HONG LEONG FINANCE

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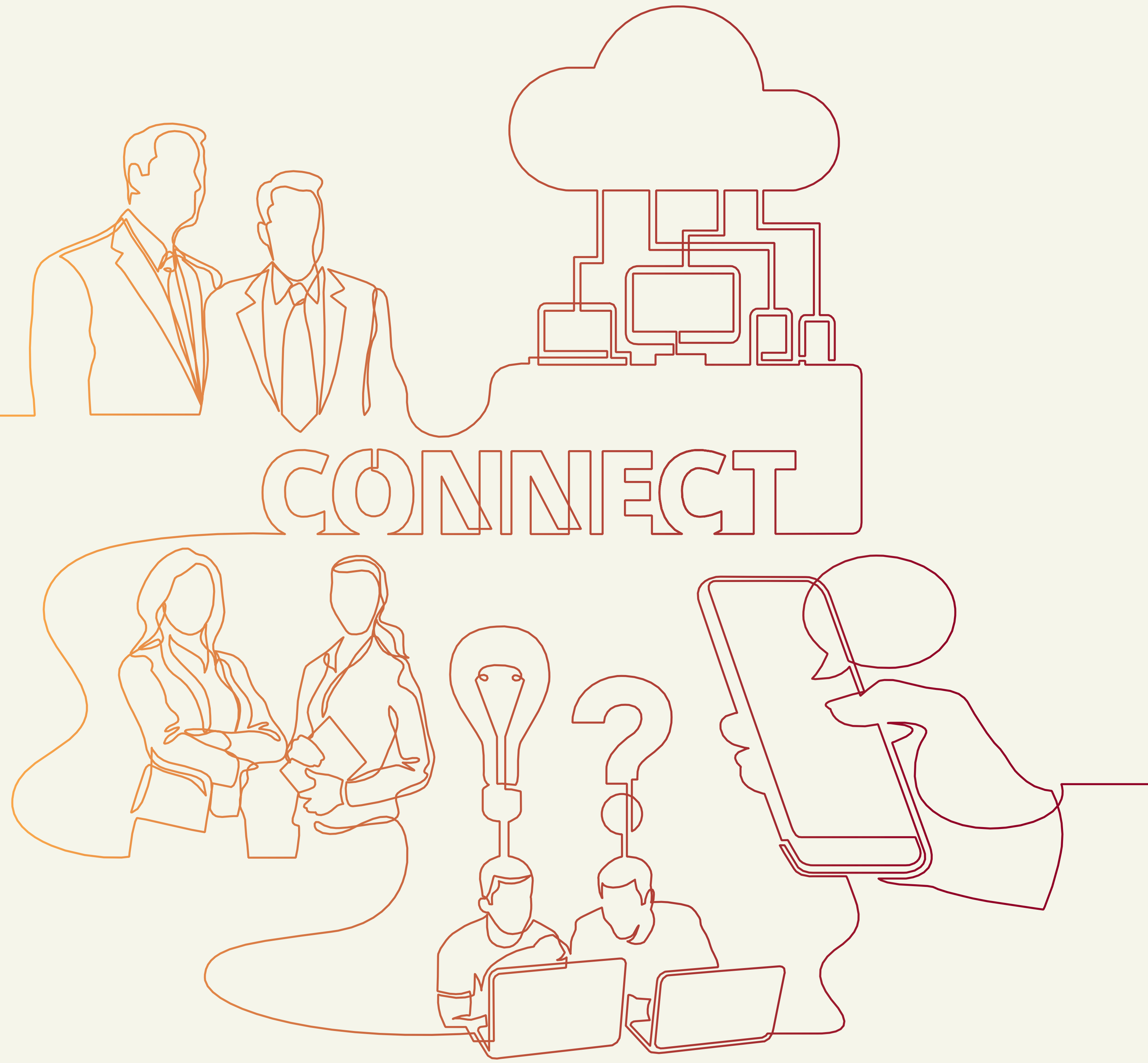
Co. Reg. No. 196100003D

HONG LEONG FINANCE



HONG LEONG FINANCE LIMITED
ANNUAL REPORT 2017

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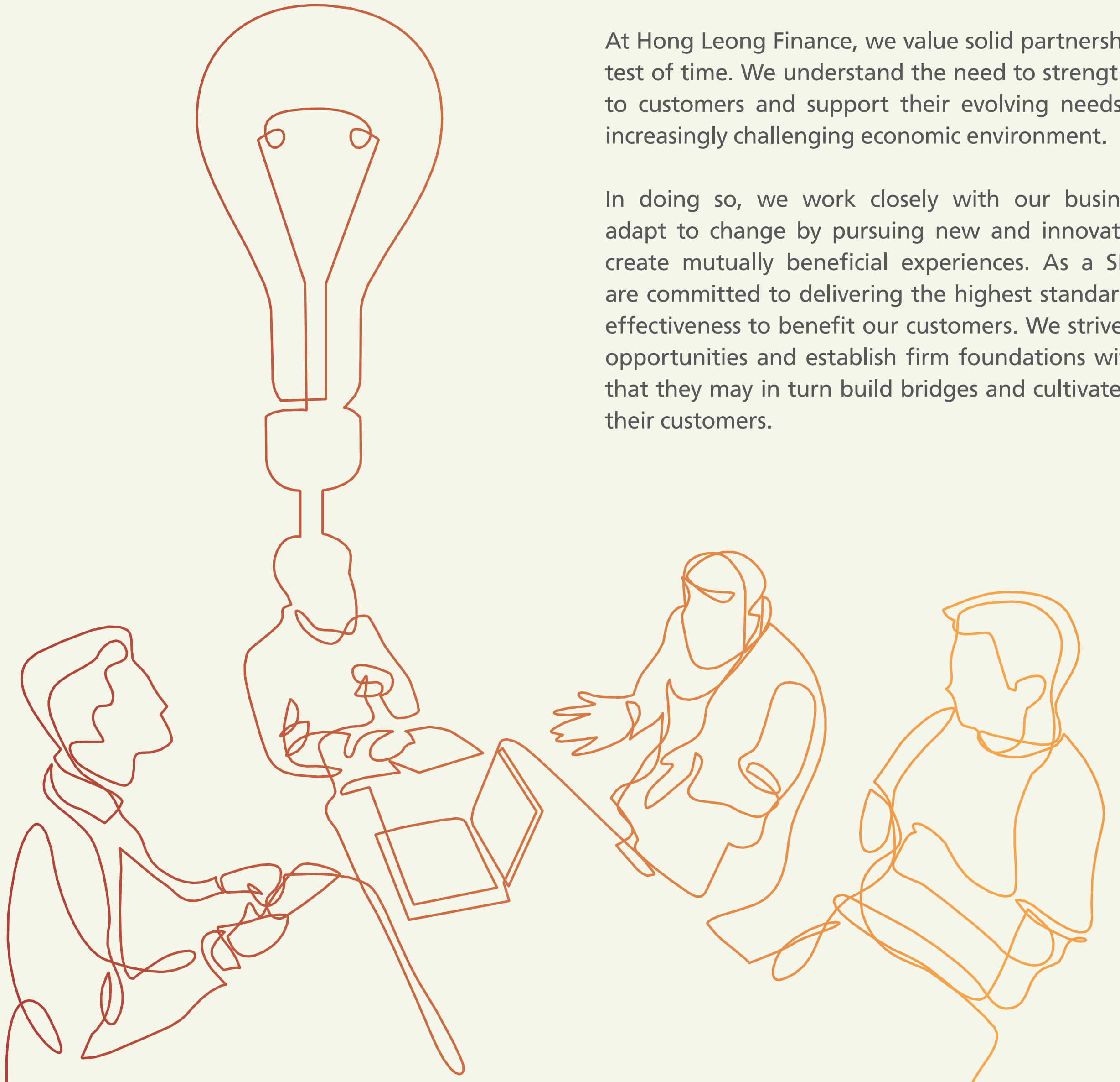
WHY CONNECT?

Today's reality is about connectivity, and people all over the world are connected by technology. Driven by this ongoing connectivity and exchange of information, we have adopted a continuous-line design for this year's annual report. It encapsulates how we connect with our SME customers by empowering and helping them adopt digital technologies to boost their businesses.



OVERVIEW

At Hong Leong Finance, we value solid partnerships that stand the test of time. We understand the need to strengthen our relevance to customers and support their evolving needs, especially in an increasingly challenging economic environment.

In doing so, we work closely with our business partners and adapt to change by pursuing new and innovative solutions that create mutually beneficial experiences. As a SME specialist, we are committed to delivering the highest standards and enhancing effectiveness to benefit our customers. We strive to foster growth opportunities and establish firm foundations with these SMEs, so that they may in turn build bridges and cultivate greater value for their customers.

LOANS
S$9,877 million

DEPOSITS
S$10,659 million

SHAREHOLDERS' FUNDS
S$1,742 million

DIVIDENDS DECLARED
S$44.5 million

FIVE-YEAR FINANCIAL SUMMARY

		2017	2016	2015	2014	2013
Capital Employed						
Total assets	$ million	12,543	12,313	13,287	12,262	11,675
Net equity	$ million	1,742	1,697	1,688	1,659	1,646
Net assets per share	$	3.91	3.82	3.80	3.74	3.72
Share Capital						
Number of shares in issue	million	445.2	443.8	443.8	443.5	442.7
Loans and Deposits						
Loans net of allowances	$ million	9,877	9,515	10,091	9,583	9,088
Deposits	$ million	10,659	10,442	11,444	10,469	9,906
Profit and Retained Earnings						
Profit before tax	$ million	103.0	64.0	86.7	75.8	84.4
Profit after tax	$ million	85.7	53.1	72.9	62.8	70.1
Interim/final dividend(s) declared in the year	$ million	44.5	44.4	44.4	53.2	53.0
Earnings retained for the year	$ million	41.2	8.7	28.5	9.6	17.1
Earnings Per Share and Dividends						
Earnings per share	cents	19.3	12.0	16.4	14.2	15.9
Dividend - tax exempt one-tier*	cents	13.0	9.0	11.0	10.0	12.0
Times covered*		1.5	1.3	1.5	1.4	1.3
Number of Employees		628	624	646	674	675

* 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)

FY 2017
12,543

FY 2016
12,313

Loans Net Of Allowances ($ mil)

FY 2017
9,877

FY 2016
9,515

Deposits ($ mil)

FY 2017
10,659

FY 2016
10,442

Profit Before Tax ($ mil)

FY 2017
103.0

FY 2016
64.0

Profit After Tax ($ mil)

FY 2017
85.7

FY 2016
53.1

Interim/Final Dividend(s) Declared In The Year ($ mil)

FY 2017
44.5

FY 2016
44.4

Earnings Per Share (cents)

FY 2017
19.3

FY 2016
12.0

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 2017.

FINANCIAL OVERVIEW

Group profit after tax attributable to shareholders for the year ended 31 December 2017 amounted to $85.7 million, equivalent to 19.3 cents per share. The results for the year were arrived at after topping up provision (net of write back of provision/recoveries) amounting to $3.8 million against $1.1 million in 2016.

Loans and advances (before allowances) increased to $9.99 billion from $9.63 billion in 2016, an increase of 3.8% over the previous year. Deposits and balances of customers registered an increase of 2.1%, closing at $10.66 billion as at 31 December 2017. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled $1.74 billion, equivalent to $3.91 per share. The Group continues to maintain a strong capital adequacy ratio of 15.8% as at 31 December 2017, higher than the prescribed requirement.

An interim dividend of 4 cents per share (tax exempt one-tier) was paid on 12 September 2017. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 9 cents per share (tax exempt one-tier) in respect of 2017. The aggregate distribution for the year will amount to approximately $58 million, compared to $40 million for 2016.

OPERATING PERFORMANCE

The global economy continued to strengthen with broad-based expansion. Recovery is buoyed by synchronised upturn across developed and emerging markets. Singapore's economic growth was also lifted by the worldwide electronics demand and consumer confidence.

First quarter's GDP of 2.5% rapidly gained momentum to register a growth of 2.8% and 5.5% in second and third quarter respectively. The year ended off with the Republic's economy growing 3.6% in the fourth quarter, pushing the full-year GDP growth to 3.6% as the country pressed on with its economic restructuring plan to bring about higher productivity and sustainable future growth.

Understanding SMEs

Based on key finding of the inaugural SME Market Survey conducted by Hong Leong Finance Limited ("HLF" or the "Company") in November/December 2017 with about 200 SMEs taking part, the top three challenges faced by SMEs were stiff competition, followed by hiring difficulty, and high operating costs. Their priorities were to grow their businesses locally and overseas with focus on branding, marketing and products and services enhancement; manage operation cost as well as hiring and retaining staff.

Disruption is taking place across businesses as a result of technological innovations and low barriers to entry by disruptors. SMEs are faced with more competition today than before. This is exacerbated by consumers having higher expectations around digital experiences.

HLF, being a strong SME supporter, understands their predicament. The Company provided value-added services and innovative financing solutions to support them.

Support for SMEs in the Smart Nation Master Plan

A Memorandum of Intent was signed with Infocomm Media Development Authority ("IMDA") in August, to help SMEs to go digital. Activities were carried out to reach out to SMEs to introduce the SMEs Go Digital Programme launched by IMDA, in support of the Smart Nation Master Plan.

Through partnership with IMDA, HLF aimed to work with corporate customers who are industry leaders, to seek and pilot emerging technology solutions to help uplift productivity and competitiveness for their sectors.

