution to shareholders.

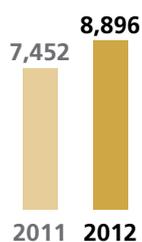
The Board of Directors aims to pay dividends to shareholders twice a year, at rates which balance returns to shareholders with prudent capital and financial management. Before proposing any dividends, the Board of Directors will consider a range of factors, including the Group's results of operations, sufficiency of retained earnings and cash for operations as well as for capital requirements, capital expenditure and investment plans and general business and other conditions and factors.

Financial Highlights

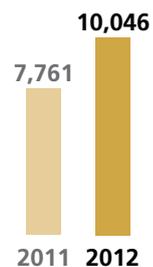
TOTAL ASSETS (\$ mil)



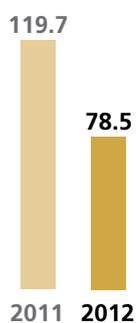
LOANS NET OF ALLOWANCES (\$ mil)



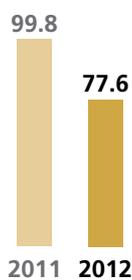
DEPOSITS (\$ mil)



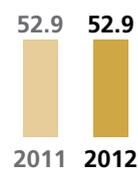
PROFIT BEFORE TAX (\$ mil)



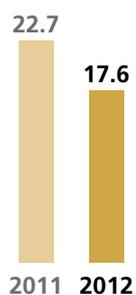
PROFIT AFTER TAX (\$ mil)



INTERIM/FINAL DIVIDEND(S) DECLARED IN THE YEAR (\$ mil)



EARNINGS PER SHARE (cents)



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 2012.



Financial Overview

Group profit after tax attributable to shareholders for the year ended 31 December 2012 amounted to \$77.6 million, equivalent to 17.6 cents per share. In line with the continuing growth in the loan portfolio and the prudential provisioning methodology adopted by the industry, the results for the year were arrived at after a charge for topping up general provision in respect of the increased loan base (net of write back of recoveries) amounting to \$9.3 million (2011: a credit of \$26.8 million). There was a reversal of tax provision of \$11.9 million following the finalisation of several prior years' tax assessments.

The balance sheet grew during the year. Loans and advances (before allowances) expanded by 19.3% to \$9 billion from \$7.54 billion in 2011. Deposits and balances of customers registered an increase of 29.4%, closing at \$10.05 billion as at 31 December 2012. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled \$1.62 billion, equivalent to \$3.68 per share. The

Group continues to maintain a strong capital adequacy ratio of 17.1% as at 31 December 2012, higher than the prescribed requirement.

An interim dividend of 4 cents per share (tax exempt one-tier) was paid on 14 September 2012. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 8 cents per share (tax exempt one-tier) in respect of 2012. The aggregate distribution for the year will amount to approximately \$53 million, comparable to the amount paid in respect of 2011.

Operating Performance

Financial Year 2012 has been a very demanding year. Given the on-going challenging economic environment worldwide, business and consumer sentiments remained fragile, although domestic demand in Asia was supported by accommodative policies.

Growth in Singapore's open economy was hindered by the slackening in external demand. In addition,

small and medium enterprises (“SMEs”) were faced with rising labour costs and a shortage of manpower following a tightening in policy impacting the availability of foreigners permitted to work in Singapore. The first and second quarters of 2012 registered subdued economic growth of 1.5% and 2.3% on a year-on-year basis respectively. The economy continued to perform modestly for the second half of the year with no growth in the third quarter and growth of 1.5% in the fourth quarter of 2012.

In our continual pursuit to assist the SMEs to succeed, HONG LEONG FINANCE developed a slew of innovative and cost-effective financial solutions to help them grow and become more productive in a rising business cost environment. The “Fortune Dragon SME Package” was specially designed to offer SMEs lower financing costs for their capacity building and cash flow management through lower interest rates and reduced fees.

The year also saw the launch of a strategic alliance with Steinway Gallery Singapore at the “Nurturing the Artist Within”, a master class with world-renowned concert pianist and Steinway Artist, Adam Gyorgy, to offer special financing plans for music teachers. As we believe in inspiring our customers to achieve the best in life, the collaborative effort in offering flexible and affordable

We retain focus in our dedication to helping our customers succeed and will continually endeavour to innovate and create customer-centric financial solutions to meet their evolving needs.

piano ownership plans means the dream of owning a Steinway piano – popularly regarded as the “Rolls Royce” of pianos – can be a reality.

Being a fervent supporter of the SME community, HONG LEONG FINANCE contributed generously to SME development activities such as the “Project I” event organised by Mediacorp and supported by Infocomm Development Authority of Singapore and Spring Singapore. This event advocated infocomm adoption by SMEs. We also continued with the longstanding participation at the Singapore Chinese Chamber of Commerce and Industry’s Annual SMEs and Infocomm Commerce conferences.

Strengthening our island-wide distribution channels to provide one-stop comprehensive financial services to SMEs, we expanded our footprint in the business community by opening another two SME Centres @ Branches. With seven SME Centres @ Branches across the north, south, east, west and central zones of Singapore, we stay close to our business customers and serve them by listening attentively to their needs.

For much of 2012, the property market was buoyant. HDB made a bumper launch of 34,237 new flats to help meet the strong housing demand, especially that of first-time home buyers, and to curb the rising property prices. On the private residential property market front, more cooling measures targeting primarily at repeat private residential purchasers were introduced on 11 January 2013 to dampen demand.

With the relatively healthy economic growth in emerging Asia, commercial and industrial properties transactions were also robust.

HONG LEONG FINANCE’s mortgage loan portfolio continued its growth momentum against the backdrop of the property market expansion. This was driven by close partnerships fostered with key customers in the property development industry, durable strategic reciprocal relationships built with property agents and

Chairman's Statement

innovation of value-added loan packages with strong focus on HDB Home Loans and development loans. New loans were put through careful and prudent underwriting procedures and active portfolio and account management to ensure that high asset quality is maintained and not compromised while we grow our loan book.

With banks also seeking to increase deposits to fund their loan growth, the fierce competition has driven our deposit costs higher.

HONG LEONG FINANCE journeyed on in support of building an inclusive society for all. We introduced the "All Inclusive Fixed Deposit" and the "Loving Singapore Fixed Deposit" promotions, with the unique feature of offering special rates for a wide array of deposit tenures, which were well-received by both individual and corporate customers.

Singapore's new vehicle sales were impacted by the ongoing reduction in Certificates of Entitlement ("COE") quota which pushed up the prices of new cars. The cost of COE became disproportionately higher for small cars, affecting the volume of sales of the mass market models. We continually engage and collaborate with our motor vehicle distributors and dealers to sustain our competitiveness and business momentum.

Joining forces with Porsche, HONG LEONG FINANCE implemented a tie-up with Porsche Financial Services locally this year to serve Porsche car owners with a suite of carefully crafted financial schemes to provide unprecedented payment flexibility and convenience. We are honoured to be appointed the first Porsche financial partner in Asia.

As part of our corporate social responsibility, HONG LEONG FINANCE also rendered support to the residents of Assisi Hospice who suffer from cancer and other life-limiting illnesses by raising funds through the sale of the Company's computers during the company-wide computer upgrade exercise. Instead of discarding the computers being replaced, the Company introduced a

matching scheme for the funds given by the staff for their superseded computers.

HONG LEONG FINANCE was named the Domestic Finance Company of the Year at this year's Asian Banking & Finance Retail Banking Awards, an award in recognition of HONG LEONG FINANCE's enduring leadership and commitment to excellence and innovation. This is the second consecutive year that the Company has been presented the prestigious accolade.

In celebration of the award, HONG LEONG FINANCE rolled out a month-long series of special loans and deposit schemes in November aimed at both individuals and businesses. The "award series" comprised the HDB Home Loan Blitz tailored for homeowners looking for attractive financing options for their most important asset, the festive fixed deposit promotion and financing incentives for SMEs aimed to help in the tough business environment.

Outlook

With the soft outlook in 2013 given that the Eurozone crisis is still a major concern and with uncertainties in the US and some Northeast Asian countries, we will stay flexible in deploying resources and vigilant in maintaining cost discipline.

We value collaboration to deliver service excellence to our customers. We will continue to forge strong relationships with our key partners and develop mutually attractive opportunities.

We retain focus in our dedication to helping our customers succeed and will continually endeavour to innovate and create customer-centric financial solutions to meet their evolving needs. Whether it is a business entity striving to expand or an individual wishing to build a secure financial future, HONG LEONG FINANCE will always do our best in support of building an inclusive society. We will continue as a full sponsor on the Catalist Board of the Singapore Stock Exchange helping local SMEs expand by providing financial advisory and fund-raising services to them.

The recently announced governmental policies and strategy for the medium and long term are likely to impact growth and the business environment for many industries. We also anticipate to face some headwinds arising from measures announced in the Budget 2013, especially in motor vehicle and property financing. Nonetheless, we expect to continue to operate profitably. We will look ahead to capitalise on growth opportunities that may be present as we navigate in a volatile environment. We look forward to demonstrating our ability to create value for customers and shareholders next year and well into the future.

Appreciation

On behalf of the Board of Directors, I would like to thank our valued customers, shareholders and business partners for their unrelenting support 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 dedication and commitment in 2012.

KWEK LENG BENG

Chairman

26 February 2013



Incorporated in 1961 as a Small & Medium Enterprise (SME), Hong Leong Finance (HLF) has evolved to become Singapore's largest finance company with a distribution network of 28 branches. Listed on the Singapore Stock Exchange in 1974 and re-listed in 1981 as the then Singapore Finance Ltd, HLF is the financial services arm of the Hong Leong Group Singapore, offering an extensive suite of financial products and services, spanning from deposits and savings, corporate and consumer loans, government assistance programmes for SMEs to corporate finance and advisory services.

HLF is a pioneer in the Local Enterprise Finance Scheme administered by Spring Singapore. With over 50 years of experience in serving the SME community, HLF has supported many local enterprises with customized

financing solutions to enable them to operate successfully in the corporate world.

To help our corporate customers gain greater business efficiency, HLF launched the Business Current Account in 2007 and became the only finance company here to offer chequeing account services. With our strong commitments towards the SMEs, HLF was twice conferred the "Friends of Enterprise" award by the Spirit of Enterprise.

In our quest to maintain market leadership and deliver our services more efficiently to the SMEs, HLF rolled out SME Centre @ Branches, to further enhance our presence and bring us closer to the business community. There are currently seven centres across the north, south, east, west and central zones of Singapore, which have been reaching out to businesses in the vicinity.

At HLF, we are committed to providing complete financial solutions to both business enterprises and retail customers. We remain close to the community we serve through our branch network and aspire to serve our customers by listening to their requests and tailoring our suite of products and services to best cater to their needs. Whether it is a business entity striving to expand its company or an individual wishing to build a secure financial future, HLF will endeavour to cater to their every need. For that reason, HLF is honoured to receive the Asia Finance Company of the Year Award in 2007 and the Singapore Finance Company of the Year Award for two consecutive years in 2011 and 2012 at the Asian Banking and Finance Retail Banking Awards.

We believe in maintaining the trust and confidence that our customers have in us by consistently developing and enhancing our capabilities to better serve our diverse customer base and be a financial partner of choice. Through the years, we have established a solid customer base and grown with them. We thank them for their continued support and look forward to many more years of golden service.

梦

Dream: To grow the Eurokars business and deliver on our customer promise of "Driving luxury ownership experiences".

真

Reality: Working with Hong Leong Finance, we introduced Porsche Financial Services, which helped position us as one of the leading premium car distributor dealers in Singapore. This has enabled more of our customers to fulfill their car ownership ambitions.



Mr Karsono Kwee
Executive Chairman
Eurokars Group

2012 Highlights

JANUARY

LAUNCH OF FINANCIAL SCHEME WITH PORSCHE FINANCIAL SERVICES



Together with Porsche Financial Services, Hong Leong Finance (HLF) launched innovative and flexible financial schemes to provide uniquely tailored car loans to Porsche buyers in Singapore. HLF is the first financial institution in Asia to work with Porsche.

SMEs INFOCOMM ADOPTION SEMINAR SPONSORSHIP



In continuing its support for small and medium enterprises (SMEs), HLF co-sponsored the event organised by MediCorp and supported by Infocomm Development Authority of Singapore and Spring Singapore. Over 400 attendees turned up to learn how to achieve business transformation and improve business processes with technology.

MANAGER OF GLOBAL INVESTMENTS LIMITED'S RIGHTS ISSUE

HLF was mandated as manager for the rights issue of Global Investments Limited which raised gross proceeds of S\$35.2 million.

FEBRUARY

AWARDED FULL SPONSORSHIP STATUS ON SGX CATALIST BOARD

HLF achieved full sponsorship status for the SGX Catalist Board, enabling it to provide financial advisory and fund-raising services to SMEs aiming to list on Catalist.

APRIL

OPENED SIXTH SME CENTRE @ BRANCHES



HLF opened its 6th SME Centre @ Branches at Hougang to better serve the needs of businesses in the north-eastern region of Singapore and is on track with HLF's expansion plan for its SME Centres @ Branches.

ALL-INCLUSIVE FIXED DEPOSIT PROMOTION

In support of building an inclusive society, HLF launched the "All-Inclusive Fixed Deposit Promotion" to meet different needs of both individuals and companies. This unique promotion featured various tenure periods, offering customers flexibility, which is often not associated with fixed deposit accounts.

PARTICIPATED IN IPO PLACEMENT FOR GLOBAL PREMIUM HOTELS LIMITED



HLF was appointed as a sub-placement agent for the initial public offering (IPO) of Global Premium Hotels Limited. Total gross proceeds raised for the IPO was S\$117 million.

MAY

HLF-SGX JOINT IPO SEMINAR

In collaboration with Singapore Exchange (SGX), HLF jointly organised a public seminar for SMEs in Singapore to educate and give them a lift in their plans to go public as a strategic way to grow their businesses.

JUNE

PARTICIPATION AT 7TH INTERNATIONAL DENTAL EXHIBITION AND MEETING

HLF participated in the international trade show attended by both dentistry professionals and suppliers worldwide. Tapping into the fast growing dentistry market, it offered customised financing solutions and tie-up packages to the medical professionals.

AUGUST

PARTICIPATION AT SCCCI ANNUAL SMEs CONFERENCE



For the first time, Singapore Chinese Chamber of Commerce & Industry (SCCCI) brought together the 14th Annual SMEs Conference and the 15th Infocomm Commerce Conference (ICC), in a 2-day SME-centric event in August. HLF participated as a Gold Sponsor in the conference where over 2,000 business delegates exchanged business insights on trends and challenges with market experts and learnt from industry leaders the latest technology solutions.

SEPTEMBER

HLF NAMED SINGAPORE'S "DOMESTIC FINANCE COMPANY OF THE YEAR"



HLF took the crown as Singapore's "Domestic Finance Company of the Year" at the Asian Banking & Finance Retail Banking Awards. This was the second consecutive win for HLF.

OCTOBER

LAUNCH OF CELEBRATORY OFFERS

To celebrate its award as Singapore's "Domestic Finance Company of the Year", HLF launched a month-long series of special loans and deposit schemes. The celebratory offers were aimed at both individuals and businesses to help them manage costs and enhance returns.

NOVEMBER

PARTNERSHIP WITH STEINWAY GALLERY SINGAPORE



HLF teamed up with Steinway Gallery Singapore to offer exclusive piano financing plans for music teachers. The special piano ownership plan was introduced during "Nurturing The Artist Within", a master class with renowned concert pianist Adam Gyorgy.

SEVENTH SME CENTRE @ BRANCHES OPENING

As part of its on-going efforts to provide convenient and efficient service to the business community, HLF expanded the SME Centre network by opening a seventh SME Centre at City Plaza Branch.

DECEMBER

FUNDRAISING DRIVE FOR ASSISI HOSPICE

In an innovative move to recycle old computers during its company-wide computer upgrade exercise, HLF introduced a matching scheme for the funds given by the staff for their superseded computers. All monies were donated to Assisi Hospice. This fundraising drive was part of HLF's continuing Corporate Social Responsibility efforts.

REUNION FIXED DEPOSIT PROMOTION

In celebration of the holiday seasons and to bring families closer, customers received attractive deposit interest rates and limited edition gift sets to share with families at the Reunion Fixed Deposit Promotion.

Board of Directors



KWEK LENG BENG



KWEK LENG JOO

KWEK LENG BENG, 72

Chairman and Managing Director

Appointed Chairman of Hong Leong Finance Limited (“HLF” or the “Company”) since 28 November 1984 and Managing Director since 1 March 1979. Mr Kwek was last re-appointed a Director on 26 April 2012. Mr Kwek is also chairman of the Executive Committee (“Exco”) and sits on the Nominating Committee (“NC”) and Risk Management Committee (“RMC”).

He is the Executive Chairman of City Developments Limited (“CDL”) and non-executive Chairman of Hong Leong Asia Ltd. (“HLA”) and Millennium & Copthorne Hotels plc (“M&C”). He is also Chairman and Managing Director of City e-Solutions Limited (“CES”).

Mr Kwek holds a law degree, LL.B. (London) and is also a fellow of The Institute of Chartered Secretaries and Administrators. He has extensive experience in the finance business, having grown from day one with the original Hong Leong Finance Limited which has since merged its finance business with the Company. He also has vast experience in the real estate business, the hotel industry as well as the trading and manufacturing business.

Mr Kwek’s other appointments include being a member of the East Asia Council of INSEAD since its inception in 2003 and board member of Singapore Hotel Association. He was also conferred Honorary Doctorate of Business Administration in Hospitality

from Johnson & Wales University (Rhode Island, US) and Honorary Doctorate from Oxford Brookes University (UK).

At the Securities Investors Association Singapore (SIAS) Investors’ Choice Awards in October 2012, Mr Kwek (as Executive Chairman of CDL), together with Mr Kwek Leng Joo (as Managing Director of CDL), emerged joint winners as “Partners in the Office of the CEO” in the Brendan Wood International - SIAS TopGun CEO Designation Award. This Award is accorded to CEOs who are best in class rated by shareholders.

KWEK LENG JOO, 59

Non-Executive Director

Appointed a Director of HLF since 1 September 2001, Mr Kwek was last re-elected on 26 April 2012.

Mr Kwek is also the Managing Director of CDL. Within the Hong Leong Group, he is also an Executive Director of CES and was a Director of M&C until May 2011.

He holds a Diploma in Financial Management and has extensive experience in property development and investment.

Mr Kwek contributes actively to the business community through several public appointments including Honorary President of the Singapore Chinese Chamber of Commerce and Industry. He is also the Chairman of the Board of Trustees of National Youth



KWEK LENG PECK



KWEK LENG KEE

Achievement Award Council and a member of the Board of Trustees of Nanyang Technological University, National Climate Change Network and Marina Bay Public Art Advisory Panel.

To raise the importance of Corporate Social Responsibility (“CSR”) in the business community in Singapore, Mr Kwek was elected as the President of Singapore Compact for CSR, which is the national CSR society and country focal point for the United Nations (UN) Global Compact in Singapore.

Mr Kwek (as Managing Director of CDL), emerged joint winners together with Mr Kwek Leng Beng (as Executive Chairman of CDL), as “Partners in the Office of the CEO” in the Brendan Wood International – SIAS TopGun CEO Designation Award given out at the Securities Investors Association Singapore (SIAS) Investors’ Choice Awards in October 2012. This Award is accorded to CEOs who are best in class rated by shareholders.

KWEK LENG PECK, 56

Non-Executive Director

Appointed a Director of HLF since 1 January 1998, Mr Kwek was last re-elected on 21 April 2011. Mr Kwek also sits on the Exco (also as alternate to the chairman), RMC and Hong Leong Finance Share Option Scheme 2001 Committee (“SOSC”) of the Company.

Mr Kwek is an Executive Director of HLA and also sits on the boards of CDL, M&C and China Yuchai International Limited. He is also the non-executive Chairman of Tasek Corporation Berhad.

Mr Kwek holds a Diploma in Accountancy and has many years of experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management.

KWEK LENG KEE, 58

Non-Executive Director

Appointed a Director of HLF on 1 September 2001, Mr Kwek was last re-elected on 23 April 2010.

Mr Kwek is the Assistant Managing Director of Hong Leong Holdings Limited.

Mr Kwek has many years of experience in property investment, property development and the building and construction materials business.

Board of Directors



CHNG BENG HUA



CHENG SHAO SIONG @ BERTIE CHENG



PO'AD BIN SHAIK ABU BAKAR MATTAR

CHNG BENG HUA, 47

Non-Executive and Independent Director

Appointed a Director of HLF since 1 July 2000, Mr Chng was last re-elected on 21 April 2011. He also sits on the Audit Committee ("AC") of the Company. He is an Executive Director and the Chief Executive Officer of Compact Metal Industries Ltd.

Mr Chng holds a Bachelor of Business Administration (Finance) from University of Texas, Austin, USA. He has many years of experience in finance, management of hotel and service apartment, and real estate development.

CHENG SHAO SHIONG @ BERTIE CHENG, 75

Non-Executive and Independent Director

Appointed a Director of HLF since 23 April 2004, Mr Cheng was last re-appointed on 26 April 2012. Mr Cheng also sits on the RC, Exco and SOSC and is the chairman of the RMC and NC of the Company.

Mr Cheng retired as the Chief Executive Officer of POSBank in July 1997. In the preceding 3-year period, he was a Director of Westech Electronics Limited until June 2010, Thomson Medical Centre Limited until December 2010 and CFM Holdings Limited until December 2012.

Currently, Mr Cheng is the Chairman of TeleChoice International Limited and Tee International Limited, and a Director of Pacific Andes Resources Development Limited. He also holds directorships in various unlisted companies. Other appointments include being Chairman

of the Medifund Committee, Singapore General Hospital, Vice-Chairman of the Board of Trustees, Consumers Association of Singapore (CASE) Endowment Fund, Advisor to POSBank and Chairman of the Investment Panel of SPRING SEEDS Capital Pte Ltd.

Mr Cheng holds a Bachelor of Arts Degree in Economics (Honours) from the University of Malaya in Singapore. He received the Public Administration Medal (Silver) in 1984, the Public Service Medal in 2001 and the Friend of Labour Award from the National Trades Union Congress in 2008.

PO'AD BIN SHAIK ABU BAKAR MATTAR, 65

Non-Executive and Independent Director

Appointed a Director of HLF on 24 April 2009, Mr Mattar was last re-elected on 26 April 2012. He is also the chairman of the AC, RC and SOSC and a member of the NC of the Company. He was also appointed as Lead Independent Director of the Company on 1 September 2010.

Mr Mattar sits on the board of Tiger Airways Holdings Limited. He also sits on other bodies in both the private and public sectors.

Mr Mattar holds a Bachelor of Accountancy from the University of Singapore and a Master in Management from the Asian Institute of Management (Makati, Philippines). He is a Certified Public Accountant registered with the Institute of Certified Public Accountants of Singapore and is formerly a Senior Partner with an international firm of public accountants.



TER KIM CHEU



RAYMOND LIM SIANG KEAT

TER KIM CHEU, 66

Non-Executive and Independent Director

Appointed a Director of HLF on 1 September 2010, Mr Ter was last re-elected on 21 April 2011. He also sits on the AC, Exco, RC and SOSC of the Company.

Mr Ter retired from the Singapore Legal Service after over 30 years of service. Prior to his retirement in 2008, he was the Parliamentary Counsel and Principal Senior State Counsel (Legislation Division), Attorney-General's Chambers, Singapore and a Law Revision Commissioner of Singapore.

He was also a member of the Securities Industry Council for two terms from 1993 to 1997.

Currently, he provides legislative consultancy services in Singapore and overseas.

He is a Fellow of the Singapore Institute of Arbitrators and a member of the Strata Titles Board of Singapore and the Singapore Institute of Directors.

Mr Ter holds a Bachelor of Social Sciences (Hons) degree from the University of Singapore and Bachelor (Hons) and Master of Law degrees from the University of London. He is also a Barrister-at-Law, having been called to the English Bar at Lincoln's Inn and an Advocate & Solicitor of the Supreme Court of Singapore.

RAYMOND LIM SIANG KEAT, 53

Non-Executive and Independent Director

Appointed a Director of HLF on 1 March 2012, Mr Lim was last re-elected on 26 April 2012. He also sits on the Exco and RMC of the Company.

Mr Lim is a former Cabinet Minister in the Singapore Government and a Member of Parliament since 2001. He has held various ministerial positions including Second Minister of Finance, Second Minister of Foreign Affairs and Minister of Transport.

Mr Lim is currently Chairman of APS Asset Management Pte Ltd and Investec Singapore Aviation Management Pte. Limited. He is also Senior Advisor to the Swire Group, a Hong Kong-based industrial conglomerate and a Director of several companies including the Government of Singapore Investment Corporation Private Limited and Insurance Australia Group Limited. In the preceding 3-year period, he was a Director of Dart Energy Ltd until February 2013.

Prior to entering politics in 2001, Mr Lim held various senior positions in the financial industry including as a Managing Director of Temasek Holdings, Group Chief Executive Officer of DBS Vickers Securities and Chief Economist for Asia of ABN AMRO Asia Securities.

A Rhodes Scholar, Mr Lim graduated with First Class Honours in the Master of Law at Cambridge University and a B.A. (Jurisprudence) from Oxford University. He also has a First Class Honours degree in Economics from the University of Adelaide under the Colombo Plan scholarship.