Under HLF's enhanced SME Capability Ready (CARE) Programme, SMEs were able to take up bridging loans to wait out government capabilities grants to defray costs in their capabilities building investments and be guided on how to go digital. HLF also partnered with SPRING Singapore to promote the Government-Assisted SME loans and capability development grants. SMEs leveraged on the Programme, loans and grants to build their capabilities, promote growth, manage operation efficiency and reduce labour dependency.

Innovative Solutions and Convenient Services for SMEs

HLF continued to assist SMEs with their cash flow through a slew of innovative SME loan schemes including Accounts Receivable Financing, Factoring, Project Financing and Trade Advance for specific business transaction needs as well as property loans for their business expansion. Hassle-free Working Capital Loan Online Application was also introduced in the year to give SMEs a new loan application channel.

HLF welcomes the Monetary Authority of Singapore's ("MAS") announcement in granting some exemptions from the Finance Companies Act to enhance the industry's ability to finance and support SMEs. An example is on the increase in the limit for writing unsecured business loans. The relaxation represented further opportunities for the Company to support SMEs in their quest to grow and expand both domestically and overseas.

To be closer to the SME community, HLF expanded its SME Centre @ Hong Leong Finance footprint further to 11 Centres island-wide with the latest being at Clementi West Branch.

'HONG LEONG FINANCE WILL AGGRESSIVELY SEEK TO EXPAND ITS CUSTOMER RELATIONSHIPS AND DRIVE PARTNERSHIP AND COLLABORATION IN THE SHARING ECONOMY TO ACHIEVE GREATER SUCCESS.'

KWEK LENG BENG
Chairman

CHAIRMAN'S STATEMENT

For SMEs seeking for corporate advisory services to grow their businesses to the next level, the newly launched SME Connector Programme at SME Centres allowed them to access introductory service to Corporate Finance specialists. The full implementation at the Centres was the result of a successful pilot at SME Centre @ Upper Bukit Timah last year.

While the local capital markets remained challenging, market sentiments improved along with both local and global economic growth. More companies were listed on the Catalist Board and Mainboard of the SGX-ST in 2017 as compared to 2016. HLF was the Sponsor, Issue Manager, Underwriter and Placement Agent to UnUsUaL Limited, an investment holding company which is primarily involved in the business of promotion and production of concerts and events in Singapore, Malaysia and Hong Kong. The share price of the company stock more than doubled since its trading debut on the Catalist Board of SGX-ST. The Company also acted as Continuing Sponsor for 9 Catalist companies and independent financial advisor to a listed company for their corporate exercise.

Focus on Retail Loans and Deposits

Car ownership reportedly dropped but rental car population rose. The move towards a shared proposition seemed to be gaining traction. With the changing consumer behavior, some car dealers entered the rental market to get a slice of the shared economy. Competition for end-user financing remained keen and the Company fortified its partnership with the car dealers by differentiating through fast and efficient service. HLF also made in-roads into financing the car rental business to keep up with the market needs.

In October, Land Transport Authority announced that the vehicle growth rate for private passenger cars and motorcycles in Singapore would be slashed to zero from February 2018, down from the current 0.25%. The marginal reduction may not have much adverse impact on the auto industry.

The residential market remained weak despite prices stabilising. While developers drove up collective sale fever, the Government maintained a consistent tightly calibrated supply approach on both the private and public housing fronts to prevent the property bubble from forming. Homebuyers were notably more cautious in their choice of home loan in the rising interest rate market. The Company launched several competitive fixed rate loan packages during the year to serve the mass market who bought HDB homes.

In March, MAS relaxed borrowing against the value of private properties to enable borrowers to monetise their assets in their later years. Total Debt Servicing Ratio no longer applied to mortgage equity withdrawal loans with Loan-to-Value ratios of 50% and below. HLF was the first and only financial institution that rolled out a dedicated loan programme for such borrowers. Called Mortgage Equity@50 (ME@50), individuals in their retirement years were able to borrow against their properties to have more lifestyle choices. Furthermore, they could enjoy the unique added convenience option of making early loan payment to save on interest cost, without incurring any prepayment penalty.

With risks of higher interest rates following signals from the US Federal Reserve Bank, more emphasis was placed on the Company's liquidity management. Promotions on fixed deposits of multiple tenures were marketed in the course of the year. The highly popular Fixed Savings Account, rolled out to the public the year before, was also further promoted to staff of SMEs. The account provides a hassle-free option of saving and growing money faster by using Giro and earning attractive bonus interest.

Stringent Risk Management and Compliance Framework

In the light of uncertainties, HLF continued with its risk and customer-focus strategies. The Company's robust risk management framework covering areas from Credit to Liquidity, Market and Operations enabled it to harness new business opportunities.

To meet the increasing compliance requirements, the Company invested heavily in human and technology resources to put in place a cost efficient and effective system to protect its business and customers' assets.

Feathers in the Cap

Pace of change in the financial industry has quickened with Financial Technology ("FinTechs") entering the financial eco-system. The Company had been exploring opportunities to collaborate with FinTechs to innovate and transform and bring about process simplification to meet the evolving needs and aspirations of customers.

HLF was honoured to be recognised for its creative and relevant customer solutions and be awarded for the fourth consecutive year as the top finance company in the region, winning the "ASEAN Finance Company of the Year" accolade at the Asian Banking and Finance Retail Banking Awards 2017. The Company was also among the Top 100 Most Valuable Brands in Singapore for 2017, announced by Brand Finance, a world-leading independent brand valuation and strategy consultancy.

First Sustainability Reporting

This year, HLF embarked on its first sustainability report, in compliance with the guidelines set by the Singapore Exchange, outlining important sustainability issues for our business. An internal working committee was formed to manage the sustainability efforts of the Company. A Board Sustainability Committee was appointed by the Board to provide guidance and oversight on sustainability issues.

Although this is the first year the Company is producing a standalone sustainability report, the commitment to be a good corporate citizen is not new. HLF has been committed to creating greater value for the communities it serves while maintaining long-term shareholder value for decades. This tradition will continue with the sustainability report guiding the Company in its journey towards contributing and building a more sustainable society.

OUTLOOK FOR 2018

The Ministry of Trade and Industry's projection for Singapore's economic growth for 2018 is between 1.5% and 3.5%. Major drivers for growth are expected to be from stronger growth in the US and some emerging markets and developing economies while that of demand markets such as China and the Eurozone may ease. As a small and open economy, Singapore is exposed to developments in the global economy. With the support from the government, local companies will be assisted in upgrading technologically and competing internationally to build sustainable businesses.

The conditions of changing customer behaviour, new competitors and framework are making things challenging for all industries. HLF will continue to strive in productivity and innovation to remain relevant to the business and individual customers. Good customer experiences are a high priority focus area for the Company. By listening to customers' aspirations and needs, HLF is confident in creating new and better products and services that are valuable and appealing to them. The Company is committed to ensuring that processes are customer-centric and efficient, and resources are prudently managed. Our people aim to have a continuous improvement mindset to look at better ways of doing what we do daily.

HLF will aggressively seek to expand its customer relationships and drive partnership and collaboration in the sharing economy to achieve greater success. Digitalisation along with the technology will further bring about opportunities for the Company to serve its customers in a more contemporary manner.

These straight forward business priorities are augmented by our continued conservative management of strong capital, high levels of liquidity, stringent underwriting parameters and robust management of our portfolio of assets.

APPRECIATION

On behalf of the Board of Directors, I would like to convey our sincere gratitude to all our valued customers, shareholders and business partners for their continued support, trust and confidence in us. I would also like to express my appreciation and thanks to my fellow Directors for their invaluable advice and guidance during the year and to the management and staff for their commitment and efforts in 2017.

KWEK LENG BENG
Chairman
27 February 2018

ENHANCING CUSTOMER ENGAGEMENT

Hong Leong Finance has been a SME Specialist for more than 50 years. From being one of the first financial institutions to offer factoring services in Singapore, to establishing its first self-service digital space at the Jurong East Branch and award-winning website, the company has evolved to stay relevant and resilient in changing times. It is well-positioned to help SMEs take advantage of emerging trends and digital technologies to optimise opportunities.

Customers can use convenient self-service terminals within Jurong East Branch's digital space for loan applications and other loan-related calculations.

DIRECTORY OF SERVICES

SME LOANS

Commercial / Industrial Property Loan
Development Loan
Equipment Financing / Refinancing
Factoring / Accounts Receivable Financing
HDB SME Loan
Hire Purchase
Internationalisation Finance Scheme
Inventory Finance
Letters of Credit
Loan for Conservation Property
Loan Insurance Scheme (LIS)
Medical Asset Financing
Project Receivables & Payables Financing
Revolving Working Capital Finance
SME Care Programme
SME Equipment & Factory Loan (LEFS)
SME Micro Loan (LEFS)
SME Working Capital Loan (LEFS)
Suppliers' Invoice Financing
Vessel Financing
Working Capital Term Loan

CORPORATE FINANCE

Mainboard Issue Manager

Catalist Full Sponsor

Corporate Advisory
Financial Advisory
Mergers and Acquisitions
Restructuring
Independent Financial Advisory

Equity Fund Raising
Initial Public Offering
Secondary Fund Raising
Underwriting of Shares

DEPOSITS

Business Current Account
Fixed Deposits
Fixed Savings Account
Savings Accounts
Savers Plus

PERSONAL LOANS

Car Loans (New & Used Cars)
HDB Home Loans
Private Housing Loans
Mortgage Equity @50
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 Peck
Kwek Leng Kee
Chng Beng Hua *Independent*
Cheng Shao Shiong @ Bertie Cheng *Independent*
Ter Kim Cheu *Independent*
Raymond Lim Siang Keat *Independent*
Kevin Hangchi

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

AUDIT COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar *Chairman*
Ter Kim Cheu
Cheng Shao Shiong @ Bertie Cheng

BOARD RISK COMMITTEE

Cheng Shao Shiong @ Bertie Cheng *Chairman*
Kwek Leng Beng
Kwek Leng Peck
Raymond Lim Siang Keat
Kevin Hangchi

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

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

BOARD SUSTAINABILITY COMMITTEE

Ter Kim Cheu *Chairman*
Raymond Lim Siang Keat
Kevin Hangchi

PRESIDENT

Ang Tang Chor
(Please refer to page 55 of this Annual Report for additional information on the President)

SECRETARIES

Yeo Swee Gim, Joanne
Oh Su Chong
Chye Chan Yu

REGISTERED OFFICE

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Singapore 048581
Tel: 6415 9433 Fax: 6224 6773
Email: customerservice@hlf.com.sg

SHARE REGISTRAR & 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
Public Accountants and Chartered Accountants, Singapore
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581
(Partner-in-charge: Karen Lee Shu Pei, appointed from commencement of audit of financial statements for the financial year ended 31 December 2013)

BANKERS

Australia and New Zealand Banking Group Limited
DBS Bank Ltd
Deutsche Bank AG
HL Bank
Malayan Banking Berhad
Mizuho Bank, Limited
Oversea-Chinese Banking Corporation Limited
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
The Bank of Tokyo-Mitsubishi UFJ, Ltd
The Hongkong and Shanghai Banking Corporation Limited
United Overseas Bank Limited

CORPORATE PROFILE

11
SME CENTRES
NORTH, SOUTH, EAST, WEST & CENTRAL ZONES OF SINGAPORE

28
BRANCHES
ACROSS SINGAPORE

56
YEARS
SERVING THE COMMUNITY

Hong Leong Finance's Jurong East branch is refurbished to reflect a contemporary look with bright open spaces, and equipped with digital devices to enhance customer experience.

Hong Leong Finance has evolved from a Small & Medium Enterprise (SME) in 1961 to become Singapore's largest finance company with a distribution network of 28 branches. Listed on the Singapore Stock Exchange in 1974 as the then Singapore Finance Ltd, Hong Leong Finance 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.

With 56 years of experience in serving the SME community, Hong Leong Finance 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, Hong Leong Finance launched the Business Current Account in 2007 and became the only finance company here to offer chequeing account services. Hong Leong Finance is also a pioneer in the Local Enterprise Finance Scheme administered by Spring Singapore and the exclusive finance company in Singapore with full sponsorship status for the SGX Catalist Board, enabling us to provide financial advisory and fund raising services to SMEs aiming to list on Catalist. With our strong commitments towards the SMEs, Hong Leong Finance 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, Hong Leong Finance's strong network of 11 SME Centres @Hong Leong Finance further enhances our presence and brings us closer to the business community.

At Hong Leong Finance, 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.

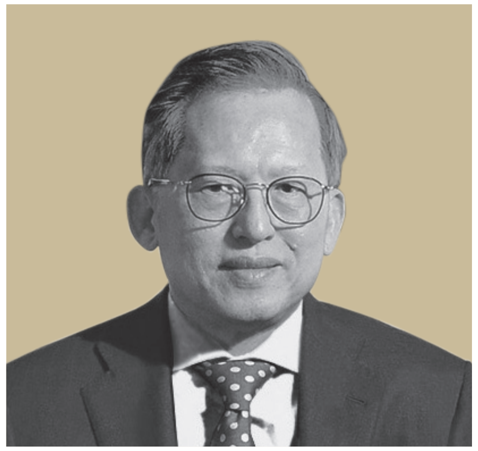
Whether it is a business entity striving to expand or an individual wishing to build a secure financial future, Hong Leong Finance will endeavour to cater to their every need. For that reason, Hong Leong Finance is honoured to receive the Asia Finance Company of the Year Award in 2007, the Singapore Finance Company of the Year Award for three consecutive years in 2011, 2012 and 2013, the ASEAN Finance Company Award yearly from 2014 to 2017 at the Asian Banking and Finance Retail Banking Awards. The Company is also recognized among the Top 100 Most Valuable Brands in Singapore for 2017, by Brand Finance, a world's leading independent brand valuation and strategy consultancy.

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 excellent service.

Hong Leong Finance has been awarded ASEAN Finance Company of the Year for four consecutive years since 2014.

BOARD OF DIRECTORS



KWEK LENG BENG, 77
Executive Director

A Managing Director of Hong Leong Finance Limited ("HLF" or the "Company") since 1 March 1979, Mr Kwek was appointed the Chairman of the Company since 28 November 1984 and was last re-appointed as a Director on 21 April 2016. Mr Kwek is also the chairman of the Executive Committee ("Exco") and sits on the Board Risk Committee ("BRC") and Nominating Committee ("NC"). He will be seeking re-election as a Director at the 2018 Annual General Meeting of the Company ("2018 AGM").

He is the Executive Chairman of Hong Leong Investment Holdings Pte. Ltd. ("HLIH"), the immediate and ultimate holding company of HLF, and City Developments Limited ("CDL"), and non-executive Chairman of Millennium & Copthorne Hotels plc ("M&C"). CDL and M&C are subsidiaries of HLIH and thus, related companies under the Hong Leong Group of companies.

In the preceding 3-year period, Mr Kwek was the Chairman and Managing Director of City e-Solutions Limited ("CES") until he stepped down in September 2016 after CES ceased to be a subsidiary of CDL. He was also non-executive Chairman and Director of Hong Leong Asia Ltd. ("HLA") until his retirement from the board in April 2017.

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 Singapore Finance Limited (now known as HLF). 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, a board member of the Singapore Hotel Association and a Fellow of the Singapore Institute of Directors ("SID"). He was also conferred an Honorary Doctorate of Business Administration in Hospitality from Johnson & Wales University (Rhode Island, US) and an Honorary Doctorate from Oxford Brookes University (UK).

Mr Kwek was presented the inaugural Global Blue Ocean Shift Award at the Global Entrepreneurship Community Summit held in Kuala Lumpur in December 2017. The award was presented to Mr Kwek in recognition of his efforts in opening up new frontiers of opportunity and growth and creating a new pipeline for economic expansion. He was also presented the Lifetime Achievement Award at the Asia Pacific Entrepreneurship Awards 2017 organised by Enterprise Asia, a regional non-governmental organization for entrepreneurship. The accolade was in recognition of his outstanding achievements, visionary leadership and steadfast dedication that has led to the successful growth of Hong Leong Group Singapore for over five decades.

He also received several awards in 2015, namely the Singapore Chinese Chamber of Commerce and Industry (SCCCI) SG50 Outstanding Chinese Business Pioneers Award, which honours the Republic's outstanding Chinese business pioneers and their exemplary contributions to nation-building; the "Best Singaporean Investor to Italy" Award which was presented by the Italian Chamber of Commerce in Singapore to business people who have made impactful investments in Italy and helped to boost bilateral ties between Italy and Singapore; and the Lifetime Achievement Award from Hotel Investment Conference Asia Pacific (HICAP) which honours exceptional individuals who have distinguished themselves through their accomplishments and contributions to expanding, enhancing and advancing the hotel industry in the Asia Pacific region and the world.

Other prestigious awards received in the past include the inaugural Real Estate Developers' Association of Singapore (REDAS) Lifetime Achievement Award in 2014 which was introduced to honour a pioneering group of real estate industry leaders in Singapore, and the "Partners in the Office of the CEO" award in the Brendan Wood International - Securities Investors Association Singapore (SIAS) TopGun CEO Designation Award in 2012 which was jointly accorded to the late Mr Kwek Leng Joo (former Deputy Chairman of CDL). The latter award was accorded to CEOs who are best in class rated by shareholders.

KWEK LENG PECK, 61
Non-Executive and Non-Independent Director

Appointed a Director of HLF since 1 January 1998, Mr Kwek was last re-elected as a Director on 26 April 2017. Mr Kwek also sits on the Exco (also as alternate to the chairman), BRC and Hong Leong Finance Share Option Scheme 2001 Committee ("SOSC") of the Company.

Mr Kwek is the Executive Chairman of HLA. He is also an Executive Director of HLIH (the ultimate holding company of HLA), the non-executive Chairman of Tasek Corporation Berhad ("TCB") and a non-executive Director of CDL, M&C and China Yuchai International Limited ("CYI"). CDL, M&C, HLA, TCB, and CYI are subsidiaries of HLIH and thus, related companies under the Hong Leong Group of companies.

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

KWEK LENG KEE, 63
Non-Executive and Non-Independent Director

Appointed a Director of HLF on 1 September 2001, Mr Kwek was last re-elected as a Director on 21 April 2016. He will be seeking re-election as a Director at the 2018 AGM.

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.

He was also appointed as Justice of the Peace by the Prime Minister's Office in May 2008 and was awarded the Public Service Star (Bar) on National Day 2014.

CHNG BENG HUA, 52
Non-Executive and Independent Director

Appointed a Director of HLF since 1 July 2000, Mr Chng was last re-elected as a Director on 26 April 2017.

He is an Executive Director and the Chief Executive Officer ("CEO") 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 working experience in finance, management of hotel and service apartment, and real estate development.

BOARD OF DIRECTORS

CHENG SHAO SHIONG @ BERTIE CHENG, 80

Non-Executive and Independent Director

Appointed a Director of HLF since 23 April 2004, Mr Cheng was last re-appointed as a Director on 21 April 2016. Mr Cheng also sits on the Exco, Audit Committee ("AC"), Remuneration Committee ("RC") and SOSC and is the chairman of the BRC and NC of the Company.

Mr Cheng retired as the CEO of POSBank in July 1997. Currently, Mr Cheng is the Chairman of TeleChoice International Limited and TEE International Limited, and a Director of Pacific Andes Resources Development Limited.

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 and Advisor to POSBank. He is also a Director of Baiduri Bank Bhd, Brunei.

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, 70

Non-Executive and Lead Independent Director

Appointed a Director of HLF on 24 April 2009, Mr Mattar was last re-elected as a Director on 21 April 2016. 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 other bodies in both the private and public sectors.

Other appointments include being a member of the Public Service Commission, Council of Presidential Advisers, and Pro-Chancellor of National University of Singapore.

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

TER KIM CHEU, 71

Non-Executive and Independent Director

Appointed a Director of HLF on 1 September 2010, Mr Ter was last re-elected as a Director on 26 April 2017. He is also the chairman of the Board Sustainability Committee ("BSC") and sits on the Exco, AC, 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, Mr Ter is the Lead Independent Director of Kimly Limited. He is a member of the Strata Titles Board of Singapore and the Audit Committee of Singapore Sports Council. He also provides legislative consultancy services overseas.

Mr Ter holds a Bachelor of Social Sciences (Hons) degree from the then University of Singapore and Bachelor of Law 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, 58

Non-Executive and Independent Director

Appointed a Director of HLF on 1 March 2012, Mr Lim was last re-elected as a Director on 23 April 2015. He also sits on the Exco, BRC and BSC of the Company. He will be seeking re-election as a Director at the 2018 AGM.

Mr Lim is a former Cabinet Minister in the Singapore Government. He has held various ministerial positions including Foreign Affairs, Trade and Industry, Finance and Transport from 2001 to 2011.

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

Mr Lim is currently the Executive Chairman of APS Asset Management Pte Ltd. He is also a Senior Advisor to the Swire Group, a Hong Kong-based industrial conglomerate and a Director of several companies including Swire Properties Limited and Raffles Medical Group Limited. He is an Adjunct Professor of the Lee Kuan Yew School of Public Policy, National University of Singapore and the Nanyang Centre of Public Administration, Nanyang Technological University. In the preceding 3-year period, he was a Director of Insurance Australia Group Limited until he stepped down in February 2017.

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.

KEVIN HANGCHI, 45

Non-Executive and Non-Independent Director

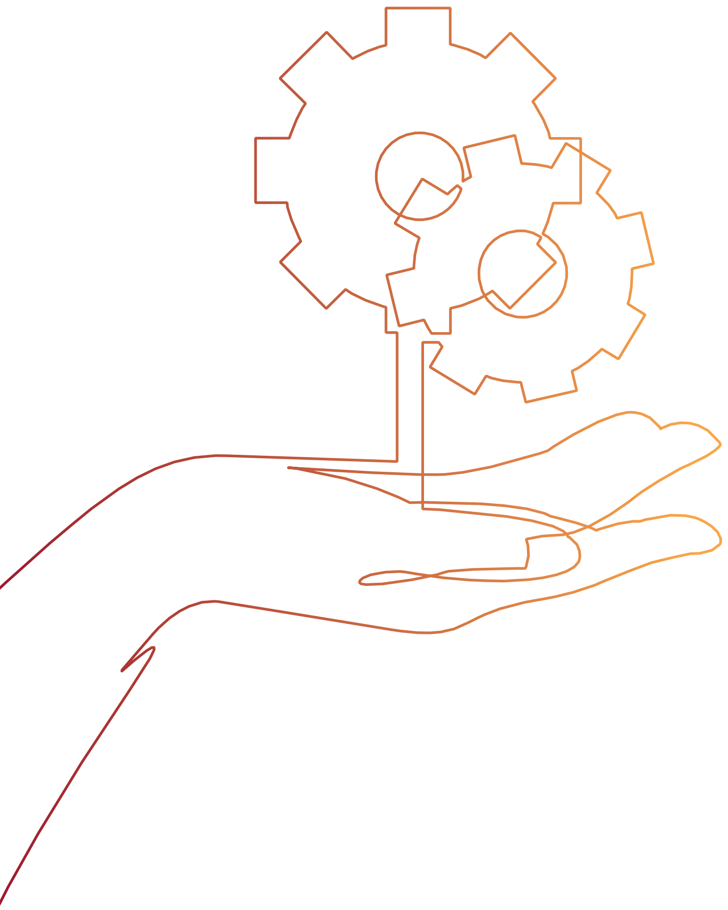
Appointed a Director of HLF on 1 October 2016, Mr Hangchi was last elected on 26 April 2017. He also sits on the BRC and BSC.

Mr Hangchi is also a Non-Executive Director of Millennium & Copthorne Hotels New Zealand Limited ("M&C NZ"), a subsidiary of M&C. M&C NZ and M&C are subsidiaries of HLIH and are thus related companies under the Hong Leong group of companies.

Mr Hangchi joined the Hong Leong group, Singapore in 1999 and has garnered extensive global transactional experience across many of the Hong Leong Group's entities which include listings and public offerings, mergers and acquisitions as well as capital markets issuances and banking facilities. Prior to that, he was an Advocate and Solicitor in Allen & Gledhill LLP from 1997 to 1999.

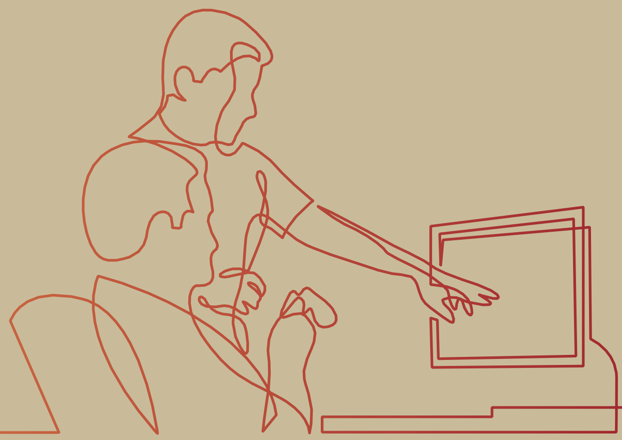
Mr Hangchi graduated from the University of Southampton in the United Kingdom with a BSc (Social Sciences) (Hons) Degree in Accounting and Law. He was called to the English Bar and admitted to the Rolls as a Barrister-At-Law (Middle Temple) and was also called to the Singapore Bar.

DEVELOPING INNOVATIVE SOLUTIONS



Hong Leong Finance values innovation and partnership and helps customers unleash their potential by working with individuals and organisations to achieve a sustainable vision. The company's unwavering commitment to establishing long-term partnerships with customers, businesses, shareholders, and the community has always been a cornerstone of its success.

Hong Leong Finance provides customised financial solutions to help medical practitioners sustain and grow their practices, as well as financing services to secure mortgage loans for clinic spaces, own or lease necessary medical equipment.



CORPORATE GOVERNANCE REPORT

Hong Leong Finance Limited ("HLF" or the "Company") is committed to maintaining high standards of business integrity, professionalism and governance in its business dealings. The Company has complied with Listing Rule 710 by describing in this report its corporate governance ("CG") practices with specific reference to the principles and guidelines of the Code of Corporate Governance ("2012 Code") ("CG Report"). Where the Company's practices differ from the principles or guidelines of the 2012 Code, these differences and the Company's position in respect of the same are set out in this report.

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 provide leadership, set broad policies, provide guidance on and approve strategic objectives, ensure that necessary financial and human resources are in place for the Company to meet its objectives, 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 including setting corporate values and ethical standards.

For an overview of the Company, its objectives and strategies, please refer to the Operating and Financial Review ("OFR") on page 46 and the Chairman's Statement on page 4 of this Annual Report ("AR").