Directory of Services

SME Loans

Commercial/Industrial Property Loan
Development Loan
Equipment Financing
Equipment Refinancing
Factoring/Accounts Receivable Financing
HDB Factory Loan
HDB Shop Loan
Hire Purchase
Insurance Premium Financing Scheme
Internationalisation Finance Scheme (IFS)
Inventory Finance
JTC Factory Loan
Letters of Credit
Loans for Conservation Property
Loan Insurance Scheme (LIS)
Local Enterprise Finance Scheme (LEFS)
Medical Asset Financing
Micro Loan Programme
Revolving Working Capital Finance
Suppliers' Invoice Financing
Trade Finance
Vessel Financing

Corporate Finance

Catalist Full Sponsor

Equity Fund Raising

Initial Public Offering
Secondary Fund Raising
Underwriting of Shares

Corporate Advisory

Financial Advisory
Mergers & Acquisitions
Restructuring
Independent Financial Advisory

Deposits

Business Current Account
Fixed Deposits
Savings Accounts
Savers Plus

Personal Loans

Car Loan (New & Used Cars)
HDB Home Loan
Private Housing Loan
Share Financing

Corporate Directory

BOARD OF DIRECTORS

Executive Director:

Kwek Leng Beng *Board Chairman & Managing Director*

Lead Independent Director:

Po'ad bin Shaik Abu Bakar Mattar

Non-Executive Directors:

Kwek Leng Joo

Kwek Leng Peck

Kwek Leng Kee

Chng Beng Hua *Independent*

Cheng Shao Shiong @ Bertie Cheng *Independent*

Ter Kim Cheu *Independent*

Raymond Lim Siang Keat *Independent*

AUDIT COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar *Chairman*

Chng Beng Hua

Ter Kim Cheu

NOMINATING COMMITTEE

Cheng Shao Shiong @ Bertie Cheng *Chairman*

Kwek Leng Beng

Po'ad bin Shaik Abu Bakar Mattar

REMUNERATION COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar *Chairman*

Cheng Shao Shiong @ Bertie Cheng

Ter Kim Cheu

EXECUTIVE COMMITTEE

Kwek Leng Beng *Chairman*

Kwek Leng Peck *also as alternate to Chairman*

Cheng Shao Shiong @ Bertie Cheng

Ter Kim Cheu

Raymond Lim Siang Keat

RISK MANAGEMENT COMMITTEE

Cheng Shao Shiong @ Bertie Cheng *Chairman*

Kwek Leng Beng

Kwek Leng Peck

Raymond Lim Siang Keat

HONG LEONG FINANCE SHARE OPTION SCHEME 2001 COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar *Chairman*

Kwek Leng Peck

Cheng Shao Shiong @ Bertie Cheng

Ter Kim Cheu

PRESIDENT

Ian Anthony Macdonald

(Please refer to page 29 of this Annual Report for additional information on the President)

SECRETARIES

Yeo Swee Gim, Joanne

Oh Su Chong

Chye Chan Yu

REGISTERED OFFICE

16 Raffles Quay #01-05

Hong Leong Building

Singapore 048581

Tel: 6415 9433 Fax: 6224 6773

Email: customerservice@hlf.com.sg

SHARE REGISTRARS & SHARE TRANSFER OFFICE

M & C Services Private Limited

112 Robinson Road #05-01

Singapore 068902

Tel: 6227 6660 Fax: 6225 1452

INVESTOR RELATIONS

Tel: 6428 9309 Fax: 6534 3060

Email: gcasecretary@cdl.com.sg

AUDITORS

KPMG LLP

Certified Public Accountants, Singapore

16 Raffles Quay #22-00

Hong Leong Building

Singapore 048581

(Partner-in-charge: Quek Shu Ping, appointed from commencement of audit of financial statements for the financial year ended 31 December 2008)

BANKERS

Australia and New Zealand Banking Group Limited

Bank of America, N.A.

BNP Paribas

DBS Bank Ltd

Deutsche Bank AG

HL Bank

Malayan Banking Berhad

Mizuho Corporate Bank, Ltd

Oversea-Chinese Banking Corporation Limited

Standard Chartered Bank

Sumitomo Mitsui Banking Corporation

The Bank of Nova Scotia

The Bank of Tokyo-Mitsubishi UFJ, Ltd

The Hongkong and Shanghai Banking Corporation Limited

United Overseas Bank Limited



梦

Dream: To continue to develop and expand our business by leveraging on our growing regional networks and reinforcing our industry-leading position as a provider of comprehensive integrated property and facilities management solutions.

真

Reality: Hong Leong Finance is always there for us, supporting our dreams and our plans with their advice and financial services. We are confident that with their invaluable assistance we will achieve our goals.

**Mr Mohamed Abdul Jaleel s/o
Muthumaricar Shaik Mohamed**
Founder and Chief Executive Officer
The MES Group

Operating and Financial Review

COMPANY OVERVIEW, OBJECTIVES AND STRATEGIES

Hong Leong Finance Limited (“HLF” or the “Company”), incorporated in 1961, is the listed financial services arm of the Hong Leong Group Singapore. Today, HLF is Singapore’s largest finance company with a network of 28 branches and 7 SME Centres island-wide, serving all walks of life encompassing the Small and Medium Enterprises (“SMEs”) and retail customers. Its activities are principally governed by the Finance Companies Act (Chapter 108) and regulated by the Monetary Authority of Singapore (“MAS”). The principal activity of its subsidiaries is the provision of nominee services.

HLF’s core business is the taking of deposits from the public and the provision of a myriad of financial products and services that include consumer and corporate loans and corporate advisory services. HLF is an active player in the SME market and a pioneer in the Local Enterprises Financing Scheme (“LEFS”). With over 50 years of experience in helping SMEs build a strong and solid platform for sustainable growth and success, HLF understands the needs of the SMEs well. Through its dedication and commitment, serving the SME business community has evolved to be HLF’s core business activity.

HLF is committed to strengthening its leadership status in the market and it believes that it takes more than just assets to be a real leader. It is devoted to building mutually rewarding relationships with its customers and business partners, understanding their financial needs and ensuring that it is with them every step of the way.

In line with its pledge to expand the provision of comprehensive and accessible financial services to the SMEs and the HDB homeowners who are its core customers, HLF has been constantly developing and creating more value in its products and services. The growth of SME Centre @ Branches network has further strengthened its foothold in the SME market and increased its visibility to businesses through its extensive branch network.

As value-add services to its corporate customers, HLF achieved full sponsorship status for the SGX Catalist Board, enabling it to be the only finance company in Singapore to provide financial advisory and fund raising services to SMEs aiming to list on Catalist. It also renders corporate advisory services to companies interested in listing on the Singapore Exchange and for mergers and acquisitions and underwrites the sale of shares by listed companies. HLF is also the first finance company here to offer chequeing account services to its corporate loan customers and this capability has provided greater business efficiency to customers in cash management. HLF continues to participate in SME related events and various government initiatives dedicated to helping SMEs grow and seize business opportunities, thus reaffirming its unwavering support for local entrepreneurs.

To maintain its competitive edge, HLF will remain steadfast in innovating and delivering customer-centric products and services. With 28 branches and 7 SME Centres strategically located, HLF is well-positioned to assist both the retail and corporate customers fulfill their aspirations and achieve their financial goals.

Further details of HLF’s products and services can be found in the corporate profile and corporate highlights sections of this Annual Report 2012.

Operating and Financial Review

FINANCIAL ANALYSES

Analysis of Performance

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS").

	2012 \$mil	2011 \$mil	Variance* + / (-) %
Selected Profit and Loss Items			
Net interest income/hiring charges	154.0	164.1	(6.2)
Fee and commission income	13.1	8.6	52.9
Other operating income	0.7	0.3	118.9
Income before operating expenses	167.8	173.0	(3.0)
Less: Operating expenses	80.0	80.1	(0.1)
Profit from operations before allowances/provision	87.8	92.9	(5.5)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	(9.3)	26.8	(134.7)
Profit before tax	78.5	119.7	(34.4)
Profit after tax attributable to owners	77.6	99.8	(22.3)
Selected Balance Sheet Items			
Loans, advances and receivables (net of allowances)	8,896	7,452	19.4
Deposits and balances of customers	10,046	7,761	29.4
Total assets	11,794	9,505	24.1
Total liabilities	10,169	7,907	28.6
Total equity	1,625	1,598	1.7
Key Financial Ratios			
Net interest margin (%)	1.5	1.8	
Net interest income/total income (%)	91.7	94.8	
Non-interest income/total income (%)	8.3	5.2	
Cost/income ratio (%)	47.7	46.3	
Loans/deposits ratio (%)	89	96	
Non-performing loans ratio (%)			
- Secured by collateral	0.7	0.7	
- Unsecured and fully provided for	0.1	0.2	
Return on equity (%)	4.8	6.3	
Return on assets (%)	0.7	1.1	
Capital adequacy ratio (%)	17.1	18.9	
Earnings per share (cents)			
- per basic share	17.6	22.7	(22.3)
- per diluted share	17.6	22.6	(22.3)
Net assets per share (\$)			
- per basic share	3.68	3.63	1.4
- per diluted share	3.53	3.50	0.9

* Calculated based on actual figures before rounding.

Operating and Financial Review

	2012	2011
	cents	cents
Dividend per share (tax exempt)		
- interim	4	4
- final	8	8
Total	12	12

(a) Results for the year

Pre-tax profit from operations before allowances/provision was \$87.8 million in 2012, a decrease of 5.5% from \$92.9 million in 2011. Prudential general provision in respect of the loan book increased in line with the continuing growth in loan portfolio. The Group reported profit before tax of \$78.5 million for 2012, a decrease of \$41.2 million or 34.4% over the previous year. The results were arrived at after topping up general provision net of write back of provision/recoveries amounting to \$9.3 million (2011: write back of \$26.8 million). After accounting for a write back of tax provision following the finalisation of several prior years' tax assessments, Group profit after tax for the year registered a decrease of \$22.2 million or 22.3% over the previous year.

Net interest income/hiring charges declined by 6.2% to \$154.0 million as a result of a reduction in lending spread achieved. Net interest margin narrowed from 1.8% in 2011 to 1.5% in 2012.

Non-interest income increased to \$13.8 million (2011: \$8.9 million) or by 55.4% in 2012. Fee and commission income, the largest component of non-interest income, increased by 52.9% to \$13.1 million from \$8.6 million in 2011. Staff and other costs were controlled. The cost to income ratio increased slightly to 47.7% from 46.3% a year ago.

(b) Loans and deposits

Loans, advances and receivables (net of allowances) increased by 19.4% in 2012 to \$8,896 million from \$7,452 million. The non-performing loans ("NPL") ratio improved to an aggregate of 0.8% after accounting for recoveries and write-offs. The NPL ratio comprised secured NPL of 0.7% (2011: 0.7%), with the balance 0.1% (2011: 0.2%) being the unsecured portion which is fully covered by specific allowances.

Deposits and balances of customers amounted to \$10,046 million as at 31 December 2012. The loans to deposits ratio decreased to 89% from 96% in the previous year.

(c) Shareholders' equity and dividends

Return on equity was 4.8% in 2012, down from 6.3% in 2011 and return on assets was 0.7% in 2012, down from 1.1% in 2011. This is attributable to lower profits in 2012. Net assets per share rose to \$3.68 in 2012 from \$3.63 in 2011.

As detailed in the Chairman's Statement, an interim dividend of 4 cents per share (tax exempt one-tier) was paid on 14 September 2012. With the proposed payment of a final dividend of 8 cents per share (tax exempt one-tier) in respect of the financial year ended 31 December 2012, subject to the approval of shareholders, the total distribution for 2012 will amount to approximately \$53 million, comparable to the amount of \$53 million paid in respect of 2011.

(d) No significant subsequent event

In the interval between the release of the preliminary financial statements and the latest practicable date prior to the issue of this report, no development has occurred which would materially affect the operating and financial performance of the Group.

Operating and Financial Review

Net Interest Income

Net interest income includes hiring charges.

Net interest income decreased by 6.2% to \$154.0 million in 2012 from \$164.1 million in 2011 with a closing loans to deposits ratio of 89% in 2012 against 96% in 2011. The decrease in net interest income was due to a reduction in lending spread achieved in 2012. Net interest income was the major source of income contributing 91.7% (2011: 94.8%) to total income.

Net interest margin as a percentage of interest-bearing assets narrowed from 1.8% in 2011 to 1.5% in 2012 with a higher cost of deposit funds and a lower loan yield which was partially offset by a higher loan base.

	2012			2011		
	Average Balance \$mil	Interest \$mil	Average Rate %	Average Balance \$mil	Interest \$mil	Average Rate %
Interest-bearing Assets						
Loans, advances and receivables	8,410	215.8	2.6	6,824	200.8	2.9
Singapore Government securities and Treasury bills	1,019	17.7	1.7	870	20.2	2.3
Other assets	1,102	4.9	0.4	1,268	4.1	0.3
Total	10,531	238.4	2.3	8,962	225.1	2.5
Interest-bearing Liabilities						
Deposits and balances of customers	8,797	84.1	1.0	7,221	60.0	0.8
Other liabilities	12	0.3	3.0	32	1.0	3.0
Total	8,809	84.4	1.0	7,253	61.0	0.8
Net interest income/margin as a percentage of interest-bearing assets	–	154.0	1.5	–	164.1	1.8

Volume and rate analysis

The table below analyses the changes in net interest income in 2012 over 2011 due to changes in volume and changes in rates.

Increase/(decrease) due to change in	2012		
	Volume \$mil	Rate \$mil	Total \$mil
Interest Income			
Loans, advances and receivables	46.7	(31.7)	15.0
Singapore Government securities and Treasury bills	3.4	(5.9)	(2.5)
Other assets	(0.5)	1.3	0.8
Net	49.6	(36.3)	13.3
Interest Expense			
Deposits and balances of customers	13.1	11.0	24.1
Other liabilities	(0.7)	–	(0.7)
Net	12.4	11.0	23.4
Net interest income	37.2	(47.3)	(10.1)

Operating and Financial Review

Non-Interest Income

Non-interest income increased by 55.4% to \$13.8 million in 2012 (2011: \$8.9 million). Fee and commission income which constituted 94.7% (2011: 96.2%) of non-interest income was \$13.1 million in 2012 compared to \$8.6 million in 2011 due to higher fee income from some lending products and from corporate advisory services.

Total non-interest income for 2012 was 8.3% of total income, up from 5.2% for 2011, with the non-lending portion comprising 0.7% of total income (2011: 0.4%).

	2012 \$mil	2011 \$mil	Variance* +/- %
Fee and Commission Income			
Loan related and other financing business	11.9	7.9	52.3
Non-lending business including corporate advisory services and other trailer fees	1.2	0.7	60.0
	13.1	8.6	52.9
Other Operating Income	0.7	0.3	118.9
Total	13.8	8.9	55.4

Operating Expenses

Total operating expenses decreased by 0.1% to \$80.0 million in 2012 from \$80.1 million in 2011. Staff costs decreased by 1.9% due to lower provision for bonus. Other operating expenses increased to \$20.7 million in 2012 from \$20.2 million in 2011 due to increased business promotion expenses.

	2012 \$mil	2011 \$mil	Variance* +/- %
Staff costs			
- Short-term employee benefits	50.6	51.3	(1.3)
- Employer's CPF contributions to defined contribution plans	5.3	5.2	1.8
- Share-based payments	1.1	1.6	(31.5)
	57.0	58.1	(1.9)
Depreciation of property, plant and equipment	2.3	1.8	30.2
Other operating expenses			
- Operating lease expenses	5.1	5.2	(1.3)
- IT-related expenses	1.9	1.7	10.7
- Other operating expenses	13.7	13.3	2.8
	20.7	20.2	2.4
Total	80.0	80.1	(0.1)
Group staff strength – period end	662	653	1.4
Group staff strength – average	658	648	1.5

* Calculated based on actual figures before rounding.

Operating and Financial Review

Allowances for/Reversal or Recovery of Doubtful Debts and Provision for Settlements and Costs relating to Distribution of Wealth Management Products

Allowances for doubtful debts net of write back/recoveries was a charge of \$9.3 million in 2012, compared to a net reversal/recoveries of \$26.8 million in 2011.

General allowance for loans increased by \$14.5 million for 2012 (2011: \$0.5 million) in line with the continuing growth in loan portfolio. Specific allowances written back for loans was \$1.1 million in 2012 compared to \$1.8 million in 2011.

	2012	2011	Variance*
	\$mil	\$mil	+ / (-) %
(Allowances for)/Write-back of allowances for loans and advances (net)	(13.4)	1.3	N.M.
Other recoveries	4.1	25.5	(83.7)
Total	(9.3)	26.8	(134.7)

Total Assets

Total assets were \$11,794 million as at 31 December 2012, representing an increase of 24.1% over the figure of \$9,505 million as at 31 December 2011.

Assets mix

	2012	2011	Variance*
	\$mil	\$mil	+ / (-) %
Cash at banks and in hand	1,484	901	64.6
Statutory deposit with the Monetary Authority of Singapore	258	202	27.5
Singapore Government securities	1,107	889	24.5
Customer loans – net	8,896	7,452	19.4
Others	49	61	(18.8)
Total Assets	11,794	9,505	24.1

* Calculated based on actual figures before rounding.

N.M. – Not Meaningful

Operating and Financial Review

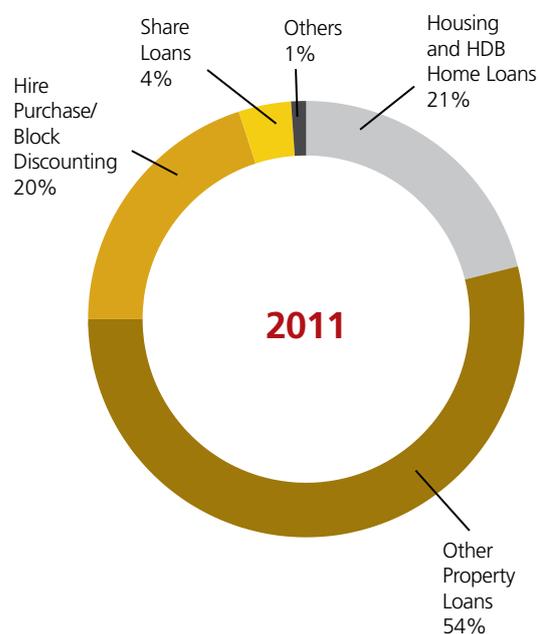
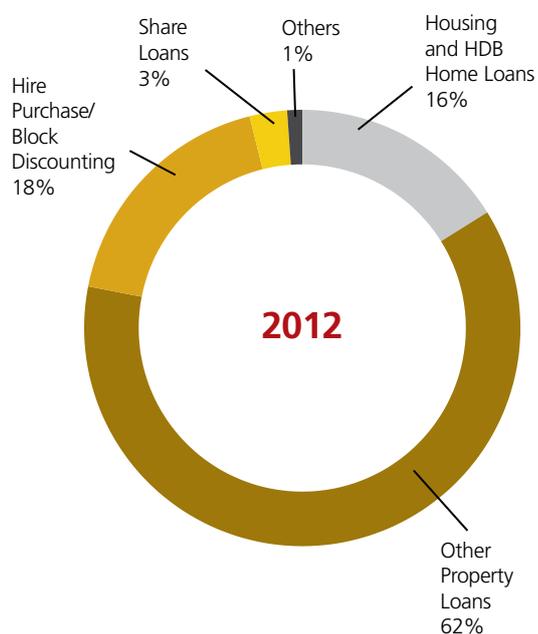
Analysis of Gross Loan Portfolio

(a) Customer loans by product group

With an increase in the loan portfolio, property related loans made up 78% of the total loan portfolio as at 31 December 2012 (2011: 75%), with property loans other than housing/HDB home loans taking the bigger share at 62% of total portfolio (2011: 54%). The housing loans component decreased to 16% of the total (2011: 21%) inclusive of HDB home loans of 9% (2011: 11%).

Hire purchase loans formed 18% of total loan portfolio as at 31 December 2012 (2011: 20%). Whilst such loans are principally fixed rate in nature, the gross loans are further reduced by monthly principal repayments and early redemptions.

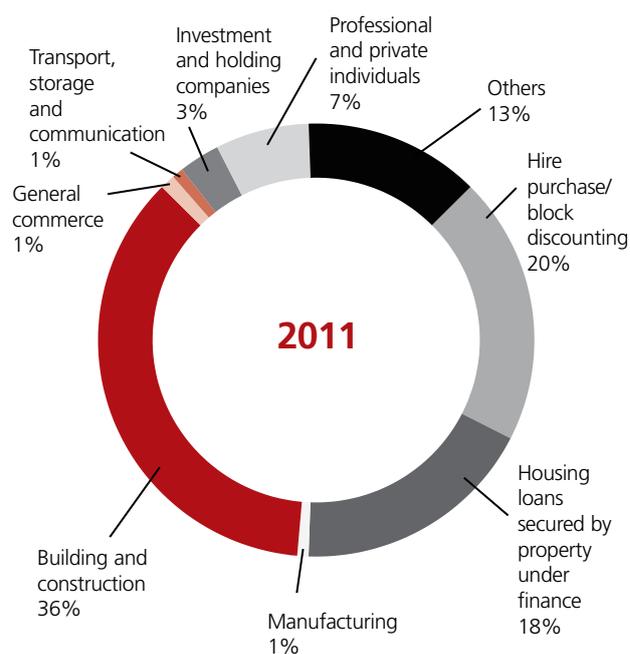
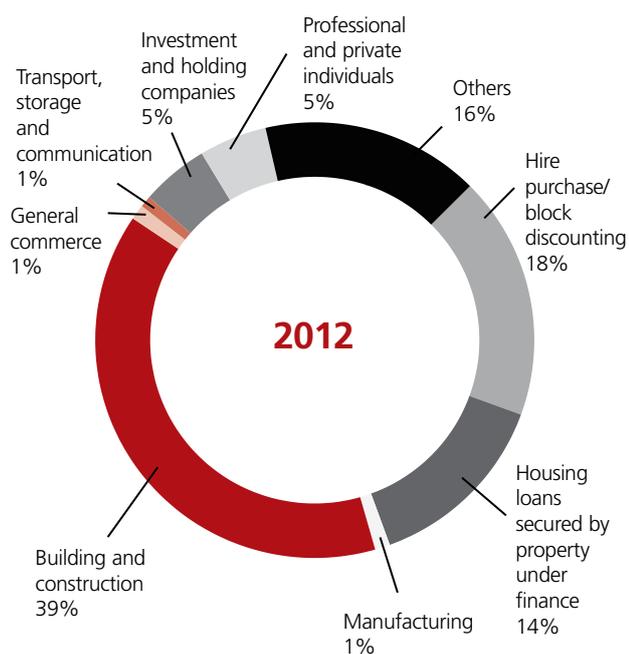
	2012		2011	
	\$mil	%	\$mil	%
Housing and HDB Home Loans	1,454	16	1,592	21
Other Property Loans	5,588	62	4,083	54
Hire Purchase/Block Discounting	1,591	18	1,518	20
Share Loans	260	3	261	4
Others	106	1	89	1
Total	8,999	100	7,543	100



Operating and Financial Review

(b) Customer loans by industrial classification

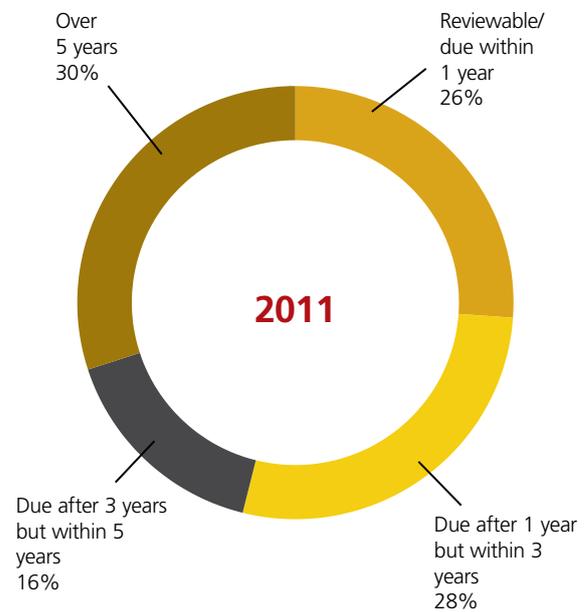
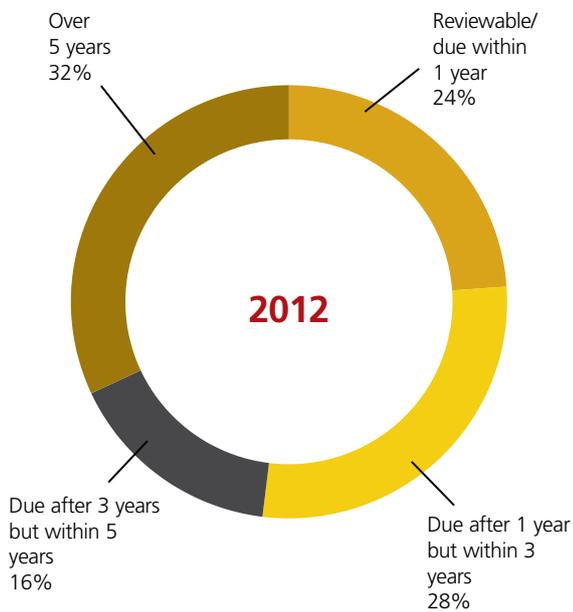
	2012		2011	
	\$mil	%	\$mil	%
Hire purchase/block discounting	1,591	18	1,518	20
Housing loans secured by property under finance	1,274	14	1,401	18
Other loans and advances:				
Manufacturing	22	1	24	1
Building and construction	3,504	39	2,751	36
General commerce	63	1	53	1
Transport, storage and communication	74	1	18	1
Investment and holding companies	494	5	240	3
Professional and private individuals	508	5	557	7
Others (including hotels, associations and charitable organisations)	1,469	16	981	13
Total	8,999	100	7,543	100



Operating and Financial Review

(c) Customer loans by remaining contractual maturity

	2012		2011	
	\$mil	%	\$mil	%
Reviewable/due within 1 year	2,140	24	1,925	26
Due after 1 year but within 3 years	2,543	28	2,106	28
Due after 3 years but within 5 years	1,439	16	1,237	16
Over 5 years	2,877	32	2,275	30
Total	8,999	100	7,543	100



Operating and Financial Review

(d) Non-performing loans

The loan portfolio includes secured non-performing loans of 0.7% of the portfolio in 2012 (2011: 0.7%) together with unsecured non-performing loans of 0.1% of the portfolio in 2012 (2011: 0.2%). The Group currently maintains full specific allowances for all non-performing loans where the net outstanding debt is not covered by the value of the collateral held.

There are no loans and advances graded as doubtful as at 31 December 2012 and 2011.

The non-performing loans position by grading and security coverage is given below.

	2012	2011	Variance*
	\$mil	\$mil	+ / (-) %
Substandard	59.3	52.4	13.2
Loss	13.1	15.4	(14.6)
Total	72.4	67.8	6.9
(i) Secured non-performing loans ("NPLs")	59.3	52.4	13.2
Secured NPLs as % of total NPLs	81.8	77.3	+4.5%pt
(ii) Unsecured NPLs	13.1	15.4	(14.6)
Specific allowances for NPLs	13.1	15.4	(14.6)
(iii) Specific allowances as % of total NPLs	18.2	22.7	(4.5%pt)

Funding Sources

Total funding (including total equity) increased by 24.1% in 2012 to \$11,794 million from \$9,505 million in 2011. Customers' deposits remained the main funding source contributing 85.2% (2011: 81.6%) of total funds. This funding source was \$2,285 million or 29.4% higher in 2012 closing at \$10,046 million from \$7,761 million in 2011.