Sustainability

The Board notes the importance of including sustainability issues as part of its overall review of the Company's strategic objectives and performance. In this regard, the Board has established a Board Sustainability Committee ("BSC") and delegated to the BSC the general oversight on sustainability issues and sustainability reporting. The BSC comprises three Directors, all of whom are non-executive Directors with the majority being independent. The BSC's terms of reference set out, *inter alia*, the roles and responsibilities of the BSC and include its purview over matters relating to the environmental, social and governance ("ESG") framework, ESG targets, the sustainability reporting framework and the Company's policies, practices and performance on its material ESG factors which are significant and contribute to the Company's performance, business activities, and/or reputation as a corporate citizen. Further information on the Company's sustainability practices are set out in the Summary Annual Sustainability Report on page 45 of the AR.

The Company will be issuing its inaugural annual Sustainability Report 2017 in the second half of 2018. The Sustainability Report 2017 will be made available on the Company's corporate website and on SGXNET.

Independent Judgement

All Directors are required to objectively discharge their duties and responsibilities in the interests of the Company. This ability to exercise objectivity is one of the assessment criteria in the Nominating Committee's ("NC") annual evaluation of the Directors.

Directors, who are in any way, directly or indirectly, interested in a transaction or proposed transaction declare the nature of their interests in accordance with the provisions of the Companies Act, Chapter 50 and the Finance Companies Act, Chapter 108, where applicable, and voluntarily abstain from deliberation on such transactions, with abstention duly recorded within the minutes and/or the resolutions of the Board and/or the various committees of the Board.

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 Audit Committee ("AC"), Board Risk Committee ("BRC") (formerly known as Risk Management Committee), the NC, the Remuneration Committee ("RC"), the Hong Leong Finance Share Option Scheme 2001 ("SOS") Committee ("SOSC") and the BSC, all collectively referred to hereafter as the Board Committees.

Specific written terms of reference for each of these Board Committees set out the authority and responsibilities of each of the Board Committees. All terms of reference for the Board Committees are approved by the Board and reviewed periodically to ensure their continued relevance taking into consideration the changes in the governance and regulatory environment.

The Board has also placed its members, including independent non-executive Directors ("NEDs"), from time to time on management committees such as the Loan Sub-Committee and Management Sub-Committees to provide independent review and as a check and balance on the work of those committees involved in the approval of loan and credit proposals, as well as the Corporate Finance Committee to approve specific matters relating to the Company's provision of corporate financial advisory services. The powers and authorisation limits of the relevant management committees are also approved by the Board.

Board Committee	Composition
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
Audit Committee	Po'ad bin Shaik Abu Bakar Mattar (chairman) Ter Kim Cheu Cheng Shao Shiong @ Bertie Cheng
Board Risk Committee	Cheng Shao Shiong @ Bertie Cheng (chairman) Kwek Leng Beng Kwek Leng Peck Raymond Lim Siang Keat Kevin Hangchi
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
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
Board Sustainability Committee	Ter Kim Cheu (chairman) Raymond Lim Siang Keat Kevin Hangchi

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The delegation of authority by the Board to the Board Committees and management committees enables the Board to achieve operational efficiency by empowering these committees to decide on matters within their respective terms of reference and/or limits of delegated authority, and yet without abdicating the Board's overall responsibility.

Please refer to the sections on Principles 4, 5, 7, 8, 11 and 12 in the CG Report for further information on the duties of the AC, BRC, NC and RC. Information on the duties of the BSC can be found under the 'Sustainability' paragraph in the earlier part of the CG Report while those of the Exco's can be found under the 'Board Approval' paragraph in this section. Information on the duties of the SOSC can be found in the Directors' Statement on pages 63 to 65 and in the Financial Statements on pages 92 to 96 of the AR.

Board Processes

Board and Board Committee meetings are held regularly, with the Board meeting no less than four times a year. Four Board meetings were held in 2017.

A meeting of the NEDs, chaired by the Lead Independent Director ("Lead ID") is held at least once a year and as often as may be warranted by circumstances. One meeting was convened in 2017. Meetings of the independent Directors ("IDs") are convened as often as may be warranted by circumstances. No meeting of the IDs was required to be convened in 2017.

The proposed meetings for the Board, all Board Committees and the NEDs for each new calendar year are set out in a schedule of meetings and notified to all Board members before the start of that 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 Constitution allows for the meetings of its Board and the Board Committees to be held *via* teleconferencing or video conferencing. The Board and Board Committees may also make decisions by way of circulating written resolutions.

The attendance of the Directors at the annual general meeting ("AGM") and at meetings of the Board, the Board Committees and the NEDs, as well as the frequency of such meetings in 2017, is disclosed below. Notwithstanding such disclosure, the Board is of the view that the contribution of each Director should not be focused only on his attendance at the AGM and 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 through strategic networking relationships which would further the interests of the Company.

Directors' Attendance at the AGM, and Meetings of the Board, Board Committees and the NEDs in 2017

(a)

	Board	Exco	AC	NC	RC	SOSC	BRC	NEDs
Number of meetings held in 2017:	4	2	6	3	3	1	2	1
Name of Directors	**Number of meetings attended in 2017**							
Kwek Leng Beng	4	2	N.A.	3	N.A.	N.A.	2	N.A.
Kwek Leng Peck	4	2	N.A.	N.A.	N.A.	1	2	1
Kwek Leng Kee	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1
Chng Beng Hua	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1
Cheng Shao Shiong @ Bertie Cheng	4	2	6	3	3	1	2	1
Po'ad bin Shaik Abu Bakar Mattar	4	N.A.	6	3	3	1	N.A.	1
Ter Kim Cheu	4	2	6	N.A.	3	1	N.A.	1
Raymond Lim Siang Keat	4	2	N.A.	N.A.	N.A.	N.A.	2	1
Kevin Hangchi	4	N.A.	N.A.	N.A.	N.A.	N.A.	2	1

(b) All the Directors were present at the Company's AGM held in April 2017.

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Board Approval

The Board has in place an internal guide wherein certain key matters are specifically reserved for approval by the Board and this includes 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 into or withdraw from a particular market sector, corporate or financial restructuring, 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 legislation as well as the provisions of the Company's Constitution.

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 five Directors with the majority of its members being independent. The Exco's principal responsibility as set out in its terms of reference, approved by the Board, is to assist the Board in the discharge of its duties including, 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 Listing Manual") up to a limit authorised by the Board.

Management is fully apprised of such matters which require the approval of the Board or the Board Committees. The Company also has a structured authority matrix which sets out the delegated authority to the various levels of Management.

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 legislation. The new Director will also receive an induction pack containing information and documents relating to the role and responsibilities of a director and where applicable, a member of the relevant Board Committees, the Company's business, Board processes, corporate governance practices, relevant Company policies and procedures as well as a meeting calendar for the year with a brief of the routine agenda for each meeting of the Board and Board Committees.

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 Management to allow the new Directors to be acquainted with, and to facilitate their independent access to Management in future. The programme also includes briefings by Management on key areas of the Company's operations.

For a first time Director who has no prior experience as a director of a listed company, in addition to the induction as detailed above, he or she will be encouraged to also attend the Listed Company Director ("LCD") Programme conducted by the Singapore Institute of Directors ("SID") in order to acquire relevant knowledge of what is expected of a listed company director. Completion of the LCD Programme, which focuses on comprehensive training of company directors on compliance, regulatory and corporate governance matters, should provide the first time Director with a broad understanding of the roles and responsibilities of a director of a listed company under the requirements of the Companies Act, Chapter 50, the SGX-ST Listing Manual and the 2012 Code.

The Directors are 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, relevant legislation, risk management and financial reporting standards. The Directors are also regularly kept informed by the Company Secretary of the availability of appropriate courses, conferences and seminars such as those run by the SID and the Directors are encouraged to attend such training at the Company's expense. The NC and the Board are kept informed of the trainings attended by the Directors during the year. As part of the NC's annual assessment of the skills

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set of the Board and the respective Board Committees, the NC would also recommend further training for the Directors in specific areas, if so required, to supplement the regular updates/briefings provided to the Directors from time to time.

Three in-house seminars were conducted by invited speakers in 2017, on topics relating to emerging risks, trends and outlook for the real estate sector, data protection, cybersecurity and emerging sustainability trends touching on impact investing, green financing, integration of sustainable development goals and gender diversity. In 2017, the Directors were also briefed by the Head of the Company's Compliance department on the Board's role as set out under the Monetary Authority of Singapore ("MAS") Notice 824 to finance companies relating to anti-money laundering and countering the financing of terrorism ("AML/CFT"), and the AML/CFT processes in the Company. An external advisor was also invited to update the Board on salient technology and cyber risk developments. In addition to the training courses/programmes and briefing updates, Directors are also at liberty to approach Management should they require any further information or clarification concerning the Company's operations.

Principle 2: Board Composition and Guidance

Board Independence

The Board currently comprises nine members. No alternate Directors are appointed. All members of the Board except for the Chairman of the Board ("Board Chairman") are NEDs. Of the eight NEDs, the NC has determined five of them, being more than half of the Board, to be independent ("5 IDs"), thus providing for a strong and independent element on the Board capable of exercising objective judgement on the corporate affairs of the Company. No individual or small group of individuals dominates the Board's decision-making. The Board concurred with the NC's determination of the independence of the 5 IDs.

When determining the independence of the 5 IDs, the NC has considered the guidelines for independence set out in Guideline 2.3 of the 2012 Code. As part of the consideration, the NC also considered their other directorships, annual declarations regarding their independence, 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. The 5 IDs are Mr Chng Beng Hua, Mr Bertie Cheng, Mr Po'ad Mattar, Mr Ter Kim Cheu and Mr Raymond Lim.

In determining the independence of Mr Chng Beng Hua and Mr Bertie Cheng, both of whom have served on the Board for more than nine years, the NC and the Board have given due consideration to the recommendation under Guideline 2.4 of the 2012 Code that the independence of any director who has served on the Board beyond nine years be subject to particularly rigorous review. The Board members had provided their views on the independence of Mr Chng and Mr Cheng by taking into consideration factors such as whether they have expressed their individual viewpoints and debated issues constructively during meetings of the Board and Board Committees, whether they have constructively challenged and sought clarification from Management as and when necessary and whether they have avoided apparent conflicts of interest by abstaining from deliberation on matters in which they have an interest in. Having considered the feedback from the Board members, the other directorships of Mr Chng and Mr Cheng and their annual declaration on independence, the Board (with Mr Chng and Mr Cheng abstaining respectively in respect of the deliberation over their own independence) concurred with the NC's determination (with Mr Cheng abstaining in respect of the deliberation over his own independence) that both Mr Chng and Mr Cheng are independent notwithstanding they have served on the Board beyond nine years as they have continued to demonstrate strong independence in character and judgement in the discharge of their responsibilities as Directors of the Company. They had also avoided apparent conflicts of interests especially by abstaining from deliberation on transactions in which they had a direct/indirect interest, and were able to maintain objectivity in their conduct as Directors of the Company. They have objectively raised issues and sought clarification as and when necessary from the Board, Management and the Group's external advisors on matters pertaining to their area of responsibilities whether on the Board or on the Board Committees. The Company has also benefitted from their years of experience in their respective fields of expertise.

Board Composition and Size

The NC reviews the size and composition mix of the Board and Board Committees annually. The Board comprises business leaders and professionals with financial (including audit and accounting), 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. Further information on the individual Directors' background, experience and skills can be found in the 'Board of Directors' section in the AR.

With consideration of the scope and nature of the operations of the Company, the Board is satisfied that the current composition mix and size of the Board provide for sufficient diversity and yet allow for effective decision-making at meetings of the Board and Board Committees. The NC is supportive of diversity on the Board including gender diversity and as part of its ongoing efforts to rejuvenate the Board, will consider candidates with the appropriate qualification, experience and competency for appointment to the Board. To formalize the process, the Board on the recommendation of the NC has adopted a Board diversity policy which sets out the policy and framework for promoting diversity on the Board.

NEDs' Participation

NEDs are encouraged to participate actively at 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 and management committees to provide constructive input and the necessary review and monitoring of performance of the Company and Management. Under the chairmanship of the Lead ID, a meeting of the NEDs was convened in 2017 without the presence of Management and the Board Chairman.

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 Managing Director ("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 with written terms of reference approved by the Board, 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, ensuring sufficient allocation of time for thorough discussion of each agenda item, promoting an open environment for debate, encouraging the NEDs to speak freely and contribute effectively, and exercising control over the quality, quantity and timeliness of information flow between the Board and Management. As the Board Chairman, he also promotes and leads the Company in its commitment to achieve and maintain high standards of corporate governance. At AGMs 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 Ang Tang Chor and other members of the Senior Management team which comprises:

- Mr Leong Chee Wah, Senior Vice President (Risk Management and Credit Control)
- Ms Joan Yeo, Chief Financial Officer ("CFO")
- Mr Jeffrey Toh, Senior Vice President (Corporate & Consumer Business)
- Ms Peh Guat Hong, Senior Vice President (Corporate & Consumer Business)
- Mr Benjamin Ng, Senior Vice President (Operations)
- Mr Andrew Low, Senior Vice President (Human Resources)

Ms Yeo joined the Company on 19 February 2018 as the Company's CFO taking over the finance and treasury functions from Mrs Soon Yee Christie, Executive Vice President (Finance & Corporate Services/Group Financial Controller ("GFC") who retired on 27 February 2018.

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The President who has been with the Company for more than ten years has extensive working experience in the banking and finance sector. Please refer to the Operating and Financial Review on page 55 of the AR for additional information on the President. Mr Ang is not related to the Board Chairman.