	2012	2011	Variance*
	\$mil	\$mil	+ / (-) %
Fixed deposits	9,639	7,346	31.2
Savings deposits and other balances of customers	399	408	(2.1)
Current accounts and other deposits	8	7	11.3
Total customer deposits	10,046	7,761	29.4
Other liabilities	123	146	(15.7)
Total shareholders' equity	1,625	1,598	1.7
Total	11,794	9,505	24.1
Customer deposits by remaining contractual maturity			
On demand/up to 1 year	8,887	7,135	24.6
Over 1 year to 3 years	1,159	626	85.0
Total customer deposits	10,046	7,761	29.4

* Calculated based on actual figures before rounding.

Operating and Financial Review

Capital Adequacy

The Group's capital adequacy ratio is higher than the minimum regulatory requirement. With the increase in the loan portfolio, as at 31 December 2012, the capital adequacy ratio was 17.1% compared to 18.9% as at 31 December 2011.

	2012	2011
	\$mil	\$mil
Share capital	872	870
Reserves	753	728
Core capital	<u>1,625</u>	<u>1,598</u>
Risk-weighted assets	9,525	8,437
Ratio	<u>17.1%</u>	<u>18.9%</u>

OTHER INFORMATION

A review of the outlook for the Company's business can be found in the Chairman's Statement. Information on the background of the Directors is presented in the section on the Board of Directors, whilst information on the background of the President is set out below. Details of the Company's risk management policies and processes have been included in the corporate governance section of this Annual Report 2012.

The President, Ian Macdonald

The President joined the Company in February 2002. He has extensive experience in the financial industry, having worked in Barclays Bank Australia for 13 years and with Australian Guarantee Corporation Ltd, Sydney ("AGC") from 1994 to January 2002. His last held appointment with AGC was as National Manager, Business Finance.

Date: 15 March 2013

梦

Dream: To continue our growth as a specialty property and hospitality group with prudent financial management that delivers projects which meet the discerning standards of our customers.

真

Reality: Hong Leong Finance has been a partner of Roxy-Pacific Holdings Limited for over two decades and has helped us grow our business and diversify our Group's portfolio with their innovative products and services.



Mr Teo Hong Lim
Executive Chairman and
Chief Executive Officer
Roxy-Pacific Holdings Ltd

Corporate Governance Report

Hong Leong Finance Limited (“HLF” or the “Company”) is committed to maintaining good corporate governance and business integrity in all its business activities.

To demonstrate its commitment to uphold the highest standards of corporate governance, HLF had joined the Securities Investors Association Singapore (“SIAS”) and its partners since 2010 in making the following public Statement of Support, which was reiterated at the 3rd Singapore Corporate Governance Week 2012 (organised by the SIAS) in October 2012:

“As an Organisation we are committed to upholding high standards of corporate governance to enhance shareholder value. We believe practising good corporate governance is central to the health and stability of our financial markets and economy.”

HLF adheres closely to the principles and guidelines of the Code of Corporate Governance 2005 (“2005 Code”). Although it does not come under the categories of banks, financial holding companies or direct insurers, it has taken steps to comply, to its best capability, with the Guidelines on Corporate Governance issued by the Monetary Authority of Singapore (“MAS”) for Banks, Financial Holding Companies and Direct Insurers (“MAS FI CG Guidelines”). Whilst the revised Code of Corporate Governance 2012 (“2012 Code”) will only be applicable to HLF in respect of its financial year commencing 1 January 2013, HLF has complied with a number of the key revised guidelines under the 2012 Code including those relating to board risk committee, internal controls and poll voting at shareholders’ meetings.

This report thus sets out HLF’s main corporate governance practices with reference to the 2005 Code and additionally, where applicable, the 2012 Code and the MAS FI CG Guidelines.

BOARD MATTERS

Principle 1: The Board’s Conduct of Affairs

Primary Functions of the Board

The Board oversees the Company’s business and its performance. Its primary functions are to set broad policies, provide guidance on and approve strategic direction and plans for the Company, review the Company’s performance, satisfy itself as to the adequacy and effectiveness of the framework and processes for internal controls (including financial, operational, compliance and information technology (“IT”) controls) and risk management for the safeguarding of shareholders’ interests and the Company’s assets, and assume responsibility for good corporate governance.

Independent Judgment

All Directors are required to objectively discharge their duties and responsibilities in the interests of the Company. Directors who are in any way, directly or indirectly, interested in a transaction or proposed transaction will declare the nature of their interests in accordance with the provisions of the Companies Act, Chapter 50 and the Finance Companies Act, Chapter 108, and also voluntarily abstain from deliberation on the same. The assessment criteria used by the Company’s Nominating Committee (“NC”) in its annual evaluation of the Directors takes into account the individual Director’s objectivity, independent thinking and judgment.

Corporate Governance Report

Delegation by the Board

The primary functions of the Board are either carried out directly by the Board or through committees established by the Board, namely, the Executive Committee ("Exco"), the Risk Management Committee ("RMC"), the Audit Committee ("AC"), the NC, the Remuneration Committee ("RC") and the Hong Leong Finance Share Option Scheme 2001 ("SOS") Committee ("SOSC"), all collectively referred to hereafter as the Board Committees, and management committees such as the Loan Sub-Committee, Management Sub-Committees, Assets and Liabilities Committee ("ALCO") and Corporate Finance Management Committee. Specific terms of reference for Board Committees are set out and approved by the Board and reviewed periodically. The powers and authorisation limits of the relevant management committees which have been delegated authority by the Board are also approved by the Board. The composition of each Board Committee can be found under the 'Corporate Directory' section in this Annual Report 2012 ("AR").

The delegation of authority by the Board to the Board Committees and management committees enables the Board to achieve operational efficiency by empowering these Board Committees and management committees to decide on matters within their respective written terms of reference and/or limits of delegated authority, and yet without abdicating its responsibility. Please refer to the sections on Principles 4, 5, 7 and 11 in this report for further information on the activities of the NC, RC and AC. Information on the activities of the Exco and RMC can be found under Principle 1 and the 'Risk Management' section in this report.

Board Processes

Board and Board Committee meetings are held regularly, with the Board meeting no less than 4 times a year. The proposed meetings for the Board and all Board Committees except for the Exco for each new calendar year are set out in a schedule of meetings and notified to all Board members before the start of the calendar year. Additional meetings are convened as and when circumstances warrant. Records of all such meetings including discussions on key deliberations and decisions taken are maintained by the Company Secretary. The Company's Articles of Association allow for the meetings of its Board and the Board Committees to be held *via* teleconferencing. The Board and Board Committees may also make decisions by way of circulating resolutions.

The attendance of the Directors at meetings of the Board and the Board Committees, as well as the frequency of such meetings during 2012, is disclosed on page 33 of the AR. Notwithstanding such disclosure, the Board is of the view that the contribution of each Director should not be focused only on his attendance at meetings of the Board and/or the Board Committees. A Director's contribution also extends beyond the confines of the formal environment of such meetings, through the sharing of views, advice, experience and strategic networking relationships which would further the interests of the Company.

Corporate Governance Report

Directors' Attendance at Board and Board Committee Meetings in 2012

	Board	Exco	AC	NC	RC	SOSC	RMC
Number of meetings held in 2012:	4	1	5	2	2	2	2
Name of Directors	Number of meetings attended in 2012						
Kwek Leng Beng	4	1	N.A.	2	N.A.	N.A.	2
Kwek Leng Joo	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kwek Leng Peck	4	1	N.A.	N.A.	N.A.	2	2
Kwek Leng Kee	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Woo Tchi Chu ^(a)	1	N.A.	N.A.	2	1	1	1
Chng Beng Hua	4	N.A.	5	N.A.	N.A.	N.A.	N.A.
Cheng Shao Shiong @ Bertie Cheng	4	1	N.A.	2	2	2	2
Po'ad bin Shaik Abu Bakar Mattar ^(b)	4	N.A.	5	N.A.	2	2	N.A.
Ter Kim Cheu ^(c)	4	1	5	N.A.	1	1	N.A.
Raymond Lim Siang Keat ^(d)	3	1	N.A.	N.A.	N.A.	N.A.	1

Notes:

- (a) Mr Woo Tchi Chu retired from the Board following the conclusion of the annual general meeting held in April 2012.
- (b) Mr Po'ad Mattar was appointed on 26 April 2012 as a member of the NC in place of Mr Woo Tchi Chu.
- (c) Mr Ter Kim Cheu was appointed on 26 April 2012 as a member of the RC and the SOSC in place of Mr Woo Tchi Chu.
- (d) Mr Raymond Lim was appointed a Director on 1 March 2012 and a member of the Exco and RMC on 26 April 2012 in place of Mr Woo Tchi Chu.

Board Approval

The Board has in place an internal guide wherein certain key matters are specifically reserved for approval by the Board such as the setting of strategic direction or policies or financial objectives which have or may have material impact on the profitability or performance of the Company, decisions to commence, discontinue or modify significantly any business activity or to enter or withdraw from a particular market sector, corporate or financial restructuring, decisions over new borrowings or significant amendments to the terms and conditions of existing borrowings other than in the ordinary course of business, material acquisition and disposal of assets, adoption of corporate governance policies and any other matters which require Board approval as prescribed under the relevant legislations and regulations as well as the provisions of the Company's Articles of Association.

The Company also has in place an authorisation matrix for various matters including limits for the granting of loans, guarantees or other credit facilities, corporate finance activities, operation of banking accounts, investments, capital expenditure and lease of properties.

The Exco comprises 5 Directors with the majority of its members being independent. The Exco's principal responsibility as set out in its written terms of reference, approved by the Board, is to assist the Board in the discharge of its duties by deliberating on matters requiring Board review that may arise between Board meetings. Its duties include, in particular, assisting the Board in approving banking-related matters such as banking facilities extended to the Company and the granting by the Company of loans, guarantees or credit facilities up to a limit fixed by the Board, and approving acquisition/disposal of assets which are non-discloseable pursuant to the Listing Manual of Singapore Exchange Securities Trading Limited ("SGX-ST") up to a limit authorised by the Board.

Corporate Governance Report

Board Orientation and Training

Every newly appointed Director receives a formal letter, setting out his general duties and obligations as a Director pursuant to the relevant legislations and regulations. The new Director will also receive an induction pack containing information and documents relating to the role and responsibilities of a director, the Company's business, Board processes, corporate governance practices, relevant company policies and procedures as well as a board meeting calendar for the year with a brief of the routine agenda for each meeting.

The Company also conducts a comprehensive induction programme for newly appointed Directors and for existing Directors pursuant to their appointments to any of the Board Committees, which seeks to familiarise Directors with the Company's business, board processes, internal controls and governance practices. The induction programme includes meetings with various key executives of the Management and briefings on key areas of the Company's operations. Mr Raymond Lim who was appointed in 2012 was given a detailed briefing and induction by Senior Management and the Company Secretary, with presentations by Senior Management to introduce him to the Company's business and operations including an overview of the organizational structure, roles and responsibilities of the various departments, and by the Company Secretary on the Company's internal corporate governance practices.

Induction training was also conducted in 2012 for Directors appointed to the following Board Committees on 26 April 2012:

- Mr Ter Kim Cheu as a member of the RC and the SOSOC
- Mr Po'ad Mattar as a member of the NC
- Mr Raymond Lim as a member of the RMC and the Exco

These Directors were briefed on the scope and responsibilities of the Board Committee which they were appointed to, by the chairman of the said Board Committee, and where appropriate, also by Management and the Company Secretary.

The Directors are also provided with updates and/or briefings from time to time by professional advisers, auditors, Management and the Company Secretary in areas such as directors' duties and responsibilities, corporate governance practices and changes in financial reporting standards. During 2012, the Board was also briefed by the Company Secretary on the 2012 Code and its implications to the Company. The Directors are regularly kept informed by the Company Secretary of the availability of appropriate courses, conferences and seminars such as those run by the Singapore Institute of Directors, and the Directors are encouraged to attend such training at the Company's expense. 2 in-house seminars were conducted by invited speakers during 2012, one on key changes introduced by the 2012 Code and highlights on the Risk Governance Guidance for Listed Boards released in May 2012 and the other, on the changing tax landscape and developments in financial reporting standards. In addition to the training courses/programmes, Directors are also at liberty to approach Management should they require any further information or clarification concerning the Company's operations. During 2012, a presentation was made to the AC on the Company's IT and compliance functions and controls.

Senior Management and Management Team

The Board through the NC currently reviews the appointment of the Managing Director ("MD") and senior executive positions equivalent to those of the Chief Executive Officer (being the MD), the Chief Operating Officer (being the President) and the Chief Financial Officer.

The role and responsibilities of these positions and other members of the Management team and their reporting relationships are set out in the Company's organisation structure which is tabled annually and as and when there are changes for the Board's information. The Board retains the right to require any changes to the organisation structure as it deems fit.

Corporate Governance Report

Corporate Values and Conduct of Business

The Board and Senior Management are committed to conducting business with integrity and consistent with high standards of business ethics, and in compliance with all applicable laws and regulatory requirements. In addition to observing the Code of Conduct issued by the Finance Houses Association of Singapore, as well as the Code of Conduct for Banks and Bank Staff issued by the Association of Banks in Singapore to the extent applicable to the operations of the Company, the Company has adopted an internal code of business and ethical conduct crystallising the Company's business principles and practices with respect to matters which may have ethical implications. The code provides a communicable and understandable framework for staff to observe the Company's principles such as honesty, integrity, responsibility and accountability at all levels of the organisation and in the conduct of the Company's business in their relationships with customers, suppliers and amongst employees, including situations where there are potential conflicts of interests. The Company also has in place relevant policies and procedures to facilitate the Company's compliance with all applicable laws and regulations.

Internal Code on Dealing in Securities

The Company has in place an internal code on securities trading which sets out the implications of insider trading and provides guidance and internal regulation with regard to dealings in the Company's securities by its Directors and officers. These guidelines prohibit dealing in the Company's securities (a) on short-term considerations; (b) while in possession of unpublished material price-sensitive information in relation to such securities; and (c) during the "closed period" which is defined as 2 weeks before the date of announcement of results for the first, second and third quarter of the Company's financial year and one month before the date of announcement of the full year financial results, and ending on the date of the announcement of the relevant results. The Directors and employees of the Company are notified prior to the commencement of the "closed periods" relating to dealing in the Company's securities.

Complaint Handling Procedures

Complaint handling procedures are also in place to ensure that all complaints from customers are dealt with professionally, fairly, promptly and diligently and decisions are clearly communicated to customers.

Principle 2: Board Composition and Guidance

Board Independence

The Board currently comprises 9 members. All members of the Board except for the Chairman of the Board ("Board Chairman") are non-executive Directors ("NEDs"). Of the 8 NEDs, the Board considers 5 of them, being more than half of the Board, to be independent, thus providing for a strong and independent element on the Board capable of exercising objective judgment on the corporate affairs of the Company. No individual or small group of individuals dominates the Board's decision making. In addition to the annual review by the NC of the Directors' independence, each independent NED also submits an annual declaration regarding his independence.

Board Composition and Size

The NC reviews the size and composition of the Board and Board Committees, and the skills and core competencies of the Board members annually. The Board comprises business leaders and professionals with financial, banking, legal and business management backgrounds. The members of the Board with their combined business, management and professional experience, knowledge and expertise, provide the core competencies to allow for diverse and objective perspectives on the Company's business and direction. Taking into account the scope and nature of the operations of the Company, the Board is satisfied that the current composition and size of the Board provide for sufficient diversity and yet allow for effective decision making.

Corporate Governance Report

NEDs' Participation

NEDs are encouraged to participate actively in Board meetings in the development of the Company's strategic plans and direction, and in the review and monitoring of Management's performance against targets. To facilitate this, they are kept informed of the Company's businesses and performance through monthly and quarterly reports from Management, and have unrestricted access to Management. They also sit on various Board Committees established by the Board to provide constructive input and the necessary review and monitoring of performance of the Company and Management.

Principle 3: Chairman and Chief Executive Officer

Role of Chairman and the Chief Executive Officer

The Board Chairman, Mr Kwek Leng Beng, is also the MD. Mr Kwek Leng Beng plays an instrumental role in providing the Company with strong leadership and vision, assisting the Board to develop policies and strategies, and ensuring that these are implemented effectively. As Board Chairman, he bears primary responsibility for the workings of the Board, by ensuring effectiveness in all aspects of its role including setting agenda for Board meetings with input from Management, and exercising control over the quality, quantity and timeliness of information flow between the Board and Management. At annual general meetings and other shareholder meetings, he plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management. As MD, he is the most senior executive in the Company and bears executive responsibility for the Company's business. He is assisted by the President, Mr Ian Macdonald and other members of the Management team. Mr Macdonald has extensive working experience in the banking and finance sector and has been with the Company for more than 10 years. Please refer to the Operating and Financial Review on page 29 of the AR for additional information on the President.

Lead Independent Director

The Board recognises that best practices of corporate governance advocate that the chairman of the board and the chief executive officer should in principle be separate persons to ensure an appropriate balance of power, increased accountability and greater capacity of the board for independent decision making. The Board also recognises that there are instances where the two roles may be performed by one person for valid reasons, and that such a practice is not uncommon both locally and in other developed jurisdictions.

The holding of dual roles of Board Chairman and MD by the same Director, together with the strengths brought to these roles by a person of Mr Kwek Leng Beng's stature and experience has been considered by the Board. There are internal controls in place to allow for effective oversight by the Board of the Company's business to ensure an appropriate balance of power and authority is exercisable by the Board to enable objective decision making in the interests of the Company. In view of the management structure in place, the Board is of the view that it is currently unnecessary to effect a separation of the roles of the Board Chairman from that of the MD to facilitate the Company's decision making and implementation process.

Taking cognizance of the non-separation of the roles of Board Chairman and MD, the Board has appointed Mr Po'ad Mattar as Lead Independent Director ("Lead ID") to serve as a sounding board for the Board Chairman and also as an intermediary between the NEDs and the Board Chairman. The role of the Lead ID is set out under the written terms of reference of the Lead ID, which has been approved by the Board. Under the chairmanship of the Lead ID, a meeting of the NEDs was convened in 2012 without the presence of Management or the Board Chairman.

Principle 4: Board Membership

NC Composition and Role

2 out of the 3 members of the NC, including the NC chairman, are independent. Please refer to the 'Corporate Directory' section on page 17 of the AR, for the composition of the NC.

Corporate Governance Report

The NC's responsibilities as set out in its written terms of reference approved by the Board, is to review all Board and Board Committee composition and membership, determine Director's independence, evaluate performance of the Board as a whole, its Board Committees and the individual Directors, review appointments and resignations of Senior Management which includes the MD, the President, the Chief Financial Officer and other relevant senior management staff and review Directors' training and continuous professional development programme. The Company Secretary maintains records of all NC meetings including records of discussions on key deliberations and decisions taken.

Re-nomination of Directors

The NC reviews annually the nomination of the relevant Directors for re-election and re-appointment as well as the independence of Directors. When considering the nomination of Directors for re-election and re-appointment, the NC takes into account their contribution to the effectiveness of the Board as well as their time commitment especially for Directors who have multiple board representations, and also reviews their independence.

The Articles of Association of the Company provide that not less than one-third of the Directors for the time being shall retire as Directors at each annual general meeting of the Company ("AGM"). All new Directors appointed by the Board shall hold office until the next AGM, and be eligible for re-election at the said AGM.

Excluding the Directors above 70 years of age who are subject to annual re-nomination, namely Mr Kwek Leng Beng and Mr Bertie Cheng, the remaining Directors of the Company will retire about once in every 2 to 3 years. In accordance with the Articles of Association of the Company, Messrs Kwek Leng Peck, Kwek Leng Kee and Chng Beng Hua are due to retire by rotation at the forthcoming AGM ("2013 AGM") and have offered themselves for re-election at the 2013 AGM.

Annual Review of Directors' Independence

The NC reviews the independence of Directors annually according to the criteria on independence set out in the internal guidelines on independence which are based on the 2005 Code. Based on the review, 5 out of the current 9 Directors are considered by the NC to be independent which is more than half of the Board, thus providing for a strong and independent element on the Board capable of exercising objective judgment on the corporate affairs of the Company.

When considering the independence of the Directors, the NC also reviews the Directors' other directorships, the annual declaration by the independent NEDs regarding their independence, the Directors' disclosures of interests in transactions in which they have a direct/indirect interest, their ability to avoid any apparent conflicts of interests especially by abstaining from deliberation on such transactions, and their ability to maintain objectivity in their conduct as Directors of the Company.

Directors' Time Commitments

When considering the nomination of Directors for appointment or re-election/re-appointment, the NC also takes into account the competing time commitments faced by Directors with multiple board representations. An analysis of the directorships held by the Directors is reviewed annually by the NC. Based on the analysis and the Directors' commitments and contributions to the Company which is also evident in their level of attendance and participation at Board and Board Committee meetings, the NC is satisfied that all Directors are able to carry out and have been adequately carrying out their duties as Directors of the Company.

Criteria and Process for Nomination and Selection of New Directors

The NC interviews the shortlisted candidates before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees.

Corporate Governance Report

In reviewing and recommending to the Board any new Director appointments, the NC considers: (a) the candidate's independence, in the case of the appointment of an independent NED; (b) the composition requirements for the Board and Board Committees (if the candidate is proposed to be appointed to any of the Board Committees); (c) the candidate's age, track record, experience and capabilities and such other relevant factors as may be determined by the NC which would contribute to the Board's collective skills; (d) any competing time commitments if the candidate has multiple board representations; and (e) MAS' fit and proper criteria.

As a finance company, all new appointments to the Board are subject to the approval of the MAS.

Key Information on Directors

Please refer to the 'Board of Directors' section in the AR for key information on the Directors, and the Notice of AGM for Directors proposed for re-election and re-appointment at the 2013 AGM.

Succession Planning for the Board and the MD

The Board believes in carrying out succession planning for itself and the MD to ensure continuity of leadership. Board renewal is a continuing process and in this regard, the NC reviews the composition of the Board, which includes size and mix, annually and recommends to the Board the selection and appointment of new Directors, whether in addition to existing Board members or as replacement of retiring Board members, with a view to identifying any gaps in the Board's skills sets taking into account the Company's business operations. The Board will be able to function smoothly notwithstanding any resignation or retirement of any Director given the present number of members and mix of competencies on the Board.

Principle 5: Board Performance

Board Evaluation Process

The Company has in place a formal process for assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board. The NC assesses the Board's performance as a whole annually using objective and appropriate quantitative and qualitative criteria which were recommended by the NC and approved by the Board. When assessing the overall Board performance, the NC takes into consideration the feedback from individual Directors on areas relating to the Board's competencies and effectiveness. The results of the overall evaluation of the Board by the NC including its recommendation, if any, for improvements are presented to the Board.

The annual evaluation process for each individual Director's performance comprises 3 parts: (a) background information concerning the Director including his attendance records at Board and Board Committee meetings; (b) questionnaire for completion by each individual Board member; and (c) NC's evaluation based on certain assessment parameters. The questionnaires and the assessment parameters were recommended by the NC and approved by the Board. The completed questionnaires are then reviewed by the NC before the NC completes its evaluation of the individual Directors. When deliberating on the performance of a particular Director who is also a member of the NC, that member abstains from the discussions in order to avoid any conflict of interests.

The results of the individual evaluation of each of the Directors are also used by the NC, in its consultation with the Board Chairman (who is also a member of the NC), to review, where appropriate, the composition of the Board and Board Committees, and to support its proposals, if any, for appointment of new members and its recommendations for the re-appointment and re-election of retiring Directors. Comments from the Directors, if any, concerning the Board as a whole and the general performance of the Directors, are also presented to the Board.

Board Evaluation Criteria

The qualitative criteria are set out in a questionnaire covering 3 main areas relating to board composition, roles and responsibilities, conduct of meetings and access to information.

Corporate Governance Report

The quantitative criteria used to evaluate the overall Board performance comprises quarterly performance indicators which include a comparison of the Company's performance for the financial period under review against the performance of the Company and industry peers for the corresponding period over the past 3 years and the longer term indicators such as the Company's share price performance over a 5-year period and *vis-à-vis* the Singapore Straits Times Index.

Individual Director Evaluation Criteria

Factors taken into account in the assessment of a Director's performance include his abilities and competencies, his objectivity and the level of participation at Board and Board Committee meetings including his contribution to Board processes and the business strategies and performance of the Company.

Principle 6: Access to Information

Complete, Adequate and Timely Information and Access to Management

Prior to each meeting, members of the Board and the Board Committees are provided with the meeting agenda and the relevant papers submitted by Management, containing complete, adequate and timely information to enable full deliberation on the issues to be considered at the respective meetings. Management, the Company's auditors and professional advisers who can provide additional insight into the matters for discussion are also invited from time to time to attend such meetings. The role and responsibilities of Management and their reporting relationships are set out in the Company's organisation structure which is tabled annually and also as and when there are changes, for noting by the Board. Directors have separate and independent access to Management.

Draft agendas for Board and Board Committee meetings are circulated to the Board Chairman and the chairmen of the Board Committees, in advance, for them to review and suggest items for the agenda. The Board and the Board Committees are also furnished with routine reports, where applicable from the various departments. Each of the chairmen of the AC, NC, RC, SOOSC and Exco provides an annual report of the respective committees' activities during the year under review to the Board. The chairman of the RMC provides reports to the Board twice yearly on its activities. The minutes of meetings of the Board Committees are circulated to all Board members.

Company Secretary

The Company Secretary, whose appointment and removal are subject to the Board's approval, attends all Board meetings and meetings of the AC, NC, RC, SOOSC and RMC and ensures that all Board procedures are followed. The Company Secretary, together with Management, also ensures that the Company complies with all applicable statutory and regulatory rules. Together with Management, she also advises the Board Chairman, the Board and Board Committees on corporate governance matters and assists to implement and strengthen corporate governance practices and processes, including facilitating orientation for newly appointed Directors and appointments to Board Committees, and continuing training and development for the Directors.

On an ongoing basis, the Directors have separate and independent access to the Company Secretary, whose duties and responsibilities are clearly defined.