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 ID to serve as a sounding board for the Board Chairman and as an intermediary between the NEDs/IDs 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. The Lead ID is available to shareholders where they have concerns and for which contact through the normal channels of the Board Chairman/MD or the President or the GFC has failed to resolve or is inappropriate. No query or request on any matter which requires the Lead ID's attention was received from the shareholders in 2017. Under the chairmanship of the Lead ID, a meeting of the NEDs was convened in 2017 without the presence of Management or the Board Chairman, and the views expressed by the NEDs at the meeting was provided by the Lead ID to the Board Chairman.

Principle 4: Board Membership

NC Composition and Role

Two out of the three members of the NC, including the NC chairman, are independent. The Lead ID is one of the independent members of the NC.

The NC's responsibilities as set out in its written terms of reference approved by the Board, are to examine the Board size, review all Board and Board Committees composition and membership, board succession plans for the Directors, including the Board Chairman, determine each Director's independence annually and as and when circumstances require, evaluate performance of the Board as a whole, its Board Committees and the individual Directors, review appointments and reasons for resignations and termination of and succession planning for the MD, the President and the CFO, review and confirm the induction programme for newly appointed Directors and for existing Directors in respect of their appointments to any of the Board Committees, and review training and continuous professional development programme for the Directors. Three NC meetings were held in 2017. The Company Secretary maintains records of all NC meetings including records of discussions on key deliberations and decisions taken.

For the financial year under review, the NC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("NC Self-Assessment Checklist"). The NC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the NC under its terms of reference, and considered also the contribution of NC members to the deliberation and decision-making process at NC meetings.

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

Re-nomination of Directors

The NC reviews annually the nomination of the relevant Directors for election/re-election as well as the independence of Directors. When considering the nomination of Directors for election/re-election, 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 listed company board representations and/or other principal commitments, and also reviews their independence. The recommendation of the NC on the annual nomination of the Directors for election/re-election is submitted to the Board for decision and thereafter put to the shareholders for approval at the AGM.

The Constitution of the Company provides that not less than one-third of the Directors for the time being shall retire as Directors at each AGM. All new Directors appointed by the Board shall hold office until the next AGM, and be eligible for election at the said AGM.

In accordance with the Constitution of the Company, Mr Raymond Lim, Mr Kwek Leng Beng and Mr Kwek Leng Kee will be retiring at the forthcoming AGM ("2018 AGM") and being eligible have offered themselves for re-election.

Criteria and Process for Nomination and Selection of New Directors

Searches for and selection of candidates to be considered for appointment as Directors are facilitated through recommendations from the Directors and various other sources. The NC interviews shortlisted candidates before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees.

In reviewing and recommending to the Board any new Director appointments, the NC considers: (a) the candidate's track record, experience and capabilities, or such other factors including age and gender as may be determined by the NC to be relevant and which would contribute to the Board's collective skills and diversity; (b) whether the candidate is fit and proper in accordance with MAS' fit and proper criteria (which requires the candidate to be competent, honest, to have integrity and be of sound financial standing); (c) any competing time commitments if the candidate has multiple listed company board representations and/or other principal commitments; (d) the candidate's independence, in the case of the appointment of an independent NED; and (e) the composition requirements for the Board and Board Committees after matching the candidate's skills set to the requirement of the relevant Board Committees (if the candidate is proposed to be appointed to any of the Board Committees).

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

Directors' Time Commitments

When considering the re-nomination of Directors for election/re-election, the NC also takes into account the competing time commitments faced by Directors with multiple listed company board representations and/or other principal commitments. An analysis of the directorships (which includes directorships within corporate groups and executive appointments) held by the Directors is reviewed annually by the NC. Each Director is also required to confirm annually to the NC as to whether he has any issue with competing time commitments which may impact his ability to provide sufficient time and attention to his duties as a Director of the Company. Based on the analysis, the Directors' annual confirmation 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.

It is recommended under the 2012 Code that the Board consider providing guidance on the maximum number of listed company board representations which each Director of the Company may hold in order to address competing time commitments faced by Directors serving on multiple boards. Excluding the directorship held in the Company, the number of listed company board representations currently held by:

- each Independent Director did not exceed three; and
- each non-Independent Director did not exceed five, all being representations on the boards of related companies of the Company.

Having considered this issue, the NC does not recommend setting a maximum number of listed company board representations that a Director may hold. The Board considers an assessment of the individual Directors' participation as described above to be more effective for the Company than to prescribe a numerical limit on the number of listed company directorships that a Director may hold. It would

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not wish to omit from consideration suitable individuals who, despite the demands on their time, have the capacity to participate and contribute as members of the Board.

In addition to the current review procedures of the attendance records and analysis of directorships/principal commitments, a policy has been put in place for Directors to consult the Board Chairman and the chairman of the NC prior to accepting any new listed company board appointments or principal commitments and notifying the Board of any changes in their external appointments. This would allow the Directors to review their time commitments with the proposed new appointments and in the case of an independent Director, to also ensure that his independence would not be affected.

Key Information on Directors

Please refer to the 'Board of Directors' section in the AR for key information on the Directors, and additional information in the notice of AGM for Directors proposed for re-election at the 2018 AGM.

Succession Planning for the Board, the Board Chairman and the MD

The Board believes in carrying out succession planning for itself, the Board Chairman 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 and Board Committees, 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.

Board Development

The NC reviews the training and development of the Directors to ensure that Directors receive appropriate development on a continuing basis, to perform their roles on the Board and where applicable, the Board Committees. The Directors are provided with updates and/or briefings to assist them to properly discharge their duties. The briefings are conducted either internally with invited speakers, or externally, at the Company's expense. Further training for the Directors in specific areas are also being recommended by the NC, where required, based on the NC's review of the annual evaluation checklists from the Board and the Board Committees. A separate programme is established for new Directors, details of which together with details of the internal briefing and updates provided to the Directors in 2017 are set out in the paragraph above under the subject heading "Board Orientation and Training".

The Board is kept apprised twice yearly on a list of training programmes attended by the Directors during the year.

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, the various Board Committees and the contribution by each Director to the effectiveness of the Board and the Board Committees, where applicable. No external facilitator has been used. The NC assesses the Board's performance as a whole annually using criteria which were recommended by the NC and approved by the Board. When assessing the overall Board performance, the NC takes into consideration the Board composition, the Directors' independence, feedback from individual Directors on areas relating to the Board's strategy and performance, process, governance (including risk management and internal controls) and the effectiveness of the Board Chairman. 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 NC's assessment of the performance of the Board Committees is assisted by the self-assessment checklists of the NC, RC, BRC and the AC as well as reports provided by the chairmen of the Exco and SOSC.

The annual evaluation process for each individual Director's performance comprises two parts: (a) background information concerning the Director including his attendance records at Board and, where applicable, Board Committee meetings; and (b) NC's evaluation based on certain assessment parameters. The assessment parameters were recommended by the NC and approved by the Board.

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 election/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 criteria used by the NC to evaluate the Board covers six areas relating to Board composition, Board independence, the Board's review of the Company's strategy and performance, the Board's oversight on the Company's governance including risk management and internal controls, and the effectiveness of the Board Chairman and Board processes.

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, where applicable, 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 also provides all Directors with monthly financial results including analysis of the said results which are submitted within 30 days of each month end. Any material variance between the month and year-to-date ("YTD") under review as compared to the immediate preceding month, the YTD of the preceding year, and the YTD budget, are disclosed and explained.

Management, the Company's external auditors and professional advisers who can provide additional insight into the matters for discussion are also invited from time to time to attend Board and/or Board Committees' 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 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 of the Company. Each of the chairmen of the AC, NC, RC, SOSC and Exco provides an annual report of the respective committee's activities during the year under review to the Board. The chairman of the BRC 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 Board meetings and meetings of the AC, NC, RC, SOSC, BRC, BSC, NEDs and IDs and ensures that Board procedures are followed. The Company Secretary, together with Management, also ensures that the Company complies with the 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 ensuring good information flows

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within the Board and the Board Committees and between Management and the Directors, facilitating orientation for newly appointed Directors and appointments to Board Committees, and continuing training and development for the Directors.

On an on-going basis, the Directors have separate and independent access to the Company Secretary.

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 three 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 (which covers all aspects of remuneration) for the Directors and the KMP. The Company currently identifies its MD who is the only Executive Director of the Company, and the President as its KMP. On an annual basis, the RC reviews and approves the remuneration packages (including annual increments, mid-year and year-end variable bonuses and share options) for the KMP which are within specific mandates sought from the Board. The KMP's contracts of service which have been reviewed by the RC do not contain any unfair or unreasonable termination clauses.

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 RC has access to appropriate advice from the Company's Head of Human Resources department ("HR Head"), who attends all RC and SOSC meetings. No remuneration consultants from outside the Company were appointed.

The Company Secretary maintains records of all RC and SOSC meetings including records of discussions on key deliberations and decisions taken. Three meetings of the RC were convened during 2017.

For the financial year under review, the RC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("RC Self-Assessment Checklist"). The RC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the RC under its terms of reference, and considered also the contribution of RC members to the deliberation and decision-making process at RC meetings.

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

Principle 8: Level and Mix of Remuneration

Remuneration of Directors and KMP

The Company's remuneration policy for Directors comprises the following distinct objectives:

- to ensure that the procedure for determining remuneration for Directors is formal and transparent;
- to ensure that the level of remuneration is sufficient (without being excessive) to attract and retain Directors to exercise oversight responsibility over the Company; and
- to ensure that no Director is involved in deciding on his own remuneration.

In reviewing the remuneration package of the KMP, the RC, with the assistance of the HR Head, considers the level of remuneration based on the Company's remuneration policy which comprises the following three 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 compensation packages for the KMP comprise a fixed component (in the form of a base salary and where applicable, fixed allowances), a variable component (which would normally comprise short-term incentives in the form of mid-year and year-end variable bonuses and long-term incentives in the form of the grant of share options subject to a vesting schedule) and benefits-in-kind, if any. The variable components take into account amongst other factors, the KMP's performance, the Company's performance and industry practices.

In determining the variable component for a KMP, the KMP's individual performance is taken into consideration together with any annual guidance from the National Wages Council, competitive market practices and information gathered from market surveys conducted by the Company's Human Resources department. This is then reviewed along with the Company's performance, taking into consideration specific indicators tracked over time which align with shareholders' interest. Besides profitability, the growth and the quality of the Company's core business are also taken into account with the monitoring of the size and robustness of its loan assets and the level of non-performing loans.

As one of the objectives for the implementation of the SOS including the extension thereof is to make the total compensation of the participants more attractive and competitive in order for the Company to attract, retain and motivate good employees, the Company does not require the KMP to continue to hold their shares upon exercise of the options after the vesting period. Options granted under the SOS to KMP vest progressively over a period of three years. To-date, the Company has granted only Market Price (as defined in the SOS) options. Information on the SOS is set out in the Directors' Statement on pages 63 to 65 and the Financial Statements on pages 92 to 96 of the AR.

The Company does not discourage Directors from holding shares in the Company. There is however no requirement under the Company's Constitution for Directors to hold shares in order to be qualified to act as a Director. The RC has considered and decided that the grant of options under the SOS to NEDs is not appropriate and should not be used as a scheme to encourage NEDs to hold shares in the Company. The RC has also considered and is satisfied that the payment of Directors' fees to the NEDs in cash is appropriate under the present circumstances.

Since 2014, the letter of offer of options to eligible participants (including the KMP) under the SOS includes a claw-back provision which gives the Company the right to recover or cancel the options (whether in whole or in part, before they are exercised) in the event of exceptional circumstances involving a misstatement of the financial results of the Company for the financial year on which the grant is based, or any misconduct by an employee of the Company, resulting in financial loss to the Company.

When reviewing the structure and level of Directors' fees, the RC takes into consideration the Directors' respective roles and responsibilities in the Board and Board Committees and the changes in the business, corporate governance practices and regulatory rules. The RC also compared the Company's fee structure against industry practices. Other factors taken into consideration in the fee review includes the 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. No Director is involved in deciding his own remuneration.

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 receiving a higher fee in respect of their service as chairman of the respective committees. The structure of fees paid or payable to Directors of the Company for FY 2017 is set out in the following page:

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Appointment	Fees per annum ($)
Director	60,000 (Basic fee)
	Additional Fees:
Board Chairman	20,000
Executive Committee (Exco) • Exco Chairman • Exco Member	 30,000 20,000
Nominating Committee (NC) • NC Chairman • NC Member	 18,000 12,000
Remuneration Committee (RC) • RC Chairman • RC Member	 18,000 12,000
Hong Leong Finance Share Option Scheme 2001 Committee (SOSC) • SOSC Chairman • SOSC Member	 4,000 3,000
Audit Committee (AC) • AC Chairman • AC Member	 60,000 40,000
Board Risk Committee (BRC) • BRC Chairman • BRC Member	 120,000 40,000
Lead Independent Director	10,000

Principle 9: Disclosure of Remuneration

Disclosure of Remuneration

The Company's remuneration policies, level and mix of remuneration, as well as the link between the remuneration paid to Directors and the KMP, and performance is as set out under Principle 8 above. Information on the SOS is set out in the Directors' Statement on pages 63 to 65 and the Financial Statements on pages 92 to 96 of the AR.

The compensation packages of the KMP comprised a fixed component (in the form of a base salary and fixed allowances), a variable component (in the form of mid-year and year-end variable bonuses and share options) and benefits-in-kind, taking into account amongst other factors, the individual's performance, the Company's performance and industry practices.

There were no termination, retirement or post-employment benefits granted to any Director or KMP in 2017.