Independent Professional Advice

The Directors, whether as a group or individually, are entitled to take independent professional advice at the expense of the Company, in furtherance of their duties and in the event that circumstances warrant the same. The Company has in place internal guidelines allowing the Directors to seek independent professional advice.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

RC Composition and Role

The RC comprises 3 NEDs, all of whom including the chairman of the RC are independent. The RC's principal responsibilities as set out in its written terms of reference approved by the Board are to review and recommend, for the endorsement of the Board, a framework of remuneration and the specific remuneration packages for each Board member and the Company's key management personnel ("KMP"). The Company has in place a remuneration framework for the Directors and the KMP. The Company currently identifies its MD who is the only Executive Director of the Company and the President who is the most senior member of the Management team outside the Board, as its KMP. All the members of the RC also sit on the SOSC and the chairman of the RC is also the chairman of the SOSC. The Company Secretary maintains records of all RC and SOSC meetings including records of discussions on key deliberations and decisions taken.

Principle 8: Level and Mix of Remuneration

Remuneration of Directors and KMP

In reviewing the remuneration package of the KMP, the RC, with the assistance of the Company's Head of Human Resources, considers the level of remuneration based on the Company's remuneration policy which comprises the following 3 distinct objectives:-

- to ensure that the remuneration packages are competitive in attracting and retaining employees capable of meeting the Company's needs;
- to reward employees for achieving corporate and individual performance targets in a fair and equitable way; and
- to ensure that the remuneration reflects employees' duties and responsibilities.

The Company also utilises longer term incentive schemes, in the form of the grant of options under the SOS with certain grants subject to a vesting schedule. Information on the SOS is set out in the Directors' Report on pages 56 to 58 and the Financial Statements on pages 80 to 83 of the AR.

When reviewing the structure and level of Directors' fees, the RC takes into consideration their respective roles and responsibilities in the Board and Board Committees. Changes in the business, corporate governance practices and regulatory rules and the impact of these changes on the Directors' roles and responsibilities are also taken into account. The comparability of the Company's fee structure and level with those of other companies of comparable size and structure, both within and outside the financial industry is also taken into account. Other factors taken into consideration in the fee review includes frequency of Board and Board Committee meetings, corporate performance for the financial year under review as well as the corporate and economic outlook in the new financial year, and the interval since the last fee review and changes. No Director is involved in deciding his own remuneration.

Principle 9: Disclosure of Remuneration

Disclosure of Remuneration

The total compensation packages for the KMP comprise a fixed component (in the form of a base salary and fixed allowances), a variable component (which includes year-end and variable bonuses and share option grants) and benefits-in-kind, where applicable, and take into account amongst other factors, the KMP's performance, the Company's performance and industry practices.

Corporate Governance Report

Each of the Directors receives a base Director's fee, with the MD receiving an additional fee for serving as the Board Chairman. The Lead ID also receives an additional fee to reflect his expanded responsibility. Directors who serve on the various Board Committees also receive additional fees in respect of each Board Committee that they serve on, with the chairmen of the Board Committees (except the chairman of the Exco) receiving a higher fee in respect of their service as chairman of the respective committees.

The breakdown (in percentage terms) of the Directors' remuneration for FY 2012 is set out below.

Directors' Remuneration for FY 2012

	Base Salary ⁽¹⁾ %	Variable Bonuses/ Allowances ⁽¹⁾ %	Board/ Board Committee Fees ⁽²⁾ %	Share Option Grants ⁽³⁾ %	Other Benefits %	Total %
\$2,000,000 to below \$2,250,000						
1. Kwek Leng Beng	49	41	5	3	2	100
Below \$250,000						
2. Kwek Leng Joo	-	-	100	-	-	100
3. Kwek Leng Peck	-	-	100	-	-	100
4. Kwek Leng Kee	-	-	100	-	-	100
5. Woo Tchi Chu ⁽⁴⁾	-	-	100	-	-	100
6. Chng Beng Hua	-	-	100	-	-	100
7. Cheng Shao Shiong @ Bertie Cheng	-	-	99	-	1	100
8. Po'ad bin Shaik Abu Bakar Mattar	-	-	100	-	-	100
9. Ter Kim Cheu	-	-	100	-	-	100
10. Raymond Lim Siang Keat ⁽⁵⁾	-	-	100	-	-	100

Notes:

- (1) The salary and variable bonuses/allowances are inclusive of employer's central provident fund contributions.
- (2) These fees comprise Board and Board Committee fees (excluding AC and RMC fees) for FY 2012, which are subject to approval by shareholders as a lump sum at the 2013 AGM as well as the AC and RMC fees for FY 2012 that have already been approved by shareholders at the 2012 AGM.
- (3) These relate to options granted during FY 2012. The fair value of the options as at the date of grant is \$0.2686 for each share under option taking into account the vesting schedule using the Black-Scholes Option Pricing Formula.
- (4) Mr Woo Tchi Chu retired at the 2012 AGM and the Board and Board Committee fees paid/payable to him for FY 2012 are pro-rated accordingly.
- (5) Mr Raymond Lim was appointed on 1 March 2012 and the Board and Board Committee fees paid/payable to him for FY 2012 are pro-rated accordingly.

The remuneration of the top 5 key executives (who are not Directors) is not disclosed in the AR as the Company does not believe it to be in its interest to disclose the identity of the top 5 key executives within the remuneration bands of \$250,000 each or to provide a breakdown of each individual's remuneration, having regard to the highly competitive human resource environment and for purposes of maintaining confidentiality of staff remuneration matters.

During FY 2012, none of the Directors had immediate family members not disclosed above who were or are employees of the Company and whose personal annual remuneration exceeded or exceeds \$150,000.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

Accountability of Board and Management

The Board provides shareholders with quarterly and annual financial results. Results for the first, second and third quarter are released to shareholders within 45 days of the end of each quarter whilst the annual results are released within 60 days from the financial year end. In presenting the Group's annual and quarterly results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's performance and financial position with a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which it operates.

For the financial year under review, the Chief Financial Officer provided assurance to the AC on the integrity of the quarterly and the full year financial statements and the Board in turn provided a negative assurance confirmation in respect of the financial statements for the first, second and third quarter in accordance with the regulatory requirements.

Management provides all Directors with monthly financial results including analysis of the same which are submitted within 30 days of each month end.

Principle 11: Audit Committee

Composition of AC

The AC comprises 3 NEDs, all of whom including the chairman of the AC are independent. 2 members including the AC chairman possess the relevant accounting or related financial management expertise and experience.

With the current composition, the AC believes that it has the relevant accounting or related financial management expertise and experience to discharge its functions within its written terms of reference which has been approved by the Board.

Powers and Duties of the AC

The AC is authorised by the Board to investigate any matters it deems appropriate within its terms of reference and has direct and unrestricted access to the external auditors, the internal auditors and Management. It may invite any Director, Management, officer or employee of the Company, the external auditors and internal auditors to attend its meetings. It is also authorised to engage any firm of accountants, lawyers or other professionals as it sees fit to provide independent counsel and advice to assist in the review or investigation on such matters within its terms of reference as it deems appropriate, at the Company's expense.

The principal responsibility of the AC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the Company's financial reporting process (including reviewing the accounting policies and practices of the Company) and internal controls, including financial, operational, compliance, IT and risk management controls. Other duties within its written terms of reference include:-

- to review with Management and, where appropriate, with the external auditors the quarterly and full year financial statements to be issued by the Group before their submission to the Board to ensure their completeness, consistency and fairness;
- to monitor the integrity of the financial statements of the Company to be announced or reported and any other formal announcements relating to the Company's financial performance;
- to monitor and assess the role and effectiveness of the internal audit ("IA") function in the overall context of the Company's internal controls and risk management systems;

Corporate Governance Report

- to review and approve the annual audit plans of the external and internal auditors;
- to review, on an annual basis, the scope and results of the external audit and its cost-effectiveness and the independence and objectivity of the external auditors; and also to review on a periodic basis the nature and extent of any non-audit services provided by the external auditors to the Company;
- to review annually with Management, the internal and external auditors the results of their review and evaluation of the Company's internal controls, including financial, operational, compliance and IT controls, and risk management policies and systems and report to the Board annually on the adequacy and effectiveness of such internal controls;
- to make recommendations to the Board on the nomination for the appointment, re-appointment and removal of external auditors, and to approve the remuneration and terms of engagement of the external auditors;
- to approve the appointment, resignation or dismissal of the Head of IA;
- to review interested person transactions falling within the scope of Chapter 9 of the Listing Manual; and
- to review the Company's whistle-blowing policy and arrangements put in place for raising concerns about possible improprieties in matters of financial reporting or any other matters.

The AC held 5 meetings during the year and carried out its duties as set out within its terms of reference. The Company Secretary maintains records of all AC meetings including records of discussions on key deliberations and decisions taken. The AC meets with the internal and external auditors, each separately without the presence of Management, annually.

For the financial year under review, the AC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities. The assessment was facilitated through the use of a self-assessment checklist ("AC Self-Assessment Checklist"), based on the guidance from the Guidebook for Audit Committees in Singapore issued in October 2008 ("ACGC Guidebook").

The AC Self-Assessment Checklist covered the AC's terms of reference, composition, meetings, training and resources, financial reporting, internal financial controls and risk management systems, internal and external audit processes, whistle-blowing, relationships with the Board, communication with shareholders and contribution of AC members to the AC's deliberation and decision making process.

Based on the self-assessment, the AC believes that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

External Auditors

Taking cognizance that the external auditors should be free from any business or other relationships with the Company that could materially interfere with their ability to act with integrity and objectivity, the AC undertook a review of the independence of KPMG LLP ("KPMG") and gave careful consideration to the Company's relationships with them during 2012. In determining the independence of KPMG, the AC reviewed all aspects of the Company's relationships with them including the processes, policies and safeguards adopted by the Company and KPMG relating to audit independence. The AC also considered the nature of the provision of the non-audit services in 2012 and the corresponding fees and ensured that such non-audit fees did not impair or threaten the audit independence. Based on the review, the AC is of the opinion that KPMG is, and is perceived to be, independent for the purpose of the Company's statutory financial audit. For details of the fees paid and/or payable to KPMG in respect of audit and non-audit services for FY 2012, please refer to note 21 of the Notes to the Financial Statements on page 93.

Corporate Governance Report

In reviewing the nomination of KPMG for re-appointment for the financial year ending 31 December 2013, the AC considered the adequacy of the resources, experience and competence of KPMG. Consideration was also given to the incoming engagement partner (the current engagement partner having been in charge for 5 years cannot continue as engagement partner in 2013 as provided in the Listing Manual) and key team members' overall business acumen, knowledge and experience in the financial services industry. The size and complexity of the audit of the Company and the level of audit fee were further taken into account. The AC also considered the audit team's ability to work in a co-operative manner with Management whilst maintaining integrity and objectivity and to deliver their services professionally and within agreed time-lines. The AC also appreciated the candour of the external auditors in discussions on audit issues with the AC, both in a private session and during meetings.

KPMG has confirmed that they are registered with the Accounting and Corporate Regulatory Authority. The Company is thus in compliance with Rule 712 and Rule 715 of the Listing Manual in relation to the appointment of the Group's auditors.

On the basis of the above, the AC has recommended to the Board the nomination of KPMG for re-appointment as external auditors at the 2013 AGM.

Review of Related Party and Interested Person Transactions

Taking a risk-based approach, the Company has established policies and procedures on related party and interested person transactions to ensure that such transactions are undertaken on an arm's length basis, on normal commercial terms consistent with the Company's usual business practices and policies, not prejudicial to the interests of the Company and its minority shareholders and on terms which are generally no more favourable to the related parties and/or interested persons (as defined in Chapter 9 of the Listing Manual), than those extended to other unrelated third parties under similar circumstances. IA reviews all interested person transactions and the related party lending transactions annually and as part of its review, updates the AC on such transactions reviewed and updates the Board on comments/findings if any relating to any loan related/connected to any AC member.

A list of related parties and interested persons is maintained by the Company for monitoring purposes.

Particulars of interested person transactions required to be disclosed under Rule 907 of the Listing Manual are as follows:-

Name of Interested Person	Aggregate value of all interested person transactions in FY 2012 (excluding transactions less than \$100,000 and transactions conducted under any shareholders' mandate pursuant to Rule 920) (\$'000)	Aggregate value of all interested person transactions conducted in FY 2012 under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) (\$'000)
Hong Leong Investment Holdings Pte. Ltd. group of companies		
- Property-related transaction	901*	Not applicable**
- Receipt of corporate and management services	232	Not applicable**

* This relates to a lease of premises by the Company for its branch operations from an Interested Person for a lease tenure of 3 years.

** The Company has not sought any shareholders' mandate for interested person transactions pursuant to Rule 920.

Corporate Governance Report

The above interested person transactions were carried out on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders.

Whistle-blowing Policy

HLF has in place a whistle-blowing policy where staff of the Company can raise in confidence, whether anonymously or otherwise, concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters without fear of reprisals in any form. The AC has the responsibility of overseeing this policy which is administered by the Head of IA. Under these procedures, arrangements are in place for independent investigation of such matters raised and for appropriate follow up action to be taken. The Company is currently working on an arrangement by which persons other than staff may also raise possible improprieties in matters of financial reporting or any other financial related matters.

Principle 12: Internal Controls

Internal Controls

The Directors recognise that they have overall responsibility to ensure proper financial reporting for the Company and effectiveness of the Company's system of internal controls including financial, operational, compliance and IT controls, and risk management policies and systems.

The internal controls structure of the Company has been designed and put in place by Management to provide reasonable assurance against material financial misstatements or loss, for the safeguarding of assets, for the maintenance of proper accounting records, for the provision of financial and other information with integrity, reliability and relevance, and in compliance with applicable laws and regulations. However, no internal controls system can provide absolute assurance in view of inherent limitations of any internal controls system against the occurrence of human and system errors, poor judgment in decision making, losses, fraud or other irregularities.

The AC reviewed the adequacy of the Company's internal controls that address the Company's financial, operational, compliance and IT controls, and risk management systems, with the assistance of the RMC, Management, the Risk Management and Credit Control departments, Compliance department and the internal and external auditors.

Based on the work performed by IA, Risk Management, Credit Control and Compliance departments during the financial year, as well as the statutory audit by KPMG, and the assurance from Management, the Board, with the concurrence of the AC, is satisfied that the system of internal controls in place as at 31 December 2012 is adequate to address in all material respects the financial, operational, compliance and IT risks within the current scope of the Company's business operations.

Principle 13: Internal Audit

Reporting Line and Qualifications

The IA function is independent of the activities it audits. The Head of IA's primary reporting line is to the AC chairman with an administrative line of reporting to the President of the Company. The appointment, resignation and dismissal of the Head of IA is reviewed and approved by the AC. The AC also provides input on the annual performance appraisal of the Head of IA and the AC chairman is consulted on all bonus payments and salary adjustments for this position. The AC meets the Head of IA at least once annually without the presence of Management. The Head of IA has unfettered access to the AC, the Board and Management.

IA operates within the framework stated in its IA Charter which is approved by the AC, and reviewed on an annual basis. The standards of the IA Charter are consistent with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

Corporate Governance Report

Processes are in place to ensure that the professional competence of the IA staff is maintained or upgraded through training programmes, and the AC reviews on an annual basis the continuing professional education programme for the IA team which comprises technical and non-technical training for professional and personal development of the IA staff.

Role and Activities of IA

The primary role of the IA is to assist the Board to evaluate the reliability, adequacy and effectiveness of the internal controls and risk management processes of the Company, by ensuring that the scope of the IA's work is reasonably comprehensive to enable effective and regular review of the key operational, financial and related activities of the Company.

The AC approved the annual IA plan in January 2012, which continued to focus on the core loans and deposits operations, processes and controls. The AC received regular reports during 2012 on the progress of the audit work under the IA plan. IA observations on control, operational and human lapses and recommendations to address them were also reviewed and discussed at the AC meetings. The AC was satisfied that recommendations made were dealt with by Management in a timely manner with any outstanding recommendations being closely monitored and reported back to the AC.

The AC reviewed the effectiveness and adequacy of the IA function through a review of the IA activities on a quarterly basis as well as its annual assessment of the IA function. The assessment was facilitated through the use of an evaluation framework modelled on the evaluation framework recommended in the ACGC Guidebook. The evaluation framework is comprehensive and covers IA organisation, resources and continuing training, audit plans, work scope, quality of reports and recommendations, IA Charter and IA internal control assessment. Based on the assessment, the AC is satisfied with the quality and effectiveness of the IA function and that the IA function is currently adequately resourced and has appropriate independent standing within the Company to perform its functions effectively.

COMMUNICATION WITH SHAREHOLDERS

Principle 14: Communication with Shareholders

The Company announces its quarterly and full year results within the mandatory period. The financial statements and other presentation materials presented at the Company's general meetings including material and price-sensitive information, are disseminated and publicly released *via* SGXNET on a timely basis. All shareholders of the Company receive the annual report of the Company and the notice of AGM, which notice is also advertised in the press and released *via* SGXNET. Shareholders and investors can access information on the Company at its website at www.hlf.com.sg which provides, *inter alia*, corporate announcements, press releases and the latest financial results as released by the Company on SGXNET.

The Company has adopted a dividend policy, which is set out on page 2 of the AR.

Principle 15: Greater Shareholder Participation

At general meetings of the Company, shareholders are given the opportunity to communicate their views and encouraged to ask the Directors and Management questions regarding matters affecting the Company. The chairmen of all the Board Committees and the external auditors were present at the last AGM, and will endeavour to be present at the 2013 AGM to assist the Directors in addressing queries raised by the shareholders.

The Company provides for separate resolutions at general meetings on each substantial issue, including treating the re-election or re-appointment of each Director as a separate subject matter. Detailed information on each item in the AGM agenda is provided in the explanatory notes to the notice of AGM in the AR. The Company also maintains minutes of the AGM, which includes the key comments and queries raised by shareholders and the responses from the Board, Management and/or the external auditors.

Corporate Governance Report

In accordance with the Articles of Association of the Company, shareholders may appoint one or 2 proxies to attend and vote at general meetings in their absence. All shareholders are allowed to vote in person or by proxy. CPF investors of the Company's securities may attend shareholders' meetings as observers provided they have submitted their requests to do so with their agent banks within a specified timeframe. As the authentication of shareholder identity information and other related integrity issues still remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail or electronic means. In support of greater transparency and to allow for a more efficient voting system, the Company had introduced electronic poll voting instead of voting by show of hands at the 2012 AGM and would continue to do so in respect of all resolutions proposed at the 2013 AGM. With electronic poll voting, shareholders present in person or represented by proxy at the 2013 AGM will be entitled to vote on a 'one-share, one-vote' basis. The voting results of all votes cast in respect of each resolution will also be instantaneously displayed at the meeting and announced *via* SGXNET after the 2013 AGM. The rules including voting procedures that govern general meetings of shareholders are set out within the notice of the 2013 AGM.

RISK MANAGEMENT

Risk management plays an important role in the Company's business activities and is an essential component of its planning process. It is therefore critical to the Company's continuing profitability. Where risk is assumed, it is within a calculated and controlled framework. The Company ensures that it has the functional capability to manage risks in new and existing businesses, and that business plans are consistent with risks appetite. There is in place an independent and centralised risk management function which serves to broaden the Company's existing risk management framework to include additional capabilities and approaches in line with modern risk management practice. This integrated risk management framework identifies, assesses, manages and reports risks on a consistent and reliable basis. With the enhanced and formalised risk management function in place, the Company aims to:-

- build on existing developments in governance and risk management to create an effective system for management of the risks the Company incurs, supported by appropriate tools;
- ensure the current operating system delivers the information needed for risk management; and
- train and motivate staff to manage risks effectively.

The Company believes that a strong risk management process will support effective capital allocation and management and, through this, increase shareholders' value. It is also with this process that risk and return are evaluated with a goal of producing sustainable revenue and reducing earnings volatility. The maintenance of a strong control framework is a high priority and is the foundation for the delivery of effective risk management.

A strong risk governance structure is maintained to strengthen risk evaluation and management, whilst positioning the Company to manage the changing dynamic environment in an efficient and effective manner. The risk governance structure is reviewed regularly against best practices as set out in the industry and regulatory guidance. The Board establishes and oversees the Company's risk management framework; and ensures the adequacy of independent risk management systems and practices. Thus, the Board has overall responsibility for determining the type and level of business risks that the Company undertakes to achieve its corporate objectives. To assist the Board in fulfilling its duties, the RMC, a dedicated risk committee at board level oversees and reports to the Board on matters relating to the risk management function of the Company. It reviews and approves the risk management framework and related risk policies. It also oversees the establishment and operation of the risk management systems that are in place. The RMC comprises 4 Directors, 3 of whom are NEDs. The members of the RMC possess the relevant business experience and are therefore suitably qualified to discharge their responsibilities. The Company Secretary maintains records of all RMC meetings including records of discussions on key deliberations and decisions taken.

Corporate Governance Report

During the year, the RMC did a self-assessment of its performance based on the self-assessment checklist ("Self-Assessment Checklist"). The Self-Assessment Checklist covered the RMC's terms of reference, memberships and appointments, meetings, training and resources, risk management systems, risk disclosure, relationship with the Board and communication with shareholders. Based on the self-assessment, the RMC was of the view that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

Management, through its various committees, is accountable to the Board for ensuring the effectiveness of the risk management framework established by the Board.

A risk management team supports the RMC for maintaining an effective control environment that reflects established risks appetite and business objectives. The risk management team is independent of the business units, and performs the role of implementing risk management policies and procedures.

The business units, being the first line of defence against risk, are responsible for identifying, mitigating and managing risk within their lines of business. These units ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits.

All the Company's business activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks. The principal risks of the Company comprise strategic, credit, market and operational risks. Significant business risks are identified and a risk management action plan focusing on 4 main aspects, namely, Board oversight, senior management accountability, sound and well-documented risk policies and strong risk management, monitoring and control capabilities, implemented. The risk management policies are designed to identify and analyse the various risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable information systems. Risk profiles, exposures and trends are regularly reported to Management and the RMC for review and appropriate action. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Company recognises that the risk management process is an ongoing process and will thus continuously ensure that the Company's current risk management system and processes are in line with regulatory guidelines and industry best practices.

In the following paragraphs, a description is given of the way the various risk types are measured and managed in the Company.

Strategic Risk

Strategic risk is the risk that adverse business decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, execution and/or other intrinsic risks of business will impact the Company's ability to meet its objectives. The Company is mindful of the changes in its operating environment from time to time and is constantly monitoring and reviewing the economic and strategic risks of the Company in order to be able to enhance the management of the same. An integrated business planning and budget process is used to help manage strategic risk. A key component of this process is the alignment of strategies, goals, tactics and resources by the various business units and support departments. A planning process flows through the business units, identifying business unit plans that are aligned with the Company's direction.

Credit Risk

Credit risk is the potential loss arising from failure of a debtor or counterparty to meet their contractual obligations. The risk is managed to achieve sustainable and superior risk-reward performance whilst maintaining exposures within acceptable risk appetite parameters. This is achieved through the combination of governance, policies, systems and controls, underpinned by sound judgment. The failure to effectively manage credit risk across the Company and all products, services and activities can have a direct, immediate and material impact on the Company's earnings and reputation.

Corporate Governance Report

The Company has a Credit Risk Management policy to document and formalise the credit risk framework. This policy sets forth credit risk principles and details how the risks are managed in the Company. It is supplemented by the Credit Manual which details the process and management relating to credit transactions. The comprehensive credit risk framework ensures that all credit risks arising from each business are identified, analysed and monitored. Credit stress testing is also conducted periodically to determine the impact of security values and other stress parameters on the Company's loan portfolios. This stress testing allows the Company to assess the potential credit impact to losses arising from unlikely but plausible adverse events.

Credit risk analysis focuses on ensuring that credit risks are identified in order that a balanced assessment can be made accordingly. Loans and advances to customers provide the principal source of credit risk to the Company. The value of outstanding loans and advances balances, their risk profile, and potential concentrations within them can therefore have a considerable influence on the level of credit risk. The Company addresses credit risk concentration by setting a credit portfolio mix limit and monitoring the limit on a regular basis. Management periodically reviews the loans portfolio and concentration risk reports to monitor for undue credit concentrations. More details on credit risk could be found in the Financial Statements on pages 96 to 99 of the AR.

Market Risk

Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions such as interest rate movement. Traditional financial activities, such as lending and deposit taking, expose the Company to market risk, of which interest rate risk is a large component. Market risk also includes the risks of market access for funding and liquidity.

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short and long term. Interest rate risk arises primarily from the fact that financial assets and liabilities typically reprice at different points in time. In liquidity risk management, the Company ensures that cash flow requirements of depositors and borrowers, as well as the Company's operating cash needs are met taking into account all on and off-balance sheet funding demands. Liquidity risk management also includes ensuring cash flow needs are met at a reasonable cost. The liquidity funding requirements are integrated into the liquidity risk management policy with its aim to ensure that the Company has a stable diversified funding base without over-reliance on any one market segment. Liquidity contingency funding plans are in place to identify potential liquidity crises using early warning indicators and to handle unexpected liquidity disruptions. Crisis escalation procedures, decision making authorities and various strategies including funding, communication and courses of action to be taken have been developed to minimise the impact of any liquidity crunch. The ALCO, comprising Management, reviews policies, strategies and limits in the management of market risk. The RMC assists the Board in ensuring the effective management of the market risk process.

Analyses of cash flow, re-pricing mismatches, Present Value of a basis point impact of assets and liabilities and simulation modelling are performed to determine the net funding requirements as well as the interest rate risk profile. Tolerance tenor limits on the mismatches of liquidity and interest rates as well as risk ratios are established and monitored periodically. Liquidity stress testing is performed to assess and plan for the impact of various scenarios which may put the Company's liquidity at risk. The Company implements the Asset and Liability Management and Funds Transfer Pricing ("FTP") software systems to enhance market risk management. Interest rate risk sensitivity analyses are performed under various interest rate scenarios using dynamic simulation modelling. The FTP system, being an internal management pricing system, allows for the monitoring of net interest margin. It complements the performance measurement process by incorporating cost of funds dimension to the balance sheet. More details on liquidity and interest rate risks could be found in the Financial Statements on pages 99 to 106 of the AR.

Corporate Governance Report

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. While the Company has established procedures and controls to manage risks, the potential for failure or inadequacy in these procedures and controls would be classified as an operational risk. Operational risk is inherent in all the Company's business activities it operates to provide services to customers, including the practices and controls used to manage other risks. Operational risk failures could lead to reputation damage, financial loss or regulatory consequences.

Operational risk is identified, managed, monitored and mitigated through an operational risk management framework designed to provide a sound and well-controlled operational environment. The framework protects the Company from potential financial loss or damage to its reputation; its customers or staff and to ensure that it meets the necessary regulatory and legal requirements. The daily management of operational risk exposures is through a comprehensive system of internal controls to ensure that operational policies and procedures are being adhered to at different levels throughout the Company. The Company's operational risk self-assessment framework incorporates the mapping of risks into risk categories, monitoring of key risk indicators and loss events reporting. Action plans are formulated based on the severity of the assessed residual risks after considering mitigating controls. This is augmented through the use of a system that supports the operational risk management framework. Every department performs this regular self-assessment and ensures a proper control environment, which includes technology risk and data loss prevention. The IA function checks the system of internal controls through regular and ongoing audit procedures and reports on the effectiveness of internal controls to Management and the AC.

Date: 15 March 2013

Financial Report

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Directors' Report

Year ended 31 December 2012

We are pleased to submit this report to the members of Hong Leong Finance Limited (the "Company") together with the audited financial statements for the financial year ended 31 December 2012.

Directors

The directors in office at the date of this report are as follows:-

Kwek Leng Beng
Kwek Leng Joo
Kwek Leng Peck
Kwek Leng Kee
Chng Beng Hua
Cheng Shao Shiong @ Bertie Cheng
Po'ad bin Shaik Abu Bakar Mattar
Ter Kim Cheu
Raymond Lim Siang Keat (appointed on 1 March 2012)

Arrangements to Enable Directors to Acquire Shares and Debentures

Except as disclosed under the section on "Share Options" in this report, neither at the end of nor at any time during the financial year was the Company a party to any arrangements whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Shares or Debentures

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants and/or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year. The directors of the Company consider Hong Leong Investment Holdings Pte. Ltd. ("HLIH") to be the immediate and ultimate holding company of the Company.

According to the Register of Directors' Shareholdings kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50, particulars of interests of directors who held office at the end of the financial year (including those of their spouses and infant children) in shares and/or share options in the Company and in related corporations are as follows:-

Directors' Report

Year ended 31 December 2012

	Holdings in which the director, his spouse and infant children have a direct interest	
	At beginning of the year	At end of the year
<u>The Company</u>		
Shares		
Kwek Leng Beng	4,603,567	5,203,567
Kwek Leng Joo	703,610	703,610
Kwek Leng Peck	517,359	517,359
Kwek Leng Kee	1,595,079	1,595,079
Options to subscribe for the following number of shares under the Hong Leong Finance Share Option Scheme 2001		
Kwek Leng Beng	3,920,000	3,576,000
<u>Immediate and Ultimate Holding Company</u>		
Hong Leong Investment Holdings Pte. Ltd.		
Ordinary Shares		
Kwek Leng Beng	2,320	2,320
Kwek Leng Joo	1,290	1,290
Kwek Leng Peck	10,921	10,921
<u>Related Corporations</u>		
Hong Leong Holdings Limited		
Ordinary Shares		
Kwek Leng Beng	259,000	259,000
Kwek Leng Joo	210,000	210,000
Kwek Leng Peck	381,428	381,428
Kwek Leng Kee	997,000	997,000

Directors' Report

Year ended 31 December 2012

	Holdings in which the director, his spouse and infant children have a direct interest	
	At beginning of the year	At end of the year
Related Corporations (continued)		
City Developments Limited		
Ordinary Shares		
Kwek Leng Beng	397,226	397,226
Kwek Leng Joo	65,461	65,461
Kwek Leng Peck	43,758	43,758
Preference Shares		
Kwek Leng Beng	144,445	144,445
Kwek Leng Joo	100,000	100,000
Hong Realty (Private) Limited		
Ordinary Shares		
Kwek Leng Beng	1,110	1,110
Kwek Leng Joo	510	510
Kwek Leng Peck	150	150
Kwek Leng Kee	300	300
Hong Leong Asia Ltd.		
Ordinary Shares		
Kwek Leng Beng	660,000	660,000
Kwek Leng Peck	1,680,000	1,680,000
Kwek Leng Kee	150,000	150,000
Options to subscribe for the following number of ordinary shares under the Hong Leong Asia Share Option Scheme 2000		
Kwek Leng Peck	470,000	470,000

Directors' Report

Year ended 31 December 2012

	Holdings in which the director, his spouse and infant children have a direct interest	
	At beginning of the year	At end of the year
Related Corporations (continued)		
City e-Solutions Limited		
Ordinary Shares of HK\$1.00 each		
Kwek Leng Beng	3,286,980	3,286,980
Kwek Leng Joo	1,436,000	1,436,000
Kwek Leng Peck	2,082,200	2,082,200
Millennium & Copthorne Hotels New Zealand Limited		
Ordinary Shares		
Kwek Leng Beng	3,000,000	3,000,000
Sun Yuan Holdings Pte Ltd		
Ordinary Shares		
Kwek Leng Beng	15,000,000	15,000,000
Euroform (S) Pte. Limited		
Ordinary Shares		
Kwek Leng Joo	50,000	50,000
	Other holdings in which the director is deemed to have an interest	
	At beginning of the year	At end of the year

Immediate and Ultimate Holding Company

Hong Leong Investment Holdings Pte. Ltd.

Ordinary Shares

Kwek Leng Beng	40,744	40,744
Kwek Leng Kee	47,019	47,019

The directors' interests in the Company as at 31 December 2012 disclosed above remained unchanged as at 21 January 2013.

Directors' Interests in Contracts

During the financial year, the Company and/or its related corporations have in the normal course of business entered into transactions with directors and/or their affiliated parties, being related parties and parties in which some of the directors are deemed to have an interest, with the directors having disclosed their interests in such transactions pursuant to Section 156 of the Companies Act, Chapter 50. Such transactions may comprise loans, deposits, provision of nominee and corporate advisory services, foreign exchange transactions, insurance transactions, property-related transactions, construction-related transactions, industrial-related transactions, consumer-related transactions, investing in real estate used for hospitality and/or hospitality-related purposes, purchase/sale of investments, property, industrial and consumer biodegradable and non-biodegradable products, goods including vehicles, parts and accessories and provision and receipt of after-sales services, hotel-related transactions, procurement services, information technology services, e-commerce-related transactions, management and consultancy services and/or other transactions carried out on normal commercial terms and in the normal course of business of the Company and/or its related corporations.

However, the directors have neither received nor become entitled to receive any benefit arising out of these transactions other than those to which they may be entitled as customers, suppliers, directors and members of these corporations.

Except as disclosed above and in the accompanying financial statements, and except for remuneration and professional fees paid/payable by related corporations, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company and/or its related corporations with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Share Options

(a) Hong Leong Finance Share Option Scheme 2001 (the "Share Option Scheme")

The Share Option Scheme was approved by the shareholders at the extraordinary general meeting of the Company held on 31 January 2001 for an initial duration of 10 years (from 31 January 2001 to 30 January 2011). At the annual general meeting of the Company held on 23 April 2010, the shareholders approved the extension of the duration of the Share Option Scheme for a further period of 10 years from 31 January 2011 to 30 January 2021. Other than the extension of the duration of the Share Option Scheme, all other rules of the Share Option Scheme remain unchanged.

The Share Option Scheme is administered by a committee comprising the following members:-

Po'ad bin Shaik Abu Bakar Mattar (Chairman)
Kwek Leng Peck
Cheng Shao Shiong @ Bertie Cheng
Ter Kim Cheu

The Share Option Scheme provides the Company with the flexibility of granting options to participants at Market Price (as defined in the Share Option Scheme) and/or with a discount (either up-front or a deferred discount) to the Market Price. All options granted to date under the Share Option Scheme are at Market Price and were granted to Group Employees and Parent Group Employees (both as defined in the Share Option Scheme). Subject to any applicable vesting schedule, these options may be exercised one year after the date of the grant and have a term of ten years from the date of the grant.

The aggregate number of shares in the capital of the Company ("Shares") over which options may be granted under the Share Option Scheme on any date, when added to the number of Shares issued and issuable in respect of all options granted under the Share Option Scheme shall not exceed 15% of the total number of issued Shares on the day preceding the relevant date of grant. The aggregate number of Shares which may be offered by way of grant of options to Parent Group Employees and Parent Group Non-Executive Directors (as defined in the Share Option Scheme) collectively under the Share Option Scheme shall not exceed 20% of the total number of Shares available under the Share Option Scheme.

Directors' Report

Year ended 31 December 2012

(b) Options granted under the Share Option Scheme

During the financial year under review, the following options were granted to Group Employees under the Share Option Scheme:-

Date of grant	Exercise period	Number of Shares under option	Subscription Price
14.9.2012	14.9.2013 to 13.9.2022	2,880,000 (net of options not accepted)	\$2.45

- (i) Included in the above are options granted to an Executive Director of the Company, details of which are as follows:-

Name of Director	Shares under option granted during financial year under review	Aggregate Shares under option granted since commencement of Share Option Scheme to end of financial year under review	Aggregate Shares under option exercised since commencement of Share Option Scheme to end of financial year under review	Aggregate Shares under option outstanding as at end of financial year under review
Kwek Leng Beng	256,000	4,176,000	600,000	3,576,000

- (ii) None of the participants were regarded by the Directors as controlling shareholders of the Company.
- (iii) None of the other participants were granted options representing 5% or more of the total number of Shares under option available under the Share Option Scheme.
- (iv) None of the Parent Group Employees were granted options representing 5% or more of the total number of Shares under option available under the Share Option Scheme to all Parent Group Employees and Parent Group Non-Executive Directors. A total of 250,000 Shares under option were granted to Parent Group Employees since the commencement of the Share Option Scheme to the end of the financial year under review.
- (v) Except for options granted to persons in their capacity as Group Employees and/or Parent Group Employees, no other options have been granted by the Company to any other categories of persons since the commencement of the Share Option Scheme.
- (vi) The options granted to certain participants of executive rank (including those granted to an Executive Director of the Company) since the commencement of the Share Option Scheme are subject to a vesting schedule as follows:-
- (1) one year after the date of grant for up to 33% of the Shares over which the options are exercisable;
 - (2) two years after the date of grant for up to 66% (including (1) above) of the Shares over which the options are exercisable; and
 - (3) three years after the date of grant for up to 100% (including (1) and (2) above) of the Shares over which the options are exercisable.
- (vii) The persons to whom options have been granted do not have any right to participate by virtue of these options in any share issue of any other company.

(c) Unissued Shares under option

There were a total of 22,775,755 unissued Shares under option granted pursuant to the Share Option Scheme at the end of the financial year. Details of the options to subscribe for Shares (including those granted to an Executive Director) are as disclosed in the accompanying financial statements.

Directors' Report

Year ended 31 December 2012

Except as disclosed above and in the accompanying financial statements, during the financial year, there were:-

- (i) no options granted by the Company or its subsidiaries to any person to take up unissued Shares of the Company or its subsidiaries; and
- (ii) no Shares issued by virtue of any exercise of options to take up unissued Shares of the Company or its subsidiaries.

Audit Committee

The Audit Committee comprises three independent non-executive members of the Board of Directors. The members of the Audit Committee at the date of this report are:-

Po'ad bin Shaik Abu Bakar Mattar (Chairman)
Chng Beng Hua
Ter Kim Cheu

The Audit Committee held five meetings during the financial year and carried out the functions of an audit committee under its terms of reference including those specified in the Companies Act, Chapter 50. In carrying out its functions, the Audit Committee inter-alia reviewed the overall scope of both internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Group's system of internal controls. The Audit Committee also reviewed the consolidated financial statements and the financial statements of the Company for the year ended 31 December 2012 as well as the auditors' report thereon.

The Audit Committee has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company subject to the approval of the Monetary Authority of Singapore.*

Auditors

In appointing the auditors for the Company and the subsidiaries, the Company has complied with Rules 712 and 715 of the Listing Manual issued by Singapore Exchange Securities Trading Limited in relation to the auditors.

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Kwek Leng Beng

Director

Po'ad bin Shaik Abu Bakar Mattar

Director

Singapore

26 February 2013

* Subsequent to the date of this report, the approval has been obtained from the Monetary Authority of Singapore.

Statement by Directors

Year ended 31 December 2012

In our opinion:-

- (a) the consolidated financial statements of the Group consisting of Hong Leong Finance Limited (the "Company") and its subsidiaries and the statement of financial position and the statement of changes in equity of the Company, together with the notes, set out on pages 62 to 116 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

Kwek Leng Beng

Director

Po'ad bin Shaik Abu Bakar Mattar

Director

Singapore

26 February 2013

Independent Auditors' Report

To the Members of Hong Leong Finance Limited

Report on the financial statements

We have audited the accompanying financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 62 to 116.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

To the Members of Hong Leong Finance Limited

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP

Public Accountants and
Certified Public Accountants

Singapore

26 February 2013

Statements of Financial Position

As at 31 December 2012

	Note	Group		Company	
		2012	2011	2012	2011
Number of shares in issue	4	441,224,493	440,473,793	441,224,493	440,473,793
		\$'000	\$'000	\$'000	\$'000
Share capital	4	872,418	869,824	872,418	869,824
Reserves	4	578,096	559,581	578,096	559,581
Accumulated profits		174,326	168,234	171,606	165,626
Equity attributable to owners of the Company		1,624,840	1,597,639	1,622,120	1,595,031
Liabilities					
Deposits and balances of customers	6	10,045,755	7,760,675	10,049,613	7,764,520
Trade and other payables	7	109,242	109,157	108,011	107,902
Current tax payable		14,303	37,374	14,296	37,365
Total liabilities		10,169,300	7,907,206	10,171,920	7,909,787
Total equity and liabilities		11,794,140	9,504,845	11,794,040	9,504,818
Assets					
Cash at banks and in hand	9	1,483,515	901,111	1,482,880	900,550
Statutory deposit with the Monetary Authority of Singapore	9	257,917	202,356	257,917	202,356
Singapore Government securities	10	1,107,485	889,201	1,107,485	889,201
Loans, advances and receivables	11	8,896,239	7,451,816	8,896,239	7,451,816
Other receivables, deposits and prepayments	12	26,245	25,585	26,245	25,584
Subsidiaries	13	-	-	535	535
Investments (long term)	14	546	546	546	546
Property, plant and equipment	15	18,836	19,566	18,836	19,566
Deferred tax assets	8	3,357	14,664	3,357	14,664
Total assets		11,794,140	9,504,845	11,794,040	9,504,818
Acceptances, guarantees and other obligations on behalf of customers	16	11,161	18,633	11,161	18,633

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Note	Group	
		2012 \$'000	2011 \$'000
Profit and loss account:			
Interest on loans		167,159	147,560
Hiring charges		48,633	53,250
Other interest income		22,636	24,273
Interest income/hiring charges		238,428	225,083
Less: Interest expense		84,476	60,999
Net interest income/hiring charges	17	153,952	164,084
Fee and commission income	18	13,118	8,577
Other operating income	19	740	338
Income before operating expenses		167,810	172,999
Less: Staff costs	20	56,959	58,057
Depreciation of property, plant and equipment	15	2,304	1,769
Other operating expenses	21	20,733	20,245
Profit from operations before allowances/provision		87,814	92,928
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	7, 11	(9,272)	26,750
Profit before income tax		78,542	119,678
Add/(Less): Income tax expense			
- Current year	22	(12,862)	(19,905)
- Prior years	22	11,875	-
Profit for the year/Comprehensive income attributable to owners of the Company		77,555	99,773
Earnings per share (cents)	23		
Basic		17.60	22.65
Diluted		17.59	22.63

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total equity \$'000
Group						
At 1 January 2011	869,535	524,256	2,307	6,481	146,262	1,548,841
Issue of shares under share option scheme	289					289
Value of employee services received for issue of share options				1,593		1,593
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2010					(35,238)	(35,238)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2011					(17,619)	(17,619)
Comprehensive income for the year					99,773	99,773
Transfer to Statutory reserve		24,944			(24,944)	-
At 31 December 2011	869,824	549,200	2,307	8,074	168,234	1,597,639
At 1 January 2012	869,824	549,200	2,307	8,074	168,234	1,597,639
Issue of shares under share option scheme	1,439					1,439
Value of employee services received for issue of share options				1,092		1,092
Value of employee services transferred for share options exercised or lapsed	1,155			(1,966)	811	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2011					(35,241)	(35,241)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2012					(17,644)	(17,644)
Comprehensive income for the year					77,555	77,555
Transfer to Statutory reserve		19,389			(19,389)	-
At 31 December 2012	872,418	568,589	2,307	7,200	174,326	1,624,840

The statutory reserve is maintained in compliance with the provisions of Section 18 of the Finance Companies Act, Chapter 108.

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2012

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total equity \$'000
Company						
At 1 January 2011	869,535	524,256	2,307	6,481	143,768	1,546,347
Issue of shares under share option scheme	289					289
Value of employee services received for issue of share options				1,593		1,593
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2010					(35,238)	(35,238)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2011					(17,619)	(17,619)
Comprehensive income for the year					99,659	99,659
Transfer to Statutory reserve		24,944			(24,944)	-
At 31 December 2011	869,824	549,200	2,307	8,074	165,626	1,595,031
At 1 January 2012	869,824	549,200	2,307	8,074	165,626	1,595,031
Issue of shares under share option scheme	1,439					1,439
Value of employee services received for issue of share options				1,092		1,092
Value of employee services transferred for share options exercised or lapsed	1,155			(1,966)	811	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2011					(35,241)	(35,241)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2012					(17,644)	(17,644)
Comprehensive income for the year					77,443	77,443
Transfer to Statutory reserve		19,389			(19,389)	-
At 31 December 2012	872,418	568,589	2,307	7,200	171,606	1,622,120

The statutory reserve is maintained in compliance with the provisions of Section 18 of the Finance Companies Act, Chapter 108.

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Note	2012 \$'000	2011 \$'000
Operating activities			
Comprehensive income after tax for the year		77,555	99,773
Adjustments for:-			
Impact of accrual of interest income		(819)	1,384
Impact of accrual of interest expense		19,547	(4,948)
Allowances for/(reversal of) doubtful debts		13,418	(1,338)
Depreciation of property, plant and equipment		2,304	1,769
Loss/(gain) on disposal of property, plant and equipment		1	(4)
Value of employee services received for issue of share options		1,092	1,593
Income tax expense	22	987	19,905
		114,085	118,134
Changes in working capital:-			
Loans, advances and receivables		(1,457,841)	(1,171,883)
Other receivables, deposits and prepayments		159	(8,468)
Singapore Government securities and Treasury bills		(218,284)	36,385
Deposits and balances of customers		2,285,080	583,969
Trade and other payables		(19,462)	(19,831)
Cash generated from/(used in) operations		703,737	(461,694)
Income taxes paid		(12,751)	(23,658)
Cash flows from/(used in) operating activities		690,986	(485,352)
Investing activities			
Purchase of property, plant and equipment		(1,581)	(4,519)
Proceeds from disposal of property, plant and equipment		6	5
Cash flows (used in) investing activities		(1,575)	(4,514)
Financing activities			
Proceeds from exercise of share options		1,439	289
Dividends paid		(52,885)	(52,857)
Cash flows (used in) financing activities		(51,446)	(52,568)
Net increase/(decrease) in cash and cash equivalents		637,965	(542,434)
Cash and cash equivalents at beginning of year		1,103,467	1,645,901
Cash and cash equivalents at end of year	9	1,741,432	1,103,467

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2012

These notes form an integral part of the financial statements.

The financial statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 26 February 2013.

1. Domicile and Activities

Hong Leong Finance Limited (the "Company") is incorporated in the Republic of Singapore. The address of the Company's registered office is 16 Raffles Quay #01-05 Hong Leong Building, Singapore 048581.

The directors consider Hong Leong Investment Holdings Pte. Ltd., a company incorporated in the Republic of Singapore, to be the immediate and ultimate holding company of the Company.

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 relate to the Company and its subsidiaries (together referred to as the "Group").

The principal activities of the Company are those relating to financing business and provision of corporate advisory services. The principal activities of the subsidiaries are the provision of nominee services.

2. Basis of Preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities which are stated at fair value.

(c) Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in Note 28, Use of Accounting Estimates and Judgements.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

(a) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are presently exercisable. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to Singapore dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for the following retranslation differences which are recognised in other comprehensive income:-

- available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss); and
- qualifying cash flow hedges to the extent the hedge is effective.

(c) Financial instruments

(i) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices for financial instruments traded in active markets.

(ii) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial assets (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments that are not close to their maturity or occurs before the principal amounts are substantially recovered or are not attributable to non-recurring isolated events beyond the Group's control and anticipation would result in the reclassification of all held-to-maturity investments as available for sale. It would also prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets comprise Singapore Government securities and Treasury bills.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, loans, advances and receivables, and other receivables. Cash and cash equivalents comprise cash balances, bank deposits and statutory deposit with the Monetary Authority of Singapore.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Equity investments without active quoted market prices and whose fair value cannot be reliably measured are measured at cost less any impairment losses.

Available-for-sale financial assets comprise equity securities.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(iii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Such financial liabilities comprise deposits and balances of customers, borrowings and trade and other payables. Deposits and borrowings are the Group's sources of debt funding.

(iv) Share capital

Shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity, net of any tax effects.

(v) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

- (v) Derivative financial instruments, including hedge accounting (continued)

Fair value hedges

Changes in the fair value of a derivative hedging instrument designated in a fair value hedge are recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Separable embedded derivatives

Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

- (vi) Financial guarantees

Financial guarantees are financial instruments issued by the Group that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry dates, the carrying amounts of those financial guarantees are transferred to profit or loss.

(d) Property, plant and equipment

- (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Property, plant and equipment acquired through finance leases are carried at cost, less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The carrying amounts of material land and properties are reviewed annually to determine whether they are in excess of their recoverable amounts at the reporting date. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower value.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other operating income/other operating expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term, in which case, the leased assets are depreciated over their estimated useful lives. Freehold land is not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready to use.

The estimated useful lives (or lease term where shorter) for the current and comparative years are as follows:-

Properties other than freehold land	23 to 50 years
Office equipment, fixtures and fittings	3 to 5 years
Computer equipment	3 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3. Significant Accounting Policies (continued)

(e) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

(f) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

- (i) Non-derivative financial assets (continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed. The amount of the reversal is recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

- (ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Employee benefits

- (i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

- (ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies (continued)

(g) Employee benefits (continued)

(iii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

When share options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital and the grant date fair value is transferred from share option reserve to share capital. The grant date fair value of share options that lapse or expire is transferred from share option reserve to accumulated profits.

The fair value of employee share options is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the options (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Recognition of income and expense

(i) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently unless contractually adjusted.

The calculation of the effective interest rate includes fees, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortised cost on an effective interest rate basis and gains and losses on hedging instruments that are recognised in profit or loss.

Where charges are added to the principal financed at the commencement of the period, the general principle adopted for crediting income to profit or loss is to spread the income over the period in which the repayments are due using the following bases for the various categories of financing business:-

Income earned on hire purchase and leasing

Term charges on hire purchase and leasing transactions are accounted for using the Rule of 78 (sum of digits) method. The balance of such term charges at the financial year end is carried forward as unearned charges.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies (continued)

(i) Recognition of income and expense (continued)

(i) Interest (continued)

Income earned on loans

Interest is charged on either an annual rest, monthly rest or daily basis and credited to profit or loss in the period to which it relates.

Income earned on trade finance and factoring accounts

Interest is charged principally on a monthly rest basis.

Income from debt securities

Interest income from debt securities with a fixed maturity is recognised as it accrues.

Income from bank deposits

Interest income from bank deposits is accrued on a time-apportioned basis.

Expense on deposits and balances of customers and interest-bearing borrowings

Interest expense is accrued on a time-apportioned basis.

(ii) Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission income are recognised as the related services are performed.

Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

(iv) Offsetting

Gains and losses arising from a group of similar transactions are presented on a net basis.

(j) Government grant – Special Employment Credit

Cash grants received from the government in relation to the Special Employment Credit are recognised as an offset against staff costs.

(k) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the respective lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies (continued)

(k) Lease payments (continued)

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:-

- the fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:-

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Notes to the Financial Statements

Year ended 31 December 2012

3. Significant Accounting Policies (continued)

(l) Income tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(m) Earnings per share

The Group presents basic and diluted earnings per share data for its shares. Basic earnings per share is calculated by dividing the profit or loss after tax attributable to owners of the Company by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss after tax attributable to owners and the weighted average number of shares outstanding for the effects of all dilutive potential shares, which comprise shares under option granted to employees.

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group operates in only one segment. Its activities relate to financing business augmented by secondary non-lending activities such as provision of corporate advisory services and provision of nominee services. All activities are carried out in the Republic of Singapore. Revenue in respect of these activities is presented in Notes 17 and 18.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

4. Capital and Reserves

Share capital

		Company	
		2012	2011
		Number	Number
	Note	of shares	of shares
Fully paid shares, with no par value:-			
At 1 January		440,473,793	440,369,293
Issue of shares under share option scheme	5	750,700	104,500
At 31 December		441,224,493	440,473,793

Notes to the Financial Statements

Year ended 31 December 2012

4. Capital and Reserves (continued)

In 2012, pursuant to the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme"), the Company issued new shares fully paid in cash as follows:-

	Company	
	2012	2011
Exercise price	Number of shares	Number of shares
\$1.85	633,000	-
\$2.85	-	15,000
\$3.06	-	2,000
\$2.74	-	87,500
\$2.28	117,700	-
	750,700	104,500

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Reserves

	Group and Company	
	2012	2011
	\$'000	\$'000
Statutory reserve	568,589	549,200
Capital reserve	2,307	2,307
Share option reserve	7,200	8,074
	578,096	559,581

The statutory reserve is maintained in compliance with the provisions of Section 18 of the Finance Companies Act, Chapter 108.

The capital reserve comprises premium on issue of bonds with warrants and surplus on liquidation of subsidiaries.

The share option reserve comprises the cumulative value of employee services received for the issue of share options net of transfers of the grant date fair value of share options to share capital and accumulated profits upon the exercise or lapse/expiry of share options respectively.

Details of movements in reserves are shown in the consolidated statement of changes in equity and statement of changes in equity.