Director's Remuneration for FY 2017

The remuneration of each Director including a breakdown (in percentage terms) earned through base salary, variable bonuses/allowances, fees, share option grants and other benefits for FY 2017, is set out in the following page:

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Name of Director	Total Remuneration (nearest thousand) $	Base Salary[1] %	Variable Bonuses/ Allowances[1] %	Board/Board Committee Fees[2] %	Share Option Grants[3] %	Other Benefits %	Total %
Executive Director							
Kwek Leng Beng (MD)	2,172	46	43	7	2	2	100
Non-executive Directors							
Kwek Leng Peck	123	–	–	100	–	–	100
Kwek Leng Kee	60	–	–	100	–	–	100
Chng Beng Hua	60	–	–	100	–	–	100
Cheng Shao Shiong @ Bertie Cheng	278	–	–	98	–	2	100
Po'ad bin Shaik Abu Bakar Mattar	164	–	–	100	–	–	100
Ter Kim Cheu	135	–	–	100	–	–	100
Raymond Lim Siang Keat	120	–	–	100	–	–	100
Kevin Hangchi	100	–	–	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 BRC fees) for FY 2017, which are subject to approval by shareholders as a lump sum at the 2018 AGM as well as the AC and BRC fees for FY 2017 that have already been approved by shareholders at the 2017 AGM.
3. These relate to options granted during FY 2017. The fair value of the options as at the date of grant is $0.3574 for each share under option taking into account the vesting schedule using the Black-Scholes Option Pricing Formula.

Remuneration of Key Management Personnel (not being a Director or Chief Executive Officer) for FY 2017

The Board does not believe it is in the interest of the Company to disclose the remuneration of its President who was identified as the Company's KMP (not being a Director) for FY 2017 having regard to the highly competitive human resource environment.

Remuneration of Director's Immediate Family Member for FY 2017

The annual remuneration of Ms Kwek Lay Yong, sister of Mr Kwek Leng Peck who is a NED of the Company, was in the band of $100,000 to below $150,000 for FY 2017.

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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 FY 2017, the President and GFC provided assurance to the AC on the integrity of the quarterly unaudited 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: Risk Management and Internal Controls

The main functions of the Risk Management department are to (a) support the Board in carrying out its oversight of the Company's risk management program, (b) to support Management in achieving the Company's strategic priorities by maintaining and enhancing the risk framework and (c) to promote a strong risk culture which emphasizes each team member's accountability for appropriate risk management. The approach to risk is based on an effective control framework and a strong risk management culture which guides how the Company's employees approach their work, the way they behave and the decisions they make. The amount and type of risk that the Company is prepared to seek, accept or tolerate, otherwise known as risk appetite, works in tandem with the strategy and is approved by the Board's BRC. The Company's risk appetite is then embedded within policies, authorities and limits across the Company. The Company ensures that it has the functional capability to manage risks in new and existing businesses, and that business plans are consistent with risk 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. The Company is committed to ensuring that its risk management practices reflect a high standard of governance. This then enables Management to effectively undertake prudent risk-taking activities.

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. Governance is maintained through delegation of authority from the Board, down through the management hierarchy, and supported by a committee based structure. 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 BRC, a dedicated risk committee at board level oversees and reports to the Board on matters relating to the risk management function of the Company. The BRC reviews the adequacy and effectiveness of and approves the risk management framework, related risk management policies and systems. It also oversees the establishment and operation of the risk management systems that are in place. The BRC comprises five Directors, four of whom are NEDs. The members of the BRC possess the relevant business experience and are therefore suitably qualified to discharge their responsibilities. The Company Secretary maintains records of all BRC meetings including records of discussions on key deliberations and decisions taken.

During the year, the BRC did a self-assessment of its performance based on the self-assessment checklist ("BRC Self-Assessment Checklist"). The BRC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the BRC under its terms of reference. Based on the self-assessment, the BRC 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 BRC for maintaining an effective control environment that reflects established risk 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 for optimal performance.

The Company manages a variety of risks that can affect its financial performance, and its ability to meet the expectations of its customers, shareholders, regulators, and other stakeholders. 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 four 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 BRC 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 on-going 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. The Company's risk policies and limits framework are intended to ensure that risks are appropriately identified, measured, monitored and controlled in accordance with the Company's risk appetite. For most risks, the Company has developed an overarching framework document that sets out the key principles for managing the associated risks and the Company's key risk policies and limits. This framework is supported by standards, guidelines, processes, procedures and controls that govern day-to-day activities in the Company's businesses. Oversight is provided by management committees such as the Assets and Liabilities Committee, Business Continuity Disaster Recovery Committee, and the Management Risk Committee, as well as the BRC.

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. Business strategy is a key driver of the Company's risk profile and as such the strategic choices that are made in terms of the business mix determine how the risk profile changes. The Company is mindful of the changes in its operating environment from time to time and

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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 risk of loss resulting from the failure of borrowers and/or counterparties to meet their debt or 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 judgement. 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. Credit risk is undertaken that meets internal underwriting standards. This ensures that risks are commensurate with potential returns that enhance shareholder value.

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. The effectiveness of this framework is thus assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, Company and staff. 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.

In support of promoting Responsible Financing lending practices, checks are performed for companies operating in sectors with elevated ESG risk profiles or those noted to have ESG issues from the last ESG assessment. Relationship Managers were trained internally on the Company's ESG framework and policies.

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. Credit exposures and limits are managed to ensure alignment with the Company's risk appetite and to maintain the target business mix. The Company addresses credit risk concentration by setting a credit portfolio mix limit after taking into account business, economic, financial and regulatory environments; 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 109 to 112 of the AR.

Singapore Financial Reporting Standards ("FRS") 109 introduces a new approach for the estimation of allowance for credit losses based on the Expected Credit Loss ("ECL") model, which includes more forward-looking information and addresses the issue of delayed recognition of credit losses on loans and other financial instruments. The ECL reflects information about past events, current conditions and forecasts of future economic conditions. Management overlay will be applied in the event where additional considerations are assessed to have been inadequately addressed in model estimates.

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 the short and long term within approved risk limits. 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 sufficient sources of funds are available over a range of market conditions. These include minimising excessive funding concentrations by diversifying the sources and uses of funds and maintaining a portfolio of high quality liquid assets. The Company's funding and liquidity position is underpinned by its significant customer deposits base, and is supported by strong relationships with corporate customers to supplement its retail deposits base. 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 Assets and Liabilities Committee reviews policies, strategies and limits in the management of market risk. The BRC 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. These limits serve to control the overall extent and composition of respective liquidity and interest rate risks taken. 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 113 to 119 of the AR.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events that are neither market nor credit related. Operational risk is inherent in the Company's business activities as well as the internal processes that support those business activities, and can lead to reputational damage, financial loss or have regulatory consequences. It includes fraud, errors from execution, delivery and transaction processing, natural disasters, systems failure, and lapses by outsourced service providers.

The Company has put in place an operational risk framework that assists all departments to achieve their objectives through the effective identification, assessment, measurement, control and mitigation of their risks. The framework protects the Company from potential financial loss or damage to its reputation, its customers or staff and ensures 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. Businesses are required to report their operational risks on both a regular and an event driven basis. The reports include a profile of the risks and mitigating controls, key risk indicators, operational risk events, and losses.

The internal audit function checks the system of internal controls through regular and on-going audit procedures and reports on the effectiveness of internal controls to Management and the AC.

The Company strives to mitigate risks of business disruptions in the event of unforeseen disasters through the planning and building of business resilience in the Company. This program includes identification of key business processes and systems through a "Business Impact Analysis" and the documentation and maintenance of Business Continuity Plans ("BCP"). Simulation exercises are conducted to test the BCP and crisis

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management protocol. The BCP objectives are targeted at minimizing the impact of business disruptions arising from severe loss scenarios and to ensure the availability of critical business functions until business operations are back to normal. The crisis management structure includes incident management, escalation, and activation of the crisis management and recovery teams. On an annual basis, Management provides an attestation to the BRC on the state of Business Continuity Management and the extent of alignment of Business Continuity Practices to regulatory guidelines and disclosure of residual risk.

The Company's reputation and financial soundness are of fundamental importance to the Company and to its customers, shareholders and employees. Reputation risk can arise from a number of events and primarily occurs in relation to credit risk, regulatory, legal, operational risks and failure to maintain strong risk conduct. Managing reputation risk is an essential role of Management as it has the potential to impact earnings, ability to maintain existing or establish new business relationships and access to sources of funding. The Company seeks to manage and minimize reputation risk through its corporate governance structure and operational risk management framework.

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 legislation. 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 judgement in decision-making, losses, fraud or other irregularities.

The Board has received written assurance from the MD, the President and the GFC that:

(a) the Company's financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and

(b) the Company's risk management and internal control systems in place were adequate and effective to address in all material aspects the financial, operational, compliance and information technology risks in the context of the current scope of the Company's business operations.

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 BRC, Management, the Risk Management and Credit Control departments, Compliance department and the internal and external auditors.

Based on the work performed by Internal Audit ("IA"), and the statutory audit by KPMG LLP ("KPMG"), as well as the assurances from the MD, the President and the GFC, the Board with the concurrence of the AC, is of the opinion that the system of risk management and internal controls in place as at 31 December 2017 to address in all material aspects the financial, operational, compliance and information technology risks, is adequate and effective in the context of the current scope of the Company's business operations.

Principle 12: Audit Committee

Composition of AC

The AC comprises three NEDs, all of whom including the chairman of the AC are independent. Two members including the AC chairman possess the relevant accounting or related financial management expertise and experience. None of the members of the AC were former partners or directors of or have any financial interest in the Company's existing audit firm.

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.

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Powers and Duties of the AC

The AC is authorised by the Board to review or investigate any matters it deems appropriate within its terms of reference and has direct and unrestricted access to the external auditors ("EA"), the internal auditors, Management and any officer and employee of the Company. It may invite any Director, Management, any officer or employee of the Company, the EA 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 significant financial reporting issues and judgements so as to ensure the integrity of the Company's financial statements, and of announcements on the Company's financial performance and recommend changes, if any, to the Board;
- to review the adequacy and effectiveness of the Company's internal controls including financial, operational, compliance and IT controls and report to the Board;
- to review the effectiveness of the IA function;
- to review annually the scope and results of the EA's audit and the independence and objectivity of the EA, and make recommendations to the Board on the proposal to the Company's shareholders on the appointment, re-appointment and removal of the EA, and to approve the remuneration of the EA;
- to review interested person ("IP") transactions and related party ("RP") lending transactions to ensure that they are entered on normal commercial terms and are not prejudicial to the interests of the Company or its minority shareholders;
- to oversee the establishment and operation of the whistle-blowing process in the Company; and
- to ensure that the Company has fraud policies and programmes in place to identify and prevent fraud.

During the year, the AC had discussed with Management matters that required Management's estimation and judgement in the preparation of the financial statements for FY 2017. The AC was satisfied that the only significant matter identified impacting the financial statements was as follows:

Allowances for impairment losses in a portfolio of loans, advances and receivables are regularly maintained by entities operating in the financial institutions industry and allowances for impairment losses on the Group's loans, advances and receivables are a significant reporting matter. Such allowances are material in the context of the financial statements of the Group and their assessment is a key source of estimation uncertainty as disclosed in the Notes to the Financial Statements.

The determination of allowances for impairment losses on loans, advances and receivables is part of a regular process in the preparation of the financial statements of the Group. Management reviews the Group's loan portfolio for impairment firstly on an asset by asset level for individually significant assets and specific impairment allowance is determined when there are indications of impairment after taking into account the value of collateral held. A collective impairment allowance for the portfolio taken as a whole is then considered and set up, after recognising the specific impairment allowance maintained. Factors taken into consideration for collective impairment allowance include historical loan loss experience by industry sector, prevailing economic conditions and the relevant regulatory requirements.

The AC has reviewed with Management the steps that Management has taken for the assessment of impairment of loans, advances and receivables and the aggregate allowances recorded. The AC is satisfied that the necessary steps have been taken and properly addressed and the allowances for impairment losses have accordingly been adequately provided for.

The impairment allowances on loans, advances and receivables were also an area of focus for the EA which was discussed with

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the AC. The EA have identified this item as the only key audit matter in their audit report. Please refer to the Independent Auditors' report in the AR.

In 2018, a new financial reporting standard FRS 109 (Financial Instruments) impacting impairment allowances on loans, advances and receivables together with revised regulatory requirements has come into force. Upon their initial adoption on 1 January 2018, there will be a reversal adjustment of collective impairment allowances which is more fully explained in Note 3(o) to the Financial Statements.

The AC held six 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 auditors and EA, each separately without the presence of Management, annually.

The AC members continually keep themselves abreast of changes to accounting standards and issues which have a direct impact on financial statements including update by Management on FRS 109.

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").

The AC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the AC under its terms of reference, and also considered the 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 EA 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 and gave careful consideration to the Company's relationships with them during 2017. The AC considered the Company's policies, processes and safeguards to protect and preserve audit independence. The AC also considered the nature of the provision of the non-audit services in 2017 and the corresponding fees and ensured that such non-audit fees did not impair or threaten the audit independence. KPMG's confirmation of their audit independence was further noted. 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 2017, please refer to note 21 of the Notes to the Financial Statements on page 105.

In reviewing the nomination of KPMG for re-appointment for the financial year ending 31 December 2018, the AC considered the adequacy of the resources, experience and competence of KPMG including its Audit Quality Indicators information. Consideration was also given to the engagement partner 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 EA 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 SGX-ST Listing Manual in relation to the appointment of the auditors of the Company and its subsidiaries.

On the basis of the above, the AC has recommended to the Board the nomination of KPMG for re-appointment as EA at the 2018 AGM.