Dividends

After the balance sheet date, the Directors proposed a final dividend of 8 cents per share, tax exempt one-tier, amounting to \$35,298,000 (2011: 8 cents per share, tax exempt one-tier, amounting to \$35,241,000) when estimated based on the number of shares in issue as at the balance sheet date. The dividend has not been recognised in the financial statements. The proposed final dividend is in addition to an interim dividend of 4 cents per share, tax exempt one-tier, amounting to \$17,644,000 (2011: 4 cents per share, tax exempt one-tier, amounting to \$17,619,000) paid on 14 September 2012 (2011: 15 September 2011).

Notes to the Financial Statements

Year ended 31 December 2012

5. Employee Share Options

The Share Option Scheme was approved and adopted by members at an Extraordinary General Meeting held on 31 January 2001 for an initial duration of 10 years (from 31 January 2001 to 30 January 2011). At the Annual General Meeting of the Company held on 23 April 2010, the shareholders approved the extension of the duration of the Share Option Scheme for a further period of 10 years from 31 January 2011 to 30 January 2021. Other than the extension of the duration of the Share Option Scheme, all other rules of the Share Option Scheme remain unchanged. The Share Option Scheme is administered by the Company's Share Option Scheme Committee which comprised the following directors as at 31 December 2012:-

Po'ad bin Shaik Abu Bakar Mattar (Chairman)
Kwek Leng Peck
Cheng Shao Shiong @ Bertie Cheng
Ter Kim Cheu

Information regarding the Share Option Scheme is as follows:-

- The subscription price for each share under option is fixed by the Share Option Scheme Committee and to date has been at a price equal to the average of the last dealt prices for one share in the capital of the Company, as determined by reference to the daily official list made available by the Singapore Exchange Securities Trading Limited, for the 3 consecutive trading days immediately preceding the date of grant, subject to the rules of the Share Option Scheme.
- Each option is exercisable, in whole or in part, during the option period applicable to that option subject to any conditions, including a vesting schedule, that may be imposed by the Share Option Scheme Committee in relation to any shares comprised in that option.
- All options are settled by delivery of shares upon receipt of the exercise price in cash.
- The options granted to Group Employees and Parent Group Employees expire 10 years from the date of grant. The options granted to Non-Group Employees expire 5 years from the date of grant.

Movements in the number of share options and their related weighted average exercise prices are as follows:-

	Weighted average exercise price 2012 \$	Number of options 2012 '000	Weighted average exercise price 2011 \$	Number of options 2011 '000
At 1 January	3.00	21,112	3.14	18,374
Granted	2.45	2,918	2.28	3,449
Not accepted	2.45	(38)	2.28	(42)
Lapsed	2.97	(465)	3.19	(565)
Exercised	1.92	(751)	2.76	(104)
At 31 December	2.97	22,776	3.00	21,112
Exercisable at 31 December	3.07	18,687	3.15	16,421

Notes to the Financial Statements

Year ended 31 December 2012

5. Employee Share Options (continued)

Options exercised in 2012 resulted in 750,700 (2011: 104,500) shares being issued at a weighted average price of \$1.92 (2011: \$2.76) each. The weighted average share price during the year was \$2.41 (2011: \$2.65) per share.

The fair value of services received in return for share options granted is measured based on the grant date fair value of share options. The grant date fair value of the share options is measured using a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected volatility is estimated by considering historic average share price volatility.

There are no market and non-market performance conditions associated with the share option grants. Service conditions are not taken into account in the measurement of fair value of the services to be received at the grant date.

The inputs used in the measurement of the fair values at grant date of the share options are as follows:-

Fair value of share options and assumptions

Date of grant

of options	5.12.2002	16.9.2003	28.9.2004	28.9.2005	28.9.2006	19.9.2007	30.9.2008	29.9.2009	28.9.2010	29.9.2011	14.9.2012
Fair value at grant date	\$0.17	\$0.31	\$0.13	\$0.31	\$0.23	\$0.39	\$0.26	\$0.53	\$0.49	\$0.28	\$0.31
Share price	\$1.79	\$2.66	\$2.84	\$3.78	\$3.24	\$3.68	\$2.95	\$2.76	\$3.09	\$2.29	\$2.45
Exercise price	\$1.85	\$2.63	\$2.85	\$3.82	\$3.22	\$3.62	\$3.06	\$2.74	\$3.10	\$2.28	\$2.45
Expected volatility	22.6%	22.0%	15.5%	18.4%	16.4%	21.3%	21.3%	28.3%	28.1%	27.2%	26.7%
Expected option life	2.2 to 10 years	2.2 to 10 years	2.4 to 10 years	2.4 to 10 years	2.7 to 10 years	2.9 to 10 years	3.4 to 10 years	4.2 to 10 years	4.4 to 10 years	4.9 to 10 years	5.5 to 10 years
Expected dividend yield	4.9%	4.1%	6.3%	4.8%	5.6%	4.9%	5.1%	2.9%	3.9%	5.2%	4.9%
Risk-free interest rate (based on government bonds)	1.2 to 3.0%	1.2 to 3.7%	1.6 to 3.2%	2.4 to 2.9%	3.0 to 3.2%	2.2 to 2.7%	1.5 to 3.2%	1.2 to 2.5%	0.8 to 2.0%	0.5 to 1.7%	0.5 to 1.5%

Employee expenses:-

	2012	2011
	\$'000	\$'000
Share options granted in		
2008	-	31
2009	59	164
2010	153	1,179
2011	645	219
2012	235	-
Total expense recognised as employee costs	1,092	1,593

Notes to the Financial Statements

Year ended 31 December 2012

5. Employee Share Options (continued)

	(7)	(8)	(9)	(10)	(11)
Date of grant of options	30.9.2008	29.9.2009	28.9.2010	29.9.2011	14.9.2012
Expiry date	29.9.2018	28.9.2019	27.9.2020	28.9.2021	13.9.2022
Exercise price	\$3.06	\$2.74	\$3.10	\$2.28	\$2.45
Number of options outstanding at 1.1.2012	3,180,480	2,859,895	3,469,200	3,399,000	-
Options granted	-	-	-	-	2,918,000
Options not accepted	-	-	-	-	38,000
Options lapsed	88,980	80,605	90,300	100,400	3,500
Options exercised (1.1.2012 to 31.12.2012)	-	-	-	117,700	-
Number of options outstanding at 31.12.2012	3,091,500	2,779,290	3,378,900	3,180,900	2,876,500
Number of options exercisable at 1.1.2012	3,180,480	2,436,425	2,600,411	-	-
Number of options exercisable at 31.12.2012	3,091,500	2,779,290	2,938,022	2,409,730	-
Option exercise period of options outstanding at 31.12.2012					
30.9.2009 to 29.9.2018	vested on 30.9.2009	2,276,110			
	vested on 30.9.2010	401,610			
	vested on 30.9.2011	413,780			
29.9.2010 to 28.9.2019	vested on 29.9.2010		1,967,410		
	vested on 29.9.2011		388,410		
	vested on 29.9.2012		423,470		
28.9.2011 to 27.9.2020	vested on 28.9.2011		2,510,111		
	vested on 28.9.2012		427,911		
	vesting on 28.9.2013		440,878		
29.9.2012 to 28.9.2021	vested on 29.9.2012			2,409,730	
	vesting on 29.9.2013			379,830	
	vesting on 29.9.2014			391,340	
14.9.2013 to 13.9.2022	vesting on 14.9.2013				2,272,495
	vesting on 14.9.2014				297,495
	vesting on 14.9.2015				306,510

Notes to the Financial Statements

Year ended 31 December 2012

6. Deposits and Balances of Customers

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Fixed deposits	9,638,760	7,345,774	9,642,618	7,349,619
Savings deposits and other balances of customers	398,945	407,667	398,945	407,667
Current accounts and other deposits	8,050	7,234	8,050	7,234
Total deposits and balances of customers	10,045,755	7,760,675	10,049,613	7,764,520

7. Trade and Other Payables

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Due after 12 months				
Amount due to SPRING Singapore	1,696	4,322	1,696	4,322
Due within 12 months				
Amount due to SPRING Singapore	3,835	14,989	3,835	14,989
Interest payable	56,091	36,544	56,132	36,559
Other trade payables and accrued operating expenses	46,116	51,868	44,916	50,671
Other payables	1,504	1,434	1,432	1,361
	107,546	104,835	106,315	103,580
Total trade and other payables	109,242	109,157	108,011	107,902

Amount due to SPRING Singapore represents unsecured advances from Standards, Productivity and Innovation Board under the Local Enterprise Finance Scheme ("LEFS") and Extended Local Enterprise Finance Scheme ("ELEFS") to finance LEFS and ELEFS borrowers. The interest rates and repayment periods vary in accordance with the type, purpose and security of the facilities granted under these schemes. Credit risks are shared with SPRING Singapore.

Included in other trade payables and accrued operating expenses is a provision for settlements and costs relating to distribution of wealth management products.

During the financial year, provision for settlements and costs relating to distribution of wealth management products amounting to \$3.1 million (2011: \$0.5 million) was reversed.

Notes to the Financial Statements

Year ended 31 December 2012

8. Deferred Tax

Movements in deferred tax assets and liabilities during the year are as follows:-

	Group and Company				
	At 1 January 2011 \$'000	Recognised in profit or loss (Note 22) \$'000	At 31 December 2011 \$'000	Recognised in profit or loss (Note 22) \$'000	At 31 December 2012 \$'000
Deferred tax assets					
Trade and other payables	(2,885)	549	(2,336)	805	(1,531)
Loans, advances and receivables	(12,781)	(38)	(12,819)	10,271	(2,548)
	(15,666)	511	(15,155)	11,076	(4,079)
Deferred tax liabilities					
Property, plant and equipment	234	257	491	231	722
Other items	170	(170)	-	-	-
	404	87	491	231	722
Net deferred tax assets	(15,262)	598	(14,664)	11,307	(3,357)

The amount of \$10,271,000 recognised in profit or loss for deferred tax assets in respect of loans, advances and receivables comprises a reversal of \$12,733,000, net of current year's amount, against current tax overprovision following the finalisation of several years' tax assessments.

Deferred tax assets relate primarily to timing differences in respect of provisions and collective allowances for doubtful debts expected to be realisable at a future date. Deferred tax liabilities relate primarily to differences arising between capital allowances granted and accumulated depreciation in respect of capital expenditure and other timing issues.

9. Cash and Cash Equivalents

	Group	
	2012 \$'000	2011 \$'000
Cash at banks and in hand	1,483,515	901,111
Statutory deposit with the Monetary Authority of Singapore	257,917	202,356
Cash and cash equivalents in the consolidated statement of cash flows	1,741,432	1,103,467

Notes to the Financial Statements

Year ended 31 December 2012

10. Singapore Government Securities

	Group and Company	
	2012	2011
	\$'000	\$'000
Singapore Government securities, held to maturity at amortised cost		
- Within 12 months	236,724	253,324
- After 12 months	870,761	635,877
	1,107,485	889,201
Market value	1,127,444	912,515

11. Loans, Advances and Receivables

	Group and Company	
	2012	2011
	\$'000	\$'000
(a) Loans, advances and receivables at amortised cost		
Due after 12 months		
Loans, advances and hire purchase receivables	6,930,254	5,690,150
Less: Unearned charges and interest	71,496	72,074
	6,858,758	5,618,076
Less: Allowances for doubtful debts		
- Loans and advances	59,880	48,857
- Hire purchase receivables	18,453	18,701
	78,333	67,558
	6,780,425	5,550,518
Due within 12 months		
Loans, advances, factoring receivables and hire purchase receivables	2,181,513	1,967,696
Less: Unearned charges and interest	40,985	43,139
	2,140,528	1,924,557
Less: Allowances for doubtful debts		
- Loans, advances and factoring receivables	18,146	16,525
- Hire purchase receivables	6,568	6,734
	24,714	23,259
	2,115,814	1,901,298
Total loans, advances and receivables	8,896,239	7,451,816

Notes to the Financial Statements

Year ended 31 December 2012

11. Loans, Advances and Receivables (continued)

(b) Allowances for doubtful debts

	Group and Company	
	2012	2011
	\$'000	\$'000
Specific allowances		
At 1 January	15,416	19,289
Net allowances reversed during the year	(1,068)	(1,838)
Receivables written off against allowances	(1,188)	(2,035)
At 31 December	13,160	15,416
Collective allowances		
At 1 January	75,401	74,901
Allowances made during the year	14,486	500
At 31 December	89,887	75,401
Total allowances for doubtful debts	103,047	90,817

(c) Hire purchase receivables are categorised as follows:-

	Group and Company					
	← 2012 →			← 2011 →		
	Receivables	Interest	Principal	Receivables	Interest	Principal
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Due within 1 year	457,399	39,727	417,672	443,761	41,919	401,842
Due after 1 year but within 5 years	1,041,611	64,211	977,400	1,016,083	66,300	949,783
Due after 5 years	203,089	7,080	196,009	171,805	5,660	166,145
Total	1,702,099	111,018	1,591,081	1,631,649	113,879	1,517,770

The Company's leasing arrangements comprise hire purchase contracts mainly for motor vehicles and equipment.

12. Other Receivables, Deposits and Prepayments

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Interest receivables	11,018	10,200	11,018	10,200
Deposits	1,411	1,381	1,411	1,381
Prepayments	1,080	964	1,080	963
Other receivables	12,736	13,040	12,736	13,040
Total	26,245	25,585	26,245	25,584

Notes to the Financial Statements

Year ended 31 December 2012

13. Subsidiaries

	Company	
	2012	2011
	\$'000	\$'000
Unquoted equity investments, at cost	535	535

Details of the subsidiaries are as follows:-

Name of Subsidiary	Country of incorporation	Effective equity held by the Group	
		2012	2011
		%	%
Hong Leong Finance Nominees Pte Ltd	Singapore	100	100
Singapore Nominees Private Limited	Singapore	100	100

KPMG LLP Singapore is the auditor of the subsidiaries.

14. Investments (long term)

	Group and Company	
	2012	2011
	\$'000	\$'000
Available for sale unquoted equity securities, at cost	558	558
Less: Impairment losses at 1 January and 31 December	12	12
Net investments	546	546

Notes to the Financial Statements

Year ended 31 December 2012

15. Property, Plant and Equipment

	Group and Company						
	Freehold land \$'000	Freehold buildings \$'000	Leasehold buildings \$'000	Office equipment, fixtures and fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost							
At 1 January 2011	50	2,938	18,367	8,739	8,726	918	39,738
Additions	-	-	-	3,978	541	-	4,519
Disposals	-	-	-	(174)	(175)	-	(349)
At 31 December 2011	50	2,938	18,367	12,543	9,092	918	43,908
Additions	-	-	5	416	1,155	5	1,581
Disposals	-	-	-	(226)	(1,324)	(3)	(1,553)
At 31 December 2012	50	2,938	18,372	12,733	8,923	920	43,936
Accumulated depreciation and impairment losses							
At 1 January 2011	-	1,181	5,478	7,235	8,563	464	22,921
Depreciation charge for the year	-	60	440	865	221	183	1,769
Disposals	-	-	-	(173)	(175)	-	(348)
At 31 December 2011	-	1,241	5,918	7,927	8,609	647	24,342
Depreciation charge for the year	-	60	440	1,228	407	169	2,304
Disposals	-	-	-	(220)	(1,323)	(3)	(1,546)
At 31 December 2012	-	1,301	6,358	8,935	7,693	813	25,100
Carrying amount							
At 1 January 2011	50	1,757	12,889	1,504	163	454	16,817
At 31 December 2011	50	1,697	12,449	4,616	483	271	19,566
At 31 December 2012	50	1,637	12,014	3,798	1,230	107	18,836

The carrying amount of property, plant and equipment of the Group and the Company includes amounts totalling \$12,014,000 (2011: \$12,449,000) in respect of leasehold buildings held under finance leases.

Notes to the Financial Statements

Year ended 31 December 2012

15. Property, Plant and Equipment (continued)

Properties held at 31 December are as follows:-

	Group and Company	
	2012	2011
	\$'000	\$'000
Freehold Land and Buildings		
(1) Property with carrying amount exceeding \$1,000,000 comprises a shop unit at 288 Balestier Road #01-02, Singapore, comprising 1,281 sq. ft. on freehold land held as branch premises.	1,081	1,108
(2) Property with carrying amount more than \$500,000 to \$1,000,000 comprises 1 shop unit held as branch premises.	529	560
(3) Property with carrying amount up to \$500,000 comprises 1 shop unit held as branch premises.	77	79
Total	1,687	1,747
Leasehold Buildings		
(1) Properties with carrying amounts exceeding \$1,000,000 each are as follows:-		
(a) A shop unit at Block 203 Bedok North Street 1 #01-451, Singapore, with a floor area of approximately 4,026 sq. ft. on a 84-year lease commencing July 1992 held as branch premises.	1,522	1,574
(b) A shop unit at Block 725 Clementi West Street 2 #01-216, Singapore, with a floor area of approximately 3,832 sq. ft. on a 85-year lease commencing November 1995 held as branch premises.	1,857	1,914
(c) A shop unit at Block 504 Jurong West Street 51 #01-211, Singapore, comprising 1,539 sq. ft. on a 91-year lease commencing January 1994 held as branch premises.	1,055	1,088
(d) A shop unit at Block 520 Lorong 6 Toa Payoh #02-54, Singapore, comprising 1,195 sq. ft. on a 99-year lease commencing May 2002 held as branch premises.	1,635	1,672
(2) Properties with carrying amounts more than \$500,000 to \$1,000,000 each comprise 4 shop units held as branch premises.	3,068	3,161
(3) Properties with carrying amounts up to \$500,000 each comprise 5 shop units held as branch premises and 4 industrial units used as warehousing facilities.	2,877	3,040
Total	12,014	12,449

Notes to the Financial Statements

Year ended 31 December 2012

16. Acceptances, Guarantees and Other Obligations on behalf of Customers

These are commitments entered into by the Group and the Company on behalf of customers for which customers have corresponding obligations under their contracts with the Group and the Company, and are in respect of the following:-

	Group and Company	
	2012	2011
	\$'000	\$'000
Letters of credit	1,487	6,353
Guarantees	9,674	12,280
Total	11,161	18,633

These contingent liabilities are not secured on any of the Group's assets.

17. Net Interest Income/Hiring Charges

	Group	
	2012	2011
	\$'000	\$'000
<i>Interest income/hiring charges</i>		
Loans, advances and receivables	215,792	200,810
Deposits placed	4,920	4,097
Singapore Government securities and other liquid assets	17,716	20,176
Total interest income/hiring charges	238,428	225,083
<i>Interest expense</i>		
Deposits and balances of customers	84,122	60,028
Others	354	971
Total interest expense	84,476	60,999
Net interest income/hiring charges	153,952	164,084

There are no interest income/hiring charges and interest expense reported above that relate to financial assets or liabilities that are carried at fair value through profit or loss or classified as available-for-sale.

Notes to the Financial Statements

Year ended 31 December 2012

18. Fee and Commission Income

	Group	
	2012	2011
	\$'000	\$'000
Fee and commission income arising from:-		
Loans and advances	11,857	7,745
Non-lending activities	1,179	737
Others	82	95
Total	13,118	8,577

There is no fee and commission income relating to financial assets or liabilities carried at fair value through profit or loss or classified as available-for-sale.

19. Other Operating Income

	Group	
	2012	2011
	\$'000	\$'000
Gain/(loss) on disposal of plant and equipment	(1)	4
Gain on disposal of Singapore Government securities close to their maturity	308	-
Other operating income	433	334
Total	740	338

20. Staff Costs

	Group	
	2012	2011
	\$'000	\$'000
Short-term employee benefits	50,613	51,305
CPF contributions to defined contribution plans	5,254	5,159
Share-based payments	1,092	1,593
Total	56,959	58,057

Notes to the Financial Statements

Year ended 31 December 2012

21. Other Operating Expenses

	Group	
	2012	2011
	\$'000	\$'000
Audit fees to auditors	367	346
Non-audit fees to auditors		
- provision in respect of current year	68	84
- underprovision in respect of prior years	-	74
Operating lease expenses	5,118	5,185
IT-related expenses	1,919	1,734
Other expenses	13,261	12,822
Total	20,733	20,245

Included in other expenses are fee and commission expenses arising from loans and advances amounting to \$2,917,000 (2011: \$1,753,000).

22. Income Tax Expense

	Note	Group	
		2012	2011
		\$'000	\$'000
Current tax expense			
Current year		14,288	19,307
Adjustment for prior years		(24,608)	-
		(10,320)	19,307
Deferred tax expense			
Origination and reversal of temporary differences		(1,426)	598
Adjustment for prior years		12,733	-
	8	11,307	598
Income tax expense		987	19,905
Current year		12,862	19,905
Adjustment for prior years		(11,875)	-
Income tax expense		987	19,905

Adjustment for prior years of \$11,875,000 in 2012 relates to provision for tax for several prior years being written back following the finalisation of tax assessments.

Notes to the Financial Statements

Year ended 31 December 2012

22. Income Tax Expense (continued)

Reconciliation of income tax expense

	Group	
	2012	2011
	\$'000	\$'000
Profit after tax for the year	77,555	99,773
Income tax expense	987	19,905
Profit before income tax	78,542	119,678
Tax calculated using Singapore tax rate of 17% (2011: 17%)	13,352	20,345
Tax effect of:-		
Exempt income not taxable for tax purposes	(35)	(37)
Enhanced tax deductions	(621)	(357)
Bad debts recovered not subject to tax	-	(2)
Income taxed at a 10% concessionary tax rate	(448)	(583)
Expenses not deductible for tax purposes	446	523
Others	168	16
	12,862	19,905
Adjustment for prior years	(11,875)	-
Income tax expense	987	19,905

23. Earnings Per Share

(a) Basic earnings per share

	Group	
	2012	2011
	\$'000	\$'000
Basic earnings per share is based on:-		
Profit after tax for the year attributable to owners of the Company	77,555	99,773
	2012	2011
	Number	Number
	of shares	of shares
	'000	'000
Issued shares at 1 January	440,474	440,369
Effect of share options exercised	267	79
Weighted average number of shares during the year	440,741	440,448

Notes to the Financial Statements

Year ended 31 December 2012

23. Earnings Per Share (continued)

(b) Diluted earnings per share

	Group	
	2012	2011
	\$'000	\$'000
Diluted earnings per share is based on:-		
Profit after tax for the year attributable to owners of the Company	77,555	99,773

For the purpose of calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted to take into account the dilutive effect arising from the dilutive share options, with the potential shares weighted for the period outstanding.

The effect of the exercise of share options on the weighted average number of shares in issue is as follows:-

	Group	
	2012	2011
	Number of shares '000	Number of shares '000
Weighted average number of:-		
shares used in the calculation of basic earnings per share	440,741	440,448
potential shares issuable under share options	143	395
Weighted average number of issued and potential shares assuming full conversion	440,884	440,843

Outstanding share options that were not included in the computation of diluted earnings per share because the share options were anti-dilutive amounted to 19,986,195 at \$2.42 to \$3.82 as at 31 December 2012 (2011: 16,489,740 at \$2.74 to \$3.82).

The average market value of the shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

24. Financial Risk Management

(a) Overview

Risk is an inherent part of the Group's business activities. Managing risks is therefore integral to the Group's business strategy and continuing profitability. Where risk is assumed, it is within a calculated and controlled framework. As the business activities involve the use of financial instruments, the Group has exposure to the following risks:-

- (i) credit risk
- (ii) liquidity risk
- (iii) interest rate risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital. Details of the management of strategic and operational risks are disclosed in the Risk Management section of the Corporate Governance Report.

24. Financial Risk Management (continued)

(a) Overview (continued)

Risk management framework

The Board of Directors has overall responsibility for determining the type and level of business risks that the Group undertakes to achieve its corporate objectives. To assist the Board in fulfilling its duties, the Risk Management Committee, a dedicated risk committee at board level oversees and reports to the Board on matters relating to the risk function of the Group. A risk management team is accountable to the Risk Management Committee for maintaining an effective control environment that reflects established risks appetite and business objectives. The risk management team is independent of the business units, and performs the role of reviewing and implementing risk management policies and procedures.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits by means of reliable information systems. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered, and emerging best practices. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee reviews the effectiveness of the financial reporting process and material internal controls as well as risk management policies and systems with the assistance of internal audit and other parties.

(b) Credit risk

Credit risk is the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers. Other than loans and advances, the Group's investment in debt securities comprises Singapore Government securities and Treasury bills, which are held to meet liquidity and statutory reserve requirements. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure. Credit risk concentration is addressed by setting appropriate credit portfolio limits and monitoring its exposures against the limits on a regular basis.

Management of credit risk

Credit risk is managed to achieve sustainable and superior risk-reward performance whilst maintaining exposures within acceptable risk appetite parameters. Credit risk analysis focuses on ensuring that credit risks are identified in order that a balanced assessment can be made accordingly.

The Board of Directors has delegated responsibility for the management of credit risk oversight to its Risk Management Committee whilst reserving for itself and various committees approval authority for exposures exceeding pre-set limits. A separate Risk Management and Credit Control department is responsible for management of the Group's credit risk, including:-

- (i) Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- (ii) Monitoring the Group's loans portfolio and concentration risk exposures.
- (iii) Reviewing and assessing credit risk.
- (iv) Maintaining the Group's risk gradings.
- (v) Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(b) Credit risk (continued)

Credit stress testing forms an integral part of the credit portfolio analysis. It is conducted periodically to determine the impact of security values and other stress parameters on the loan portfolio. This allows the Group to assess the potential financial impact of losses arising from unlikely but plausible adverse events.

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the statements of financial position, reduced by the value of the collateral held.

Loans and advances to customers can be analysed as follows:-

	Group and Company	
	2012	2011
	\$'000	\$'000
Performing accounts that are		
- neither past due nor impaired	8,691,890	7,136,266
- past due but not impaired	234,947	338,579
Gross amount	8,926,837	7,474,845
Collective allowances	(89,887)	(75,401)
Carrying amount	8,836,950	7,399,444
Individually impaired		
- Substandard (payment not kept current for 90 days but fully secured)	59,289	52,372
- Loss (fully provided for)	13,160	15,416
Gross amount	72,449	67,788
Specific allowances	(13,160)	(15,416)
Carrying amount	59,289	52,372
Total carrying amount	8,896,239	7,451,816

There are no loans and advances graded as doubtful as at 31 December 2012 and 2011.

Impaired: when the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the transaction.

Past due but not impaired: when contractual interest or principal payments are past due by not more than three months and the Group believes that specific impairment is not appropriate on the basis of the security available and/or the stage of collection. Collective allowances have been set aside on a portfolio basis.

Allowances for doubtful debts: represents the Group's estimate of incurred losses in its loan portfolio, and comprises principally a specific loss component relating to individually significant exposures and a collective loss component established for groups of homogeneous assets not subject to individual assessment for impairment.

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(b) Credit risk (continued)

Write-off policy: The Group writes off wholly or partially loan balances (together with any related allowances for doubtful debts) when the Group determines that they are uncollectible. This determination is reached after considering information such as the occurrence of a deterioration in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to repay the entire exposure.

Set out below is an analysis of the gross and net (of allowances for doubtful debts) amounts of individually impaired loans and advances to customers by risk grade.

	Gross amount \$'000	Amount net of individual allowances \$'000
<hr/>		
31 December 2012		
Substandard	59,289	59,289
Loss	13,160	-
Total	<u>72,449</u>	<u>59,289</u>
31 December 2011		
Substandard	52,372	52,372
Loss	15,416	-
Total	<u>67,788</u>	<u>52,372</u>

The Group normally holds collateral against loans and advances to customers. These are in the form of mortgage interests over property and ownership or other registered interests over assets. Estimates of fair value of collateral are assessed in each accounting period prior to determination of individual allowances.

An estimate of the financial effect of collateral and other security enhancements held against loans and advances to customers on maximum credit risk exposure amounted to \$8,807,358,000 (2011: \$7,364,955,000). The Group's claim against such collateral has been limited to the obligations of the respective obligors.

The nature and carrying amount of collateral held against financial assets, obtained by taking possession of the collateral held as security, which remain held at the reporting date are as follows. Claims against such collateral are limited to the outstanding obligations.

	Group and Company	
	2012	2011
	\$'000	\$'000
<hr/>		
Motor vehicles	<u>672</u>	261

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(b) Credit risk (continued)

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:-

	Loans and advances to customers	
	2012	2011
	\$'000	\$'000
Gross carrying amount	8,999,286	7,542,633
Concentration by sector		
Hire purchase/block discounting	1,591,081	1,517,770
Housing loans secured by property under finance	1,274,045	1,400,690
Other loans and advances:-		
Manufacturing	21,713	23,674
Building and construction	3,504,335	2,751,128
General commerce	62,957	53,400
Transport, storage and communication	74,536	17,855
Investment and holding companies	493,640	239,851
Professional and private individuals	508,206	556,760
Others	1,468,773	981,505
Total	8,999,286	7,542,633

At balance sheet date, there was no significant concentration of credit risk.

Financial guarantees comprising guarantees issued by the Company to third parties on behalf of customers amounted to \$9,674,000 as at 31 December 2012 (2011: \$12,280,000). At the reporting date, the Company does not consider it probable that claims will be made against the Company under the guarantees.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations and commitments resulting from its financial liabilities, or can only access these cash flow needs at excessive cost.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is currently funded from equity and deposit liabilities. Liquidity risk arises from the management of the net funding position after accounting for the ongoing cash flows from the loan assets and the deposit liabilities at various points in time.

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(c) Liquidity risk (continued)

Liquidity risk is managed in accordance with the Group's liquidity framework of policies, contingency funding plan, controls and limits approved by the Risk Management Committee. This framework ensures that liquidity risk is monitored and managed in a manner that ensures sufficient sources of funds are available over a range of market conditions. Stress testing is conducted to assess and plan for the impact of the scenarios which may put the Group's liquidity at risk.

Liquidity risk is also mitigated through the large number of customers in the Company's diverse loans and deposits bases and the close monitoring of exposure to avoid any undue concentration.

Contingency funding plans are in place to address potential liquidity crises using early warning indicators. Crisis escalation procedures and various strategies including funding, communication and courses of action to be taken have been developed to minimise the impact of any liquidity crunch.

Exposure to liquidity risk

The Company monitors the liquidity limit, being a ratio of liquid assets (comprising cash balances with the Monetary Authority of Singapore and reserve assets principally comprising Singapore Government securities and Treasury bills) to net liabilities as at the reporting date and during the reporting period. Details of the ratio of liquid assets to net liabilities at the reporting date and during the reporting period were as follows:-

	Company	
	2012	2011
At 31 December	16.34%	16.83%
Average for the period	16.65%	18.20%
Maximum for the period	17.39%	20.49%
Minimum for the period	16.26%	16.63%

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(c) Liquidity risk (continued)

The table below shows the remaining contractual undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments could vary significantly from this analysis. In particular, the carrying amount of deposits from customers is expected to remain stable; not all undrawn loan commitments are available to be drawn down immediately upon finalisation of legal documentation, due to factors like the progressive nature of the facility to be based on the stage of completion of work in progress.

	Carrying amount \$'000	Gross nominal outflow \$'000	Up to 1 month to 1 month \$'000	Over 3 months 3 months \$'000	Over 3 months to 1 year \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000
Group							
31 December 2012							
<i>Non-derivative liabilities</i>							
Deposits and balances of customers	10,045,755	(10,101,808)	(2,327,362)	(1,910,428)	(4,698,383)	(1,165,635)	-
Amount due to SPRING							
Singapore	5,531	(5,568)	(1,008)	(1,002)	(1,851)	(1,707)	-
Other liabilities	47,620	(47,620)	(10,101)	(1,125)	(14,541)	(18,144)	(3,709)
	10,098,906	(10,154,996)	(2,338,471)	(1,912,555)	(4,714,775)	(1,185,486)	(3,709)
Financial guarantees	-	(9,674)	(9,674)	-	-	-	-
	10,098,906	(10,164,670)	(2,348,145)	(1,912,555)	(4,714,775)	(1,185,486)	(3,709)
Undrawn loan commitments	-	(2,267,012)	(1,937,294)	(329,718)	-	-	-
	10,098,906	(12,431,682)	(4,285,439)	(2,242,273)	(4,714,775)	(1,185,486)	(3,709)
31 December 2011							
<i>Non-derivative liabilities</i>							
Deposits and balances of customers	7,760,675	(7,797,145)	(2,303,556)	(1,271,852)	(3,592,286)	(629,451)	-
Amount due to SPRING							
Singapore	19,311	(19,385)	(2,443)	(3,090)	(9,513)	(4,339)	-
Other liabilities	53,302	(53,302)	(10,882)	(4,961)	(24,970)	(10,038)	(2,451)
	7,833,288	(7,869,832)	(2,316,881)	(1,279,903)	(3,626,769)	(643,828)	(2,451)
Financial guarantees	-	(12,280)	(12,280)	-	-	-	-
	7,833,288	(7,882,112)	(2,329,161)	(1,279,903)	(3,626,769)	(643,828)	(2,451)
Undrawn loan commitments	-	(3,158,322)	(1,522,796)	(1,635,526)	-	-	-
	7,833,288	(11,040,434)	(3,851,957)	(2,915,429)	(3,626,769)	(643,828)	(2,451)

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(c) Liquidity risk (continued)

	Carrying amount \$'000	Gross nominal outflow \$'000	Up to 1 month \$'000	Over 1 month to 3 months \$'000	Over 3 months to 1 year \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000
Company							
31 December 2012							
<i>Non-derivative liabilities</i>							
Deposits and balances							
of customers	10,049,613	(10,105,708)	(2,328,018)	(1,913,057)	(4,698,998)	(1,165,635)	-
Amount due to SPRING							
Singapore	5,531	(5,568)	(1,008)	(1,002)	(1,851)	(1,707)	-
Other liabilities	46,347	(46,347)	(10,078)	(1,121)	(14,524)	(18,257)	(2,367)
	10,101,491	(10,157,623)	(2,339,104)	(1,915,180)	(4,715,373)	(1,185,599)	(2,367)
Financial guarantees	-	(9,674)	(9,674)	-	-	-	-
	10,101,491	(10,167,297)	(2,348,778)	(1,915,180)	(4,715,373)	(1,185,599)	(2,367)
Undrawn loan commitments							
	-	(2,267,012)	(1,937,294)	(329,718)	-	-	-
	10,101,491	(12,434,309)	(4,286,072)	(2,244,898)	(4,715,373)	(1,185,599)	(2,367)
31 December 2011							
<i>Non-derivative liabilities</i>							
Deposits and balances							
of customers	7,764,520	(7,801,005)	(2,304,206)	(1,272,066)	(3,592,895)	(631,838)	-
Amount due to SPRING							
Singapore	19,311	(19,385)	(2,443)	(3,090)	(9,513)	(4,339)	-
Other liabilities	52,032	(52,032)	(10,859)	(4,957)	(24,953)	(9,408)	(1,855)
	7,835,863	(7,872,422)	(2,317,508)	(1,280,113)	(3,627,361)	(645,585)	(1,855)
Financial guarantees	-	(12,280)	(12,280)	-	-	-	-
	7,835,863	(7,884,702)	(2,329,788)	(1,280,113)	(3,627,361)	(645,585)	(1,855)
Undrawn loan commitments							
	-	(3,158,322)	(1,522,796)	(1,635,526)	-	-	-
	7,835,863	(11,043,024)	(3,852,584)	(2,915,639)	(3,627,361)	(645,585)	(1,855)

24. Financial Risk Management (continued)

(d) Interest rate risk

Interest rate risk is the risk that the value of the Group's financial assets and/or financial liabilities changes because of changes in interest rates. Interest rate risk arises primarily from the fact that financial assets and financial liabilities typically reprice at different points in time.

Management of interest rate risk

The overall objective of interest rate risk management is to manage current and future earnings sensitivity arising from various interest rate exposures and to secure stable and optimal net interest income over the short term and long term within acceptable parameters. Interest rate risk exposures are measured using a combination of repricing gap, present value of 1 basis point reports and simulation modeling. The Risk Management Committee approves policies, strategies and limits in the management of interest rate risk.

Exposure to interest rate risk

The Company does not hold a trading portfolio. The principal risk to which its non-trading portfolio is exposed arises from the risk of fluctuations in the future cash flows or fair values of financial instruments due to changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands.

Besides Singapore Government securities and Treasury bills intended to be held to maturity, the Group's exposure to interest rate risk relates primarily to the Group's loan portfolio, deposit liabilities and any interest-bearing borrowings. Interest rate risk will arise when these assets and liabilities mature or reprice at different times or in differing amounts, or when market conditions dictate the extent of repricing possible. The Group manages this risk through diversity in its loan portfolio and to a lesser extent in its deposit portfolio, and maintains a capital adequacy ratio in excess of statutory requirements.

Repricing analysis

The following table indicates the periods in which the financial instruments reprice or contractually mature, whichever is the earlier.

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

Actual repricing dates may differ from contractual repricing dates due to prepayment of loans or early withdrawal of deposits.

	Note	Group				Non-interest bearing \$'000
		Carrying amount \$'000	Up to 1 year \$'000	Over 1 to 5 years \$'000	After 5 years \$'000	
31 December 2012						
Financial assets						
Loans, advances and receivables	11	8,896,239	7,131,676	1,570,338	194,225	-
Singapore Government securities	10	1,107,485	236,724	537,010	333,751	-
Cash at banks and in hand	9	1,483,515	1,472,708	-	-	10,807
Statutory deposit with the Monetary Authority of Singapore	9	257,917	-	-	-	257,917
Other assets		25,165	-	-	-	25,165
Investments (long term)	14	546	-	-	-	546
Financial liabilities						
Deposits and balances of customers	6	10,045,755	8,680,194	1,158,894	-	206,667
Amount due to SPRING Singapore		5,531	3,835	1,696	-	-
Other liabilities		103,711	-	-	-	103,711
31 December 2011						
Financial assets						
Loans, advances and receivables	11	7,451,816	5,997,989	1,289,683	164,144	-
Singapore Government securities	10	889,201	253,324	598,101	37,776	-
Cash at banks and in hand	9	901,111	889,583	-	-	11,528
Statutory deposit with the Monetary Authority of Singapore	9	202,356	-	-	-	202,356
Other assets		24,621	-	-	-	24,621
Investments (long term)	14	546	-	-	-	546
Financial liabilities						
Deposits and balances of customers	6	7,760,675	6,947,841	626,337	-	186,497
Amount due to SPRING Singapore		19,311	14,989	4,322	-	-
Other liabilities		89,846	-	-	-	89,846

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

	Note	Company				
		Carrying amount \$'000	Up to 1 year \$'000	Over 1 to 5 years \$'000	After 5 years \$'000	Non- interest bearing \$'000
31 December 2012						
Financial assets						
Loans, advances and receivables	11	8,896,239	7,131,676	1,570,338	194,225	-
Singapore Government securities	10	1,107,485	236,724	537,010	333,751	-
Cash at banks and in hand		1,482,880	1,472,073	-	-	10,807
Statutory deposit with the Monetary Authority of Singapore		257,917	-	-	-	257,917
Other assets		25,165	-	-	-	25,165
Investments (long term)	14	546	-	-	-	546
Financial liabilities						
Deposits and balances of customers	6	10,049,613	8,684,052	1,158,894	-	206,667
Amount due to SPRING Singapore		5,531	3,835	1,696	-	-
Other liabilities		102,480	-	-	-	102,480
31 December 2011						
Financial assets						
Loans, advances and receivables	11	7,451,816	5,997,989	1,289,683	164,144	-
Singapore Government securities	10	889,201	253,324	598,101	37,776	-
Cash at banks and in hand		900,550	889,022	-	-	11,528
Statutory deposit with the Monetary Authority of Singapore		202,356	-	-	-	202,356
Other assets		24,621	-	-	-	24,621
Investments (long term)	14	546	-	-	-	546
Financial liabilities						
Deposits and balances of customers	6	7,764,520	6,949,306	628,717	-	186,497
Amount due to SPRING Singapore		19,311	14,989	4,322	-	-
Other liabilities		88,591	-	-	-	88,591

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

Sensitivity analysis

Interest rate sensitivity analyses are performed under various interest rate scenarios using simulation modeling where the sensitivity of projected net interest income is measured against changes in market interest rates. The projected impact on future net interest income before tax over the next twelve months from the close of the year resulting from a 100 basis points parallel shift in the yield curves applied to the year end position is a gain/(loss) of:-

	Group	
	2012	2011
	\$'000	\$'000
+ 100 basis points parallel shift in yield curves	23,234	17,521
- 100 basis points parallel shift in yield curves	(1,359)	(7,803)

The above sensitivity analysis is illustrative only. It assumes that interest rates of all tenors move by the same amount and does not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The analysis also assumes that all financial assets and liabilities run to contractual maturity without action by the Group to mitigate any impact of changes in interest rates.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, customer and market confidence and to sustain future development of the business. The Assets and Liabilities Committee reviews the adequacy of capital by monitoring the levels of major assets and liabilities taking into account the underlying risks of the Group's business and compliance with regulatory capital requirements. The Board of Directors monitors the level of dividends to shareholders.

Regulatory capital

The Group maintains a capital adequacy ratio in excess of the prescribed ratio, expressed as a percentage of total capital to total risk-weighted assets.

The Group's regulatory capital includes share capital, accumulated profits, statutory reserve, capital reserve and share option reserve. Risk-weighted assets are determined according to regulatory requirements that reflect the varying levels of risk attached to assets and off-balance sheet exposures.

Notes to the Financial Statements

Year ended 31 December 2012

24. Financial Risk Management (continued)

(e) Capital management (continued)

The Group's regulatory capital position at 31 December is as follows:-

	2012	2011
	\$'000	\$'000
Share capital	872,418	869,824
Accumulated profits	174,326	168,234
Statutory reserve	568,589	549,200
Capital reserve	2,307	2,307
Share option reserve	7,200	8,074
Regulatory capital	1,624,840	1,597,639
Risk-weighted assets	9,525,084	8,437,077
Capital adequacy ratio	17.1%	18.9%

There were no changes in the Group's approach to capital management during the year.

25. Financial Instruments

Accounting classifications and fair values

(a) Loans, advances and receivables and deposits and balances of customers

The fair value of fixed rate loans, advances and receivables and deposits and balances of customers, which will mature and reprice more than six months after the reporting date, has been determined by discounting the relevant cash flows using current interest rates for similar instruments at the reporting date. The carrying amounts of financial assets and financial liabilities with a maturity of six months or less (including other loans, advances and receivables, and other deposits/savings accounts) approximate their fair values.

(b) Singapore Government securities and Treasury bills

Fair value is based on quoted market bid prices at the reporting date.

(c) Other financial assets and financial liabilities

The carrying amounts of other financial assets and financial liabilities with a maturity of less than one year (including other receivables, other deposits, cash, trade payables and other payables) are estimated to approximate their fair values in view of the short period to maturity.

There are no financial assets and financial liabilities classified as held for trading.

Notes to the Financial Statements

Year ended 31 December 2012

25. Financial Instruments (continued)

In accordance with the accounting policy on Financial Instruments and pursuant to FRS 39, certain financial assets and financial liabilities are not carried at fair value in the statements of financial position as at 31 December. The aggregate net fair values of these financial assets and financial liabilities are disclosed in the following table:-

		Group				
		Carrying amount 2012 \$'000	Fair value 2012 \$'000	Carrying amount 2011 \$'000	Fair value 2011 \$'000	
Note						
Financial assets						
	Loans, advances and receivables	11	8,896,239	8,897,717	7,451,816	7,468,753
	Singapore Government securities	10	1,107,485	1,127,444	889,201	912,515
			10,003,724	10,025,161	8,341,017	8,381,268
Financial liabilities						
	Deposits and balances of customers	6	(10,045,755)	(10,071,940)	(7,760,675)	(7,777,552)
	Net financial assets/(liabilities)		(42,031)	(46,779)	580,342	603,716
	Unrecognised gain/(loss)			(4,748)		23,374
		Company				
		Carrying amount 2012 \$'000	Fair value 2012 \$'000	Carrying amount 2011 \$'000	Fair value 2011 \$'000	
Note						
Financial assets						
	Loans, advances and receivables	11	8,896,239	8,897,717	7,451,816	7,468,753
	Singapore Government securities	10	1,107,485	1,127,444	889,201	912,515
			10,003,724	10,025,161	8,341,017	8,381,268
Financial liabilities						
	Deposits and balances of customers	6	(10,049,613)	(10,075,806)	(7,764,520)	(7,781,403)
	Net financial assets/(liabilities)		(45,889)	(50,645)	576,497	599,865
	Unrecognised gain/(loss)			(4,756)		23,368

Notes to the Financial Statements

Year ended 31 December 2012

26. Commitments

(a) Operating lease commitments

At 31 December, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases as follows:-

	Group and Company	
	2012	2011
	\$'000	\$'000
Within 1 year	5,046	4,946
After 1 year but within 5 years	8,864	10,943
After 5 years	1,791	2,527
	15,701	18,416

The Group leases office premises, residential premises and motor vehicles under operating leases. The length of the leases ranges from one to ten years, with options to renew the leases. None of the leases include contingent rentals.

(b) Capital commitments

At 31 December, the Group and the Company had outstanding capital commitments in respect of contracts to purchase property, plant and equipment amounting to \$70,000 (2011: \$46,000).

(c) Undrawn loan commitments

Undrawn loan commitments comprise contractual obligations to provide credit facilities to customers which can either be for a fixed period or have no specific maturity but are cancellable by the Group subject to notice requirements.

At 31 December, the Group and the Company had undrawn loan commitments amounting to \$2,267,012,000 (2011: \$3,158,322,000).

27. Related Party Transactions

The Company is considered to be a subsidiary of Hong Leong Investment Holdings Pte. Ltd. Transactions entered into by the Group and the Company with related parties (including members of the Hong Leong Investment Holdings Pte. Ltd. group) incurred in the ordinary course of business from time to time and at market value, primarily comprise loans, deposits, provision of corporate advisory services, insurance transactions, property-related transactions, purchase/sale of property, management services, incidental expenses and/or other transactions relating to the business of the Group and the Company.

Notes to the Financial Statements

Year ended 31 December 2012

27. Related Party Transactions (continued)

Key Management Personnel Compensation

Key management personnel compensation comprised:-

	Group	
	2012	2011
	\$'000	\$'000
Short-term employee benefits	2,670	2,731
CPF contributions to defined contribution plans	5	5
Depreciation of motor vehicles	4	5
Other operating expenses including principally directors' fees	811	851
Share-based payments	108	134
	3,598	3,726

Directors' remuneration (inclusive of fees) included in key management personnel compensation amounted to \$2,671,000 (2011: \$2,735,000).

Key management personnel of the Company participate in the Share Option Scheme as described in Note 5. During the year, options to 384,000 (2011: 520,000) shares were granted to key management personnel. These share options are subject to a vesting schedule.

Options granted to key management personnel outstanding at the end of the year are as follows:-

	2012	2011
Granted on		
5.12.2002	-	600,000
16.9.2003	400,000	400,000
28.9.2004	360,000	360,000
28.9.2005	540,000	540,000
28.9.2006	377,600	377,600
19.9.2007	567,000	567,000
30.9.2008	567,000	567,000
29.9.2009	530,000	530,000
28.9.2010	590,000	590,000
29.9.2011	520,000	520,000
14.9.2012	384,000	-

Notes to the Financial Statements

Year ended 31 December 2012

27. Related Party Transactions (continued)

Options granted to an Executive Director included in key management personnel outstanding at the end of the year are as follows:-

	2012	2011
Granted on		
5.12.2002	-	600,000
16.9.2003	400,000	400,000
28.9.2004	360,000	360,000
28.9.2005	360,000	360,000
28.9.2006	324,000	324,000
19.9.2007	378,000	378,000
30.9.2008	378,000	378,000
29.9.2009	360,000	360,000
28.9.2010	400,000	400,000
29.9.2011	360,000	360,000
14.9.2012	256,000	-

Other Related Party Transactions

Related party balances as at the reporting date and transactions during the financial year are as follows:-

	Group		
	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000
(a) Secured loans, advances and hire purchase receivables			
Outstanding balances:			
As at 1 January 2011	-	24	180,390
Increase	-	-	24,436
(Decrease)	-	(24)	(25,641)
As at 31 December 2011	-	-	179,185
Increase	-	5,418	146,806
(Decrease)	-	-	(102,418)
As at 31 December 2012	-	5,418	223,573
Undrawn loan commitments:			
As at 1 January 2011	20,000	30,000	68,150
Increase	-	-	183,287
(Decrease)	-	-	(146,456)
As at 31 December 2011	20,000	30,000	104,981
Increase	-	992	8,648
(Decrease)	-	-	(24,086)
As at 31 December 2012	20,000	30,992	89,543

Notes to the Financial Statements

Year ended 31 December 2012

27. Related Party Transactions (continued)

	Group		
	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000
(b) Specific allowances for doubtful debts			
As at 31 December 2011	-	-	-
As at 31 December 2012	-	-	-
(c) Other receivables, deposits and prepayment			
Outstanding balances:			
As at 1 January 2011	-	1,093	-
Increase	-	6	-
(Decrease)	-	(62)	-
As at 31 December 2011	-	1,037	-
Increase	-	5	-
(Decrease)	-	(2)	-
As at 31 December 2012	-	1,040	-
(d) Deposits and balances of customers			
Outstanding balances:			
As at 1 January 2011	-	36,130	17,723
Increase	70,125	8,232	16,652
(Decrease)	-	(289)	-
As at 31 December 2011	70,125	44,073	34,375
Increase	64,222	171,603	23,353
(Decrease)	-	(2,466)	(1,111)
As at 31 December 2012	134,347	213,210	56,617
(e) Trade and other payables			
Outstanding balances:			
As at 1 January 2011	-	284	30
Increase	64	4	26
(Decrease)	-	(61)	(4)
As at 31 December 2011	64	227	52
Increase	237	406	163
(Decrease)	-	(1)	(1)
As at 31 December 2012	301	632	214
(f) Lease commitments			
Operating lease commitments			
As at 31 December 2011	-	15,334	-
As at 31 December 2012	-	12,257	-

Notes to the Financial Statements

Year ended 31 December 2012

27. Related Party Transactions (continued)

	Group		
	Holding Company	Fellow Subsidiaries and Associates of Holding Company	Key Management Personnel*
	\$'000	\$'000	\$'000
(g) Profit and loss transactions			
Year ended 31 December 2012			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	-	59	4,182
- Interest expense on deposits	(867)	(675)	(418)
- Fee, commission and other income	1	20	110
- Other operating expenses	-	(4,739)	-
- Specific allowances for bad and doubtful debts	-	-	-
Year ended 31 December 2011			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	-	-	4,443
- Interest expense on deposits	(188)	(95)	(137)
- Fee, commission and other income	1	25	49
- Other operating expenses	-	(4,653)	-
- Specific allowances for bad and doubtful debts	-	-	-
(h) Expenses incurred on account of customers for professional services			
Year ended 31 December 2012	-	-	(4)
Year ended 31 December 2011	-	-	(3)

Notes to the Financial Statements

Year ended 31 December 2012

27. Related Party Transactions (continued)

	Company			
	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000	Subsidiaries \$'000
(a) Secured loans, advances and hire purchase receivables				
Outstanding balances:				
As at 1 January 2011	-	24	180,390	-
Increase	-	-	24,436	-
(Decrease)	-	(24)	(25,641)	-
As at 31 December 2011	-	-	179,185	-
Increase	-	5,418	146,806	-
(Decrease)	-	-	(102,418)	-
As at 31 December 2012	-	5,418	223,573	-
Undrawn loan commitments:				
As at 1 January 2011	20,000	30,000	68,150	-
Increase	-	-	183,287	-
(Decrease)	-	-	(146,456)	-
As at 31 December 2011	20,000	30,000	104,981	-
Increase	-	992	8,648	-
(Decrease)	-	-	(24,086)	-
As at 31 December 2012	20,000	30,992	89,543	-
(b) Specific allowances for doubtful debts				
As at 31 December 2011	-	-	-	-
As at 31 December 2012	-	-	-	-
(c) Other receivables, deposits and prepayment				
Outstanding balances:				
As at 1 January 2011	-	1,093	-	-
Increase	-	6	-	-
(Decrease)	-	(62)	-	-
As at 31 December 2011	-	1,037	-	-
Increase	-	5	-	-
(Decrease)	-	(2)	-	-
As at 31 December 2012	-	1,040	-	-

Notes to the Financial Statements

Year ended 31 December 2012

27. Related Party Transactions (continued)

	Company			
	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000	Subsidiaries \$'000
(d) Deposits and balances of customers				
Outstanding balances:				
As at 1 January 2011	-	36,130	17,723	3,813
Increase	70,125	8,232	16,652	32
(Decrease)	-	(289)	-	-
As at 31 December 2011	70,125	44,073	34,375	3,845
Increase	64,222	171,603	23,353	13
(Decrease)	-	(2,466)	(1,111)	-
As at 31 December 2012	134,347	213,210	56,617	3,858
(e) Trade and other payables				
Outstanding balances:				
As at 1 January 2011	-	275	30	29
Increase	64	4	26	3
(Decrease)	-	(56)	(4)	(1)
As at 31 December 2011	64	223	52	31
Increase	237	406	163	26
(Decrease)	-	(1)	(1)	-
As at 31 December 2012	301	628	214	57
(f) Lease commitments				
Operating lease commitments				
As at 31 December 2011	-	15,334	-	-
As at 31 December 2012	-	12,257	-	-

* Key Management Personnel relate to key management personnel of the Group and the Company and of the holding company of the Company and their close family members.