Related Party and Interested Person Transactions

Taking a risk-based approach, the Company has established policies and procedures on RP and IP 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 RPs and/or IPs (as defined in Chapter 9 of the SGX-ST Listing Manual), than those extended to other unrelated third parties under similar circumstances. IA reviews all IP transactions and the RP 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 in respect of any loan related/connected to any AC member.

A list of RPs and IPs is maintained by the Company for monitoring purposes.

Particulars of IP transactions required to be disclosed under Rule 907 of the SGX-ST Listing Manual are as follows:

Name of IP	Aggregate value of all IP transactions in FY 2017 (excluding transactions less than $100,000 and transactions conducted under any shareholders' mandate pursuant to Rule 920) ($'000)	Aggregate value of all IP transactions conducted in FY 2017 under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000) ($'000)
Hong Leong Investment Holdings Pte. Ltd. group of companies		
- Receipt of corporate secretarial services	377	Not applicable*

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

The above IP transaction was carried out on normal commercial terms and was not prejudicial to the interests of the Company and its minority shareholders.

Whistleblowing Policy

HLF has in place a whistleblowing policy where staff of the Company or other persons can raise in confidence, whether anonymously or otherwise, concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters or other 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. For more details on the said policy including the procedures for raising concerns, please refer to the Company's website at www.hlf.com.sg.

Fraud Policy

HLF also has in place a fraud policy which provides guidance and assistance to the officers and employees of the Company on matters relating to the prevention, detection, reporting and investigation of fraudulent or corrupt conduct. The AC reviews this policy which is administered by the Head of Compliance department.

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 approved 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, and also has unrestricted access to all records, files, documents, personnel and physical properties relevant to the performance of audits and retention of copies of the documents obtained, where required.

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.

The Head of IA is a member of the Institute of Singapore Chartered Accountants with many years of experience

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in external and internal auditing, risk management and accounting in local and foreign banks. She has been with the Company since November 2006. All her team members have the relevant qualifications and experience and almost all of them are members of The Institute of Internal Auditors of Singapore and/or members of relevant professional bodies. 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 and the AC 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 2017 and received regular reports during 2017 on the progress of the audit work under the IA plan. IA observations on 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 including its resources 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 which 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 conducted for 2017, 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.

In addition, an external quality assurance review is conducted every five years. The last review was conducted in 2015.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholder Rights

Being committed to good corporate practices, the Company treats all shareholders fairly and equitably. To facilitate the exercise of shareholders' rights, the Company ensures that all material information relating to the Company and its financial performance is disclosed in an accurate and timely manner *via* SGXNET.

All shareholders are entitled to attend and vote at general meetings in person or by proxy. The rules including the voting procedures are set out in the notice of general meetings. In accordance with the Constitution of the Company, shareholders who are not relevant intermediaries may appoint not more than two proxies to attend, speak and vote at general meetings in their absence, and shareholders who are relevant intermediaries may appoint more than two proxies to attend, speak and vote at general meetings. Proxy forms must be deposited at such place or places specified in the notice or document accompanying the notice convening the general meetings at least seventy-two (72) hours before the time set for the general meetings.

Principle 15: Communication with Shareholders

The Company ensures that shareholders are notified of all material information in an accurate and timely manner. Should there be an inadvertent disclosure made to a select group, the Company will release the same information promptly *via* SGXNET. The Company notifies its investors in advance of the date of release of its financial results *via* SGXNET. The Company's quarterly and full year results are announced 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 contact the Company or access information on the Company at its website at www.hlf.com.sg which has a dedicated "Investor Relations" link that provides, *inter alia*, Annual Reports (which includes contact details of its Investor Relations), Quarterly Results, Financial Highlights and matters relating to the Company's AGM.

The Company has formalized a dividend policy which aims to pay dividends to shareholders twice a year, after taking into account 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. The Board will review the dividend policy from time to time and reserves the right to modify, amend and update the policy. For more details on the dividend policy, please refer to page 2 of the AR.

Principle 16: Conduct of Shareholder Meetings

At general meetings of the Company, shareholders are given the opportunity to communicate their views and to meet the Directors, including the Board Chairman, the chairman of the Board Committees and certain members of the Senior Management team. The EA is present at AGM to assist in addressing queries raised by the shareholders. All Directors attended the 2017 AGM.

Shareholders are given the opportunity to vote at general meetings. However, 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.

To allow for a more efficient voting system, the Company had introduced electronic poll voting since its 2012 AGM and would continue to do so at the 2018 AGM. With electronic poll voting, shareholders present in person or represented by proxy at the 2018 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 2018 AGM. The rules including voting procedures that govern general meetings of shareholders are set out within the notice of 2018 AGM.

The Company provides for separate resolutions at general meetings on each substantial issue, including treating the election/re-election 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 AGM, which includes the key comments and queries raised by shareholders and the responses from the Board, Management and/or the EA. The Company will furnish the minutes of the AGM upon request of any member. Such request shall be made after one month from the date of the AGM.

Corporate Values and Conduct of Business

The Board and 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 in place 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.

In line with the Board's commitment to maintain high ethical standards which are integral to the Company's corporate identity and business, the Company also has the following corporate policies and procedures in place:

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(i) Policy on AML/CFT which provides guidance to the Company's officers and employees on the conduct of the Company's business with a view to conformity with high ethical standards, and guarding against establishing any business relations or undertaking any transaction, that is or may be connected with or may facilitate money laundering or terrorism financing;

(ii) Fraud Policy which provides guidance and assistance to the Company's officers and employees on matters relating to the prevention, detection, reporting and investigation of fraudulent and corruption conducts (collectively referred to as "fraudulent conduct" in the policy);

(iii) Whistleblowing Policy, which provides guidance to the Company's officers, employees and non-employees of the Company that may have any legitimate bona fide concerns about any possible improprieties relating to accounting, financial reporting, internal controls and auditing matters or other matters, the same may be raised without fear of reprisals in any forms, discriminating or adverse consequences;

(iv) Procurement Policy which is adopted to ensure that the procurement process in the Company is fair, consistent and transparent. The policy provides guidance to the Company's officers and employees to conduct the Company's procurement activities in a manner above reproach, with complete impartiality and with no preferential treatment;

(v) Personal Data Protection Policy which provides guidance to employees on matters related to the Personal Data Protection Act 2012;

(vi) Competition Law Policy which states the Company's policy to compete fairly and ethically in the conduct of business and provides direction and guidance to employees in their relationships and communication with competitors and customers;

(vii) Policy on transactions with RP/IP which provides guidance to the Company's officers and employees to conduct RP/IP transactions on an arm's length basis and on normal commercial terms consistent with its usual business practices and policies, not prejudicial to the interest of the Company and its minority shareholders and on terms which are not more favourable to the RP/IP than those extended to other unrelated third parties under similar circumstances;

(viii) Complaint Handling Procedures which ensure that all complaints from customers are dealt with professionally, fairly, promptly and diligently and decisions are clearly communicated to customers; and

(ix) Compliance Policy which states the principles to be followed by Management and staff in managing regulatory risk.

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 two 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.

Date: 27 February 2018

SUMMARY ANNUAL SUSTAINABILITY REPORT

This year, we embarked on developing our sustainability strategy which is encapsulated in our first annual sustainability report. This is a positive step forward for Hong Leong Finance ("HLF") as we continue our drive towards good corporate citizenship, while delivering values and innovative solutions to our customers.

To assist the Board in its oversight responsibilities for HLF's sustainability vision, mission, strategy, policies, practices and initiatives, we formed a Board Sustainability Committee ("BSC") on 15 January 2018. The BSC is supported by an internal sustainability working team (comprising senior managers and heads of departments) to manage the sustainability efforts of the company, including developing the annual sustainability report ("SR") modelled on the sustainability reporting guide issued by the Singapore Exchange Securities Trading Limited. The BSC would oversee the internal sustainability working team in managing, tracking and reporting such efforts.

In developing the SR, we identified material issues that are critical to our business. We conducted a robust and in-depth materiality analysis to determine key environmental, social and governance ("ESG") sustainability issues for our business for financial year 2017. The SR followed closely the Global Reporting Initiative (GRI) Standards reporting framework.

The SR outlines how HLF aims to integrate the sustainability strategy into our business strategy of among other things delivering high quality value propositions for our customers, employees and communities. We believe it is not just the right thing to do, but it is also good business for HLF. We listen to our key stakeholders and consider the ever-changing business landscape to ensure our business practices stay relevant. We are aware that there are increased expectations for businesses to be more sustainable, to go beyond simply contributing to community projects, and to create long-term values for all stakeholders.

Our 2017 SR focused on the five key sustainability issues that we have identified as having the most important impact on our business and to our stakeholders. These key issues are (a) Business Ethics and Integrity (socioeconomic compliance and anti-corruption), (b) Responsible Lending and Integration of Environment, (c) Social and Governance factors in Credit Risk Analysis, Customer Privacy and Data Security, (d) Transparent Information and Fair Advice to Customer and (e) Risk Management.

These key issues illustrate that we prioritize the importance of conducting our business in a fair and responsible manner by ensuring that we are open, transparent and committed to zero tolerance towards corruption. As a good corporate citizen, we are conscious about managing our environmental footprint and will continue to introduce more sustainable practices. We are committed to fostering an ethical, responsible workplace that empowers our employees to grow professionally, and promote collaboration and diversity.

We will be taking affirmative actions to address our impact in these key areas. This will further our vision of continually building trust and confidence with our stakeholders by listening to them and being responsive to their needs. HLF will continue to innovate, invest and create values to support our performance in these areas. With the support of our key stakeholders, we are committed to working towards a more sustainable growth and better management of sustainability issues.

Feedback on sustainability matters can be sent directly to Sustainability@hlf.com.sg. We welcome your feedback and hope you join us on our sustainability journey.

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 11 SME Centres island-wide, serving all walks of life encompassing the 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 taking of deposits from the public and provision of a suite 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 56 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 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 the 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 SME Centre @ Hong Leong Finance 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's full sponsorship status for the SGX Catalist Board enables 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. Furthermore HLF is the first finance company here to offer chequeing account services to business 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 remains steadfast in innovating and delivering customer-centric products, services and experiences to assist both the retail and corporate customers in fulfilling their aspirations and achieving their financial goals.

HLF is supportive of the initiative by The Association of Banks in Singapore ("ABS") in promoting Responsible Financing practices within the industry. As part of the review process for corporate borrowers, Environmental, Social and Governance ("ESG") checks are carried out for companies operating in sectors with an elevated ESG risk profile and those noted with ESG issues.

HLF firmly believes in creating value for its employees, society and the environment as well as cooperation with regulators for they are cornerstone to business sustainability. They play a critical role in shaping the Company's strategy, plans, policies and operations. By maintaining good communications and constructive relations with them, the Company is able to proactively respond to their feedback to meet their needs.

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FINANCIAL ANALYSES

Analysis of Performance

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

	2017 $mil	2016 $mil	Variance* +/(-) %
Selected Profit and Loss Items			
Net interest income/hiring charges	175.4	136.7	28.3
Fee and commission income	13.7	12.5	9.1
Other operating income	0.5	0.2	129.0
Income before operating expenses	189.6	149.4	26.9
Less: Operating expenses	82.8	84.3	(1.8)
Profit from operations before allowances/provision	106.8	65.1	63.9
Less: Allowances for doubtful debts net of reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	3.8	1.1	244.7
Profit before tax	103.0	64.0	60.8
Profit after tax attributable to owners	85.7	53.1	61.5
Selected Balance Sheet Items			
Loans, advances and receivables (net of allowances)	9,877	9,515	3.8
Deposits and balances of customers	10,659	10,442	2.1
Total assets	12,543	12,313	1.9
Total liabilities	10,801	10,616	1.7
Total equity	1,742	1,697	2.6
Key Financial Ratios			
Net interest margin (%)	1.4	1.1	
Net interest income/total income (%)	92.5	91.5	
Non-interest income/total income (%)	7.5	8.5	
Cost/income ratio (%)	43.7	56.4	
Loans/deposits ratio (%)	93	91	
Non-performing loans ratio (%)			
- Secured by collateral	0.8	0.8	
- Unsecured and fully provided for	0.1	0.1	
Return on equity (%)	5.0	3.1	
Return on assets (%)	0.7	0.4	
Capital adequacy ratio (%)	15.8	16.4	
Earnings per share (cents)			
- per basic share	19.3	12.0	61.1
- per diluted share	19.2	12.0	60.9
Net assets per share ($)			
- per basic share	3.91	3.82	2.4
- per diluted share	3.78	3.66	3.3

* Calculated based on actual figures before rounding.

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	2017 cents	2016 cents
Dividend per share (tax exempt)		
- interim	4	3
- final	9	6
Total	**13**	**9**

(a) Results for the year

Pre-tax profit from operations before allowances/provision was $106.8 million in 2017, an increase of 63.9% from $65.1 million in 2016. The Group reported profit before tax of $103.0 million for 2017, an increase of $39.0 million or 60.8% over the previous year. The results were arrived at after topping up provision (net of write back of provision/recoveries) amounting to $3.8 million against $1.1 million in 2016. Group profit after tax for the year registered an increase of $32.6 million or 61.5% over the previous year.

Net interest income/hiring charges increased by 28.3% to $175.4 million mainly due to lower interest payable on deposits resulting from a combination of lower applicable interest rates and a lower average deposits base. Net interest margin increased from 1.1% in 2016 to 1.4% in 2017.

Non-interest income increased to $14.2 million (2016 : $12.7 million) or by 11.1% in 2017. Fee and commission income, the largest component of non-interest income, increased by 9.1%. Staff and other costs were controlled. The cost to income ratio decreased to 43.7% from 56.4% a year ago.