Loans and deposits transactions with related parties are conducted at arm's length in the ordinary course of business. Credit facilities granted are subject to the Company's normal credit evaluation, approval, monitoring and reporting processes. Loans and advances are secured on equity securities or property, plant and equipment.

No impairment losses have been recorded against balances outstanding during the financial year with related parties, and no specific allowance has been made for balances with related parties at the end of the financial year.

Notes to the Financial Statements

Year ended 31 December 2012

28. Use of Accounting Estimates and Judgements

These disclosures supplement the commentary on financial risk management in Note 24.

Key sources of estimation uncertainty

(a) Impairment losses on loans, advances and receivables

The Group reviews the loan portfolio to assess impairment at least on a quarterly basis. The specific counterparty component of the total allowances for doubtful debts applies to claims evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits.

Collectively assessed allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. The Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows of the loan portfolio. The evidence may include observable data indicating adverse changes in the payment status of certain groups of borrowers or local economic conditions that correlate with defaults in the loan portfolio. Management uses estimates based on historical loss experience for loans, advances and receivables with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling future cash flows. The methodology and assumptions used for estimating the amount and timing of cash flows are reviewed regularly to reduce any differences between estimates and actual loss experience. Collectively assessed allowances also take into account prevailing regulatory considerations.

(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity. In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets to maturity. The Group does not classify any financial assets as held to maturity if during the current financial year or during the two preceding financial years, it sold or reclassified more than an insignificant amount of held-to-maturity investments before and not close to their maturity. If the conditions are not complied with, the investments will be reclassified as available-for-sale and measured at fair value. As at the end of the current financial year, had the held-to-maturity investments been classified as available-for-sale, the fair value would have increased by \$19,959,000 (2011: \$23,314,000), with a corresponding entry in the fair value reserve in equity.

(c) Provision for settlements and costs relating to distribution of wealth management products

The Company has made a provision for settlements with customers together with costs relating to compensation sought in respect of wealth management products distributed by the Company, based on management's best estimates to arrive at a fair and equitable resolution.

Analysis of Shareholdings

As at 8 March 2013

Number of shares in issue	:	441,517,223
Class of Shares	:	Ordinary Shares
Number of Shareholders	:	11,386
Voting Rights	:	1 vote for 1 share

Range of Shareholdings	No. of Shareholders	%	No. of Shares Held	%
1 – 999	1,296	11.38	413,543	0.09
1,000 – 10,000	8,032	70.54	32,137,679	7.28
10,001 – 1,000,000	2,033	17.86	100,635,736	22.79
1,000,001 and above	25	0.22	308,330,265	69.84
	11,386	100.00	441,517,223	100.00

Based on the information available to the Company as at 8 March 2013, approximately 44.61% of the total number of issued shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

Major Shareholders List - Top 20 as at 8 March 2013

No.	Name	No. of Shares Held	%*
1	Hong Leong Investment Holdings Pte. Ltd.	99,608,176	22.56
2	Hong Realty (Private) Limited	23,271,370	5.27
3	Hong Leong Corporation Holdings Pte Ltd	19,685,812	4.46
4	DBS Nominees Pte Ltd	18,264,908	4.14
5	BNP Paribas Securities Services Singapore Branch	18,211,135	4.12
6	SGL Investment Holdings Pte Ltd	16,899,187	3.83
7	Garden Estates (Pte.) Limited	16,710,670	3.78
8	United Overseas Bank Nominees Pte Ltd	15,414,014	3.49
9	Hong Leong Foundation	13,854,823	3.14
10	Citibank Nominees Singapore Pte Ltd	11,995,005	2.72
11	City Developments Limited	9,149,817	2.07
12	HSBC (Singapore) Nominees Pte Ltd	8,870,441	2.01
13	Tudor Court Gallery Pte Ltd	6,517,000	1.48
14	Hong Leong Holdings Limited	5,460,422	1.24
15	Hong Leong Enterprises Pte Ltd	4,485,047	1.01
16	HL Bank Nominees (S) Pte Ltd	3,904,000	0.88
17	Chng Gim Huat	3,790,000	0.86
18	DBSN Services Pte Ltd	2,324,588	0.53
19	OCBC Nominees Singapore Private Limited	1,706,440	0.39
20	DBS Vickers Securities (S) Pte Ltd	1,679,830	0.38
		301,802,685	68.36

* The percentage of shares held is based on the total number of issued shares of the Company as at 8 March 2013.

Analysis of Shareholdings

As at 8 March 2013

Substantial Shareholders

	← No. of Shares →			% *
	Direct Interest	Deemed Interest	Total Interest	
Hong Realty (Private) Limited	23,271,370	23,678,335 ⁽¹⁾	46,949,705	10.63
Hong Leong Enterprises Pte. Ltd.	4,485,047	19,968,812 ⁽²⁾	24,453,859	5.54
Hong Leong Investment Holdings Pte. Ltd.	99,608,176	106,252,582 ⁽³⁾	205,860,758	46.63
Davos Investment Holdings Private Limited	-	205,860,758 ⁽⁴⁾	205,860,758	46.63
Kwek Holdings Pte Ltd	-	205,860,758 ⁽⁴⁾	205,860,758	46.63
Aberdeen Asset Management Asia Limited	-	22,168,707 ⁽⁵⁾	22,168,707	5.02
Aberdeen Asset Management plc and its subsidiaries	-	22,168,707 ⁽⁶⁾	22,168,707	5.02

* The percentage of shares held is based on the total number of issued shares of the Company as at 8 March 2013.

Notes:

- (1) Hong Realty (Private) Limited ("HR") is deemed under Section 7 of the Companies Act, Chapter 50 to have an interest in the 23,678,335 shares held directly by companies in which it is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof.
- (2) Hong Leong Enterprises Pte. Ltd. ("HLE") is deemed under Section 7 of the Companies Act, Chapter 50 to have an interest in the 19,968,812 shares held directly and/or indirectly by companies in which it is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof.
- (3) Hong Leong Investment Holdings Pte. Ltd. ("HLIH") is deemed under Section 7 of the Companies Act, Chapter 50 to have an interest in the 106,252,582 shares held directly and/or indirectly by companies in which it is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof, which includes (i) the 46,949,705 shares held directly and indirectly by HR and (ii) the 24,453,859 shares held directly and indirectly by HLE.
- (4) Davos Investment Holdings Private Limited and Kwek Holdings Pte Ltd are deemed under Section 7 of the Companies Act, Chapter 50, to have interests in the 205,860,758 shares held directly and/or indirectly by HLIH in which each of them is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof.
- (5) The deemed interest of Aberdeen Asset Management Asia Limited ("AAMAL") is based on the last notification to the Company on 20 May 2011 and relates to shares held by various accounts managed by AAMAL whereby AAMAL is given disposal rights without voting rights for 1,369,000 shares and both disposal and voting rights for 20,799,707 shares.
- (6) The deemed interest of Aberdeen Asset Management plc and its subsidiaries (the "Aberdeen Group") is based on the last notification to the Company on 20 May 2011 and relates to shares held by various accounts managed by the Aberdeen Group whereby the Aberdeen Group is given disposal rights without voting rights for 1,369,000 shares and both disposal and voting rights for 20,799,707 shares.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-Third Annual General Meeting (the "Meeting") of HONG LEONG FINANCE LIMITED (the "Company") will be held at M Hotel Singapore, Banquet Suite, Level 10, 81 Anson Road, Singapore 079908, on Tuesday, 23 April 2013 at 3.00 p.m. for the following purposes:

A) Ordinary Business:

1. To receive and adopt the Directors' Report and Audited Financial Statements for the year ended 31 December ("FY") 2012 and the Auditors' Report thereon.
2. To declare a final one-tier tax exempt dividend of 8 cents per share for FY 2012 ("Final Dividend").
3. To approve Directors' Fees of \$471,445 for FY 2012 (FY 2011: \$487,584), Fees to the Audit Committee of \$25,000 per quarter for FY 2013 (FY 2012: \$25,000 per quarter) and Fees to the Risk Management Committee of \$45,000 per quarter for FY 2013 (FY 2012: \$45,000 per quarter).
4. To re-elect the following Directors retiring in accordance with the Articles of Association of the Company and who, being eligible, offer themselves for re-election:
 - (a) Mr Kwek Leng Peck
 - (b) Mr Kwek Leng Kee
 - (c) Mr Chng Beng Hua
5. To re-appoint the following Directors pursuant to Section 153(6) of the Companies Act, Chapter 50 to hold office from the date of the Meeting until the next Annual General Meeting ("AGM"):
 - (a) Mr Kwek Leng Beng
 - (b) Mr Cheng Shao Shiong @ Bertie Cheng
6. To re-appoint KPMG LLP as Auditors and to authorise the Directors to fix their remuneration.

B) Special Business:

To consider and, if thought fit, to pass, with or without any modifications, the following resolutions as Ordinary Resolutions:

7. That authority be and is hereby given to the Directors to:
 - (a) (i) issue shares in the capital of the Company ("shares") whether by way of rights, bonus or otherwise; and/or
 - (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other Instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and
- (b) (notwithstanding the authority conferred by this Ordinary Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Ordinary Resolution was in force,

Notice of Annual General Meeting

provided that:

- (1) the aggregate number of shares to be issued pursuant to this Ordinary Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Ordinary Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument), does not exceed 50% of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Ordinary Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument) does not exceed 20% of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
 - (2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST")) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares in the capital of the Company shall be based on the total number of issued shares in the capital of the Company at the time this Ordinary Resolution is passed, after adjusting for:
 - (i) new shares arising from the conversion or exercise of any convertible securities or share options which are outstanding or subsisting at the time this Ordinary Resolution is passed; and
 - (ii) any subsequent bonus issue, consolidation or subdivision of shares;
 - (3) in exercising the authority conferred by this Ordinary Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and
 - (4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Ordinary Resolution shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier.
8. That approval be and is hereby given to the Directors to offer and grant options in accordance with the provisions of the Hong Leong Finance Share Option Scheme 2001 (the "SOS") to eligible participants under the SOS other than Parent Group Employees and Parent Group Non-Executive Directors (each as defined under the terms of the SOS) and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options granted under the SOS, provided that:
- (a) the aggregate number of shares to be issued pursuant to the SOS shall not exceed 15% of the total number of issued shares in the capital of the Company from time to time; and
 - (b) the aggregate number of shares to be issued during the entire operation of the SOS (subject to adjustments, if any, made under the SOS) shall not exceed such limits or (as the case may be) sub-limits as may be prescribed in the SOS.

Notice of Annual General Meeting

9. That approval be and is hereby given to the Directors to offer and grant options in accordance with the provisions of the SOS to eligible participants under the SOS who are Parent Group Employees and Parent Group Non-Executive Directors (each as defined under the terms of the SOS) and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options granted under the SOS, provided that:
- (a) the aggregate number of shares to be issued to Parent Group Employees and Parent Group Non-Executive Directors shall not exceed 3% of the total number of issued shares in the capital of the Company from time to time;
 - (b) the aggregate number of shares to be issued to all participants (including Parent Group Employees and Parent Group Non-Executive Directors) pursuant to the SOS shall not exceed 15% of the total number of issued shares in the capital of the Company from time to time; and
 - (c) the aggregate number of shares to be issued during the entire operation of the SOS (subject to adjustments, if any, made under the SOS) shall not exceed such limits or (as the case may be) sub-limits as may be prescribed in the SOS.

C) To Transact Any Other Ordinary Business

BY ORDER OF THE BOARD

Yeo Swee Gim, Joanne
Company Secretary
Singapore, 1 April 2013

Books Closure Date and Payment Date for Final Dividend

The Final Dividend, if approved by the shareholders at the Meeting, will be paid on 23 May 2013.

The Share Transfer Books and Register of Members of the Company will be closed on 8 May 2013. Duly completed registrable transfers received by the Company's Share Registrar, M & C Services Private Limited of 112 Robinson Road #05-01, Singapore 068902 up to 5.00 p.m. on 7 May 2013 will be registered to determine shareholders' entitlement to the Final Dividend.

Notice of Annual General Meeting

Explanatory Notes:

1. With reference to item 3 above (under the heading "Ordinary Business"), the Directors' Fees of \$471,445 for FY 2012 excludes the quarterly fees of \$25,000 and \$45,000 paid to the Audit Committee ("AC") and the Risk Management Committee ("RMC") respectively for FY 2012, which had been approved by shareholders at the 2012 AGM of the Company. The payment of the fees to the AC and RMC for FY 2013 shall be made in arrears at the end of each calendar quarter (except for the first quarter of 2013 which shall be made upon the approval by the shareholders at the Meeting).
2. With reference to item 4(a) above (under the heading "Ordinary Business"), Mr Kwek Leng Peck will, upon re-election as a Director of the Company, remain as a member of the Executive Committee ("Exco") (also as the alternate to the chairman of the Exco), the SOS Committee ("SOSC") and the RMC.
3. With reference to item 4(c) above (under the heading "Ordinary Business"), Mr Chng Beng Hua will, upon re-election as a Director of the Company, remain as a member of the AC. Mr Chng is an independent Director.
4. With reference to item 5(a) above (under the heading "Ordinary Business"), Mr Kwek Leng Beng will, upon re-appointment as a Director of the Company, remain as Chairman of the Board, chairman of the Exco, and a member of the Nominating Committee ("NC") and the RMC.
5. With reference to item 5(b) above (under the heading "Ordinary Business"), Mr Bertie Cheng will, upon re-appointment as a Director of the Company, remain as chairman of the NC and RMC and also as a member of the Exco, RC and SOSC. Mr Cheng is an independent Director.
6. Key information on the Directors seeking re-election and re-appointment under items 4(a), (b) and (c) and 5(a) and (b) can be found on pages 12 to 15 of the Annual Report.
7. The ordinary resolution set out in item 7 above (under the heading "Special Business"), if passed, will empower the Directors of the Company from the date of the Meeting until the next AGM to issue shares whether by way of rights, bonus or otherwise and/or make or grant Instruments that might require shares to be issued up to and not exceeding 50% of the Company's total number of issued shares, with a limit of 20% of the Company's total number of issued shares for any issue of shares not made on a *pro rata* basis to shareholders. This authority will expire at the next AGM of the Company, unless revoked or varied at a General Meeting.
8. The ordinary resolution set out in item 8 above (under the heading "Special Business"), if passed, will empower the Directors to offer and grant options in accordance with the SOS to eligible participants under the SOS other than Parent Group Employees and Parent Group Non-Executive Directors (each as defined under the terms of the SOS) and to issue from time to time such number of shares in the capital of the Company pursuant to the exercise of such options under the SOS subject to such limits or sub-limits as prescribed in the SOS. (see *note below on voting restrictions*)

Notice of Annual General Meeting

9. The ordinary resolution set out in item 9 above (under the heading "Special Business"), if passed, will empower the Directors to offer and grant options in accordance with the SOS to eligible participants under the SOS who are Parent Group Employees and Parent Group Non-Executive Directors (each as defined under the terms of the SOS) and to issue from time to time such number of shares in the capital of the Company pursuant to the exercise of such options under the SOS subject to such limits or sub-limits as prescribed in the SOS. (see note below on voting restrictions)

Voting restrictions pursuant to Rules 859 and 860 of the Listing Manual of the SGX-ST:

Please note that if a shareholder is eligible to participate in the SOS (other than as a director and/or employee of Hong Leong Investment Holdings Pte. Ltd. (the "Parent Company") and its subsidiaries (but not including the Company)), he should abstain from voting at the Meeting in respect of the ordinary resolution set out in item 8 in relation to the SOS, and should not accept nominations as proxies or otherwise for voting at the Meeting, in respect of the aforesaid ordinary resolution, unless specific instructions have been given in the proxy form on how the vote is to be cast for the aforesaid resolution.

The Parent Company and its associates (as defined in the Listing Manual of the SGX-ST) and the directors and employees of the Parent Company and its subsidiaries, who are also shareholders of the Company and are eligible to participate in the SOS (the "Parent Group Directors and Employees"), are required to abstain from voting at the Meeting in respect of the ordinary resolution set out in item 9 in relation to the SOS. For the avoidance of doubt, the Parent Company and its associates and the Parent Group Directors and Employees are not required to abstain from voting at the Meeting in respect of the ordinary resolution set out in item 8.

Notes:

1. A member of the Company entitled to attend and vote at the Meeting may appoint not more than two proxies to attend and vote in his stead.
2. A proxy need not be a member of the Company.
3. The instrument appointing a proxy must be deposited at the Company Secretary's Office at 36 Robinson Road, #03-01 City House, Singapore 068877, not less than 48 hours before the time appointed for holding the Meeting.
4. The Chairman of the Meeting will be exercising his rights under article 71 of the Company's articles of association ("Article 71") for all resolutions at the Meeting and at any adjournment thereof to be put to the vote by way of poll. Accordingly, each resolution at the Meeting will be voted on by way of a poll.

Article 71 provides that a poll may be demanded by:-

- (a) the Chairman of the Meeting; or
 - (b) not less than two members present in person or by proxy and entitled to vote at the Meeting; or
 - (c) a member or members present in person or by proxy and representing not less than one-twentieth of the total voting rights of all the members having the right to vote at the Meeting; or
 - (d) a member or members present in person or by proxy and holding not less than five per cent. of the total number of paid-up shares of the Company.
5. To allow for a more efficient voting system, polling will be done by way of an electronic poll voting system. With poll voting, shareholders present in person or represented by proxy at the Meeting will be entitled to vote on a 'one-share, one-vote' basis. The detailed procedures for the electronic poll voting will be explained at the Meeting.

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HONG LEONG FINANCE LIMITED

Co. Reg. No. 196100003D

(Incorporated in the Republic of Singapore)

PROXY FORM for Annual General Meeting

IMPORTANT:

1. For investors who have used their CPF monies to buy Hong Leong Finance Limited's shares, the Annual Report is forwarded to them at the request of their CPF Approved Nominee and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend the 53rd Annual General Meeting as OBSERVERS have to submit their requests through their respective Agent Banks so that their Agent Banks may register with the Company Secretary of Hong Leong Finance Limited. (Agent Banks: Please see note 8 on required format.)

*I/We, _____ with NRIC/Passport No. _____

of _____

being * a member/members of HONG LEONG FINANCE LIMITED (the "Company"), hereby appoint

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of shares	%
Address			
and/or (delete as appropriate)			
Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of shares	%
Address			

as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the 53rd Annual General Meeting of the Company (the "AGM") to be held at M Hotel Singapore, Banquet Suite, Level 10, 81 Anson Road, Singapore 079908 on Tuesday, 23 April 2013 at 3.00 p.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated with an "X" in the spaces provided hereunder. If no specific direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/their discretion, as *he/they will on any other matter arising at the AGM.

No.	Resolutions	For	Against
A)	ORDINARY BUSINESS:		
1.	Adoption of Reports and Financial Statements		
2.	Declaration of Final Dividend		
3.	Approval of Directors' Fees, Audit Committee Fees and Risk Management Committee Fees		
4.	Re-election of Directors:	(a) Mr Kwek Leng Peck	
		(b) Mr Kwek Leng Kee	
		(c) Mr Chng Beng Hua	
5.	Re-appointment of Directors under Section 153(6) of the Companies Act, Chapter 50:	(a) Mr Kwek Leng Beng	
		(b) Mr Cheng Shao Shiong @ Bertie Cheng	
6.	Re-appointment of KPMG LLP as Auditors		
B)	SPECIAL BUSINESS:		
7.	Authority for Directors to issue shares and/or make or grant offers, agreements or options pursuant to Section 161 of the Companies Act, Chapter 50 and the Listing Manual of the Singapore Exchange Securities Trading Limited		
8.	Authority for Directors to offer and grant options to eligible participants under the Hong Leong Finance Share Option Scheme 2001 (the "SOS") other than Parent Group Employees and Parent Group Non-Executive Directors and to issue shares in accordance with the provisions of the SOS		
9.	Authority for Directors to offer and grant options to eligible participants under the SOS who are Parent Group Employees and Parent Group Non-Executive Directors and to issue shares in accordance with the provisions of the SOS		

Dated this _____ day of _____ 2013

Total No. of Shares Held

Signature(s) of member(s)/Common Seal

* Delete accordingly

NOTES: SEE OVERLEAF



NOTES:

1. A member of the Company entitled to attend and vote at the AGM is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.
3. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this instrument of proxy will be deemed to relate to all the shares held by you.
4. This instrument of a proxy must be signed by the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a body corporate, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
5. A body corporate which is a member may also appoint by resolution of its directors or other governing body an authorised representative or representatives in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50 of Singapore to attend and vote for and on behalf of such body corporate.
6. This instrument appointing a proxy (together with the power of attorney, if any, under which it is signed or a certified copy thereof), must be deposited at the Company Secretary's Office at 36 Robinson Road, #03-01 City House, Singapore 068877, not less than 48 hours before the time fixed for holding the AGM.
7. The Company shall be entitled to reject an instrument of proxy if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in this instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.
8. Agent Banks acting on the request of CPF Investors who wish to attend the AGM as Observers are required to submit in writing, a list with details of the investor's name, NRIC/Passport Number, addresses and number of shares held. The list, signed by an authorised signatory of the Agent Bank, should reach the Company Secretary, at her office at 36 Robinson Road, #03-01 City House, Singapore 068877, not less than 48 hours before the time fixed for holding the AGM.

Fold Here

PROXY FORM

Affix
Postage
Stamp

The Company Secretary
HONG LEONG FINANCE LIMITED
36 Robinson Road, #03-01 City House
Singapore 068877

Fold Here

Branch Locations

MAIN BRANCH

16 Raffles Quay
#01-05 Hong Leong Building
Singapore 048581
Tel: 6415 9118
Fax: 6222 8790

ANG MO KIO AVE 1

Blk 338 Ang Mo Kio Ave 1
#01-1641
Singapore 560338
Tel: 6452 8735
Fax: 6454 3524

ANG MO KIO AVE 4

Blk 157 Ang Mo Kio Ave 4
#01-564
Singapore 560157
Tel: 6458 8030
Fax: 6458 8186

BALESTIER

288 Balestier Road
#01-02 Balestier 288
Singapore 329731
Tel: 6250 1083
Fax: 6254 8801

BEDOK

Blk 203 Bedok North Street 1
#01-451
Singapore 460203
Tel: 6449 0601
Fax: 6444 3827

BUKIT BATOK CENTRAL

Blk 641 Bukit Batok Central
#01-48
Singapore 650641
Tel: 6564 8801
Fax: 6564 9643

BUKIT MERAH

Blk 125 Bukit Merah Lane 1
#01-156
Singapore 150125
Tel: 6273 0360
Fax: 6272 7158

CITY PLAZA

810 Geylang Road
#01-111/114 City Plaza
Singapore 409286
Tel: 6746 8084
Fax: 6748 2422

CITY SQUARE MALL

180 Kitchener Road
#B2-41 City Square Mall
Singapore 208539
Tel: 6509 8200
Fax: 6509 8100

CLEMENTI WEST

Blk 725 Clementi West Street 2
#01-216
Singapore 120725
Tel: 6778 6271
Fax: 6775 2751

GHIM MOH

Blk 21 Ghim Moh Road
#01-209/211
Singapore 270021
Tel: 6467 3715
Fax: 6468 3273

HOLLAND DRIVE

Blk 45 Holland Drive
#01-351
Singapore 270045
Tel: 6778 4169
Fax: 6775 2836

HONG LIM

Blk 531 Upper Cross Street
#01-50 Hong Lim Complex
Singapore 050531
Tel: 6534 5767
Fax: 6534 5868

HOUGANG

Blk 208 Hougang Street 21
#01-211/213
Singapore 530208
Tel: 6288 2396
Fax: 6281 3046

JOO CHIAT

278 Joo Chiat Road
Singapore 427532
Tel: 6344 8842
Fax: 6440 2864

JURONG EAST

Blk 134 Jurong Gateway Road
#01-313
Singapore 600134
Tel: 6564 3880
Fax: 6564 3787

JURONG WEST

Blk 504 Jurong West Street 51
#01-211
Singapore 640504
Tel: 6569 0361
Fax: 6569 5918

KALLANG BAHRU

Blk 66 Kallang Bahru
#01-521
Singapore 330066
Tel: 6296 8067
Fax: 6294 2907

MARINE PARADE

Blk 80 Marine Parade Central
#01-790
Singapore 440080
Tel: 6346 2036
Fax: 6346 2035

REDHILL (JLN TIONG)

Blk 75D Redhill Road
#01-100
Singapore 154075
Tel: 6479 0277
Fax: 6479 0218

RIVERVALE MALL

11 Rivervale Crescent
#01-07/08 Rivervale Mall
Singapore 545082
Tel: 6489 7224
Fax: 6489 0503

SERANGOON GARDEN

8 Kensington Park Road
Serangoon Garden Estate
Singapore 557260
Tel: 6280 5665
Fax: 6285 2195

TAMPINES GRANDE

9 Tampines Grande
#01-12
Singapore 528735
Tel: 6784 7326
Fax: 6784 9057

TOA PAYOH

Blk 520 Lorong 6 Toa Payoh
#02-54 HDB Hub
Singapore 310520
Tel: 6253 4821
Fax: 6256 5676

UPPER BUKIT TIMAH

140 Upper Bukit Timah Road
#01-19/21 Beauty World Plaza
Singapore 588176
Tel: 6469 7438
Fax: 6468 4181

UPPER THOMSON

219 Upper Thomson Road
Singapore 574351
Tel: 6453 3266
Fax: 6454 1913

WOODLANDS

Blk 306 Woodlands Street 31
#01-43
Singapore 730306
Tel: 6368 7928
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YISHUN

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