(b) Loans and deposits

Loans, advances and receivables (net of allowances) increased by 3.8% in 2017 to $9,877 million from $9,515 million. The non-performing loans ("NPL") ratio remained at an aggregate of 0.9% after accounting for recoveries and write-offs. The NPL ratio comprised secured NPL of 0.8% (2016 : 0.8%), with the balance 0.1% (2016 : 0.1%) being the unsecured portion which is fully covered by specific allowances.

Deposits and balances of customers amounted to $10,659 million as at 31 December 2017. The loans to deposits ratio stood at 93% (2016 : 91%).

(c) Shareholders' equity and dividends

Return on equity was 5.0% in 2017, up from 3.1% in 2016 and return on assets was 0.7% in 2017, up from 0.4% in 2016. This is attributable to higher profits in 2017. Net assets per share rose to $3.91 in 2017 from $3.82 in 2016.

As detailed in the Chairman's Statement, an interim dividend of 4 cents per share (tax exempt one-tier) was paid on 12 September 2017. With the proposed payment of a final dividend of 9 cents per share (tax exempt one-tier) in respect of the financial year ended 31 December 2017, subject to the approval of shareholders, the total distribution for 2017 will amount to approximately $58 million, compared to $40 million for 2016.

(d) No significant subsequent event period

This report is made up to the date of the release of the financial statements announcement for the full year ended 31 December 2017 based on figures that have been audited.

Net Interest Income

Net interest income includes hiring charges.

Overall, net interest income increased by 28.3% to $175.4 million in 2017 from $136.7 million in 2016 with a closing loans to deposits ratio of 93% in 2017 (2016 : 91%). The increase in net interest income was due to lower interest expense in 2017. Net interest income was the major source of income contributing 92.5% (2016 : 91.5%) to total income.

Net interest margin as a percentage of interest-bearing assets stood at 1.4% in 2017 (2016 : 1.1%).

	2017			2016		
	Average Balance $mil	Interest $mil	Average Rate %	Average Balance $mil	Interest $mil	Average Rate %
Interest-bearing Assets						
Loans, advances and receivables	9,692	272.4	2.8	9,989	276.6	2.8
Singapore Government securities	1,240	18.5	1.5	1,306	18.1	1.4
Other assets	1,178	10.9	0.9	1,232	12.5	1.0
Total	**12,110**	**301.8**	**2.5**	**12,527**	**307.2**	**2.5**
Interest-bearing Liabilities						
Deposits and balances of customers	10,351	126.2	1.2	10,791	170.4	1.6
Other liabilities	5	0.2	3.8	2	0.1	2.2
Total	**10,356**	**126.4**	**1.2**	**10,793**	**170.5**	**1.6**
Net interest income/margin as a percentage of interest-bearing assets	**–**	**175.4**	**1.4**	**–**	**136.7**	**1.1**

Volume and Rate Analysis

The table below analyses the changes in net interest income in 2017 over 2016 due to changes in volume and changes in rates.

		2017	
Increase/(decrease) due to change in	**Volume $mil**	**Rate $mil**	**Total $mil**
Interest Income			
Loans, advances and receivables	(8.2)	4.0	(4.2)
Singapore Government securities	(0.9)	1.3	0.4
Other assets	(0.6)	(1.0)	(1.6)
Net	(9.7)	4.3	(5.4)
Interest Expense			
Deposits and balances of customers	(6.9)	(37.3)	(44.2)
Other liabilities	–	0.1	0.1
Net	(6.9)	(37.2)	(44.1)
Net interest income	**(2.8)**	**41.5**	**38.7**

OPERATING AND FINANCIAL REVIEW

Non-Interest Income

Non-interest income increased by 11.1% to $14.2 million in 2017 (2016 : $12.7 million). Fee and commission income which constituted 96.5% (2016 : 98.3%) of non-interest income was $13.7 million in 2017 (2016 : $12.5 million).

Total non-interest income for 2017 was 7.5% of total income, down from 8.5% for 2016, with the non-lending portion comprising 0.9% of total income (2016 : 1.3%).

	2017 $mil	2016 $mil	Variance* +/(-) %
Fee and Commission Income			
Loan related and other financing business	11.9	10.6	12.2
Non-lending business including corporate advisory services and other trailer fees	1.8	1.9	(8.0)
	13.7	12.5	9.1
Other Operating Income	0.5	0.2	129.0
Total	**14.2**	**12.7**	**11.1**

Operating Expenses

Total operating expenses decreased by 1.8% to $82.8 million in 2017 from $84.3 million in 2016.

	2017 $mil	2016 $mil	Variance* +/(-) %
Staff costs			
- Short-term employee benefits	53.0	52.9	0.2
- Employer's CPF contributions to defined contribution plans	6.0	6.0	(0.4)
- Share-based payments	0.3	0.3	(15.8)
	59.3	59.2	0.1
Depreciation of property, plant and equipment	3.7	4.1	(9.3)
Other operating expenses			
- Operating lease expenses	7.5	7.3	1.5
- IT-related expenses	1.7	2.0	(11.3)
- Other operating expenses	10.6	11.7	(8.8)
	19.8	21.0	(5.4)
Total	**82.8**	**84.3**	**(1.8)**
Group staff strength – period end	628	624	0.6
Group staff strength – average	623	631	(1.3)

* Calculated based on actual figures before rounding.

OPERATING AND FINANCIAL REVIEW

Allowances for Doubtful Debts net of 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 $3.8 million in 2017 compared to $1.1 million in 2016.

The increase in the loan portfolio in 2017 entailed a higher charge in general allowance during the year in line with industry practice. Accordingly, general allowance for loans increased by $3.6 million for 2017 (2016 : decrease of $5.8 million). An additional specific allowance for loans of $1.3 million was made in 2017 (2016 : $11.9 million).

	2017 $mil	2016 $mil	Variance* +/(-) %
Allowances for loans and advances (net)	4.9	6.1	(18.8)
Other recoveries (net)	(1.1)	(5.0)	(77.4)
Total	**3.8**	**1.1**	**244.7**

Total Assets

Total assets were $12,543 million as at 31 December 2017, representing an increase of 1.9% over the figure of $12,313 million as at 31 December 2016.

Assets mix

	2017 $mil	2016 $mil	Variance* +/(-) %
Cash at banks and in hand	1,089	1,207	(9.8)
Statutory deposit with the Monetary Authority of Singapore	285	278	2.6
Singapore Government securities	1,249	1,258	(0.8)
Customer loans – net	9,877	9,515	3.8
Others	43	55	(21.0)
Total Assets	**12,543**	**12,313**	**1.9**

* Calculated based on actual figures before rounding.

OPERATING AND FINANCIAL REVIEW

OPERATING AND FINANCIAL REVIEW

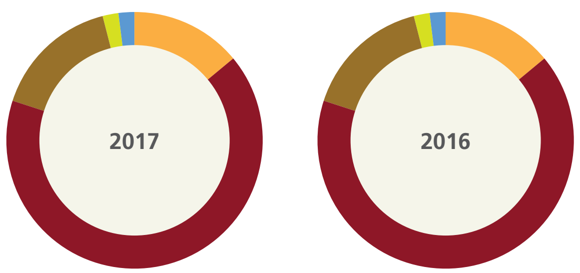
Analysis of Gross Loan Portfolio

(a) Customer loans by product group

With an increase in the loan portfolio, property related loans made up 80% of the total loan portfolio as at 31 December 2017 (2016 : 80%), with property loans other than housing/HDB home loans taking the bigger share at 66% of total portfolio (2016 : 64%). The housing loans component stood at 14% of the total (2016 : 16%) inclusive of HDB home loans of 8% (2016 : 9%).

Hire purchase loans formed 16% of total loan portfolio as at 31 December 2017 (2016 : 16%). Whilst such loans are principally fixed rate in nature, the gross loans continue to be progressively reduced by monthly principal repayments and early redemptions.

	2017		2016	
	$mil	%	$mil	%
Housing and HDB Home Loans	1,399	14	1,526	16
Other Property Loans	6,592	66	6,179	64
Hire Purchase/Block Discounting	1,627	16	1,545	16
Share Loans	218	2	224	2
Others	153	2	152	2
Total	**9,989**	**100**	**9,626**	**100**

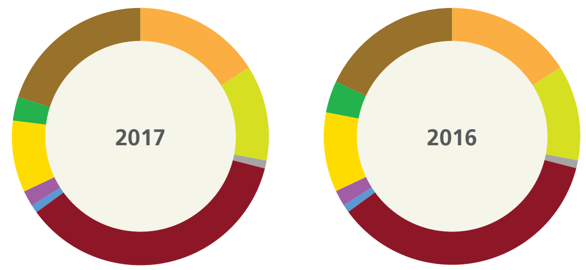


	2017	2016
Housing and HDB Home Loans	14%	16%
Other Property Loans	66%	64%
Hire Purchase/Block Discounting	16%	16%
Share Loans	2%	2%
Others	2%	2%

(b) Customer loans by industrial classification

	2017		2016	
	$mil	%	$mil	%
Hire purchase/block discounting	1,627	16	1,545	16
Housing loans secured by property under finance	1,134	12	1,209	12
Other loans and advances:				
Agriculture, mining and quarrying	1	–	1	–
Manufacturing	91	1	88	1
Building and construction	3,622	36	3,486	36
General commerce	98	1	96	1
Transport, storage and communication	217	2	158	2
Investment and holding companies	898	9	977	10
Professional and private individuals	323	3	349	4
Others (including hotels, associations and charitable organisations)	1,978	20	1,717	18
Total	**9,989**	**100**	**9,626**	**100**

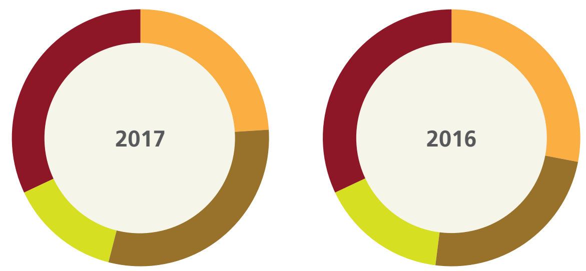
(b) Customer loans by industrial classification (continued)



	2017	2016
Hire purchase/block discounting	16%	16%
Housing loans secured by property under finance	12%	12%
Manufacturing	1%	1%
Building and construction	36%	36%
General commerce	1%	1%
Transport, storage and communication	2%	2%
Investment and holding companies	9%	10%
Professional and private individuals	3%	4%
Others	20%	18%

(c) Customer loans by remaining contractual maturity

	2017		2016	
	$mil	%	$mil	%
Reviewable/due within 1 year	2,387	24	2,718	28
Due after 1 year but within 3 years	3,035	30	2,317	24
Due after 3 years but within 5 years	1,397	14	1,510	16
Over 5 years	3,170	32	3,081	32
Total	**9,989**	**100**	**9,626**	**100**



	2017	2016
Reviewable/due within 1 year	24%	28%
Due after 1 year but within 3 years	30%	24%
Due after 3 years but within 5 years	14%	16%
Over 5 years	32%	32%

OPERATING AND FINANCIAL REVIEW

OPERATING AND FINANCIAL REVIEW

(d) Non-performing loans

The loan portfolio includes secured non-performing loans of 0.8% of the portfolio in 2017 (2016 : 0.8%) together with unsecured non-performing loans of 0.1% of the portfolio in 2017 (2016 : 0.1%). 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 2017 and 2016.

The non-performing loans position graded in line with industry definition together with the security coverage is given below.

	2017 $mil	2016 $mil	Variance* +/(-) %
Substandard	72.9	75.8	(3.7)
Loss	12.9	14.7	(12.7)
Total	**85.8**	**90.5**	**(5.2)**
(i) Secured non-performing loans ("NPLs")	72.9	75.8	(3.7)
Secured NPLs as % of total NPLs	85.0	83.7	1.3%pt
(ii) Unsecured NPLs	12.9	14.7	(12.7)
Specific allowances for NPLs	12.9	14.7	(12.7)
(iii) Specific allowances as % of total NPLs	15.0	16.3	(1.3%pt)

Funding Sources

Total funding (including total equity) increased by 1.9% in 2017 to $12,543 million from $12,313 million in 2016. Customers' deposits remained the main funding source contributing 85.0% (2016 : 84.8%) of total funds. This funding source was $217 million or 2.1% higher in 2017 closing at $10,659 million from $10,442 million in 2016 in line with higher funding requirements. There are no bank borrowings outstanding.

	2017 $mil	2016 $mil	Variance* +/(-) %
Fixed deposits	10,278	10,137	1.4
Savings deposits and other balances of customers	370	292	26.6
Current accounts and other deposits	11	13	(12.2)
Total customer deposits	10,659	10,442	2.1
Other liabilities	142	174	(18.4)
Total shareholders' equity	1,742	1,697	2.6
Total	**12,543**	**12,313**	**1.9**
Customer deposits by remaining contractual maturity			
On demand/up to 1 year	9,960	10,050	(0.9)
Over 1 year to 3 years	699	392	78.6
Total customer deposits	**10,659**	**10,442**	**2.1**

* Calculated based on actual figures before rounding.

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 2017, the capital adequacy ratio was 15.8% compared to 16.4% as at 31 December 2016.

	2017 $mil	2016 $mil
Share capital	883	879
Reserves	773	765
Eligible total capital	1,656	1,644
Risk-weighted assets	10,454	10,033
Ratio	15.8%	16.4%

OTHER INFORMATION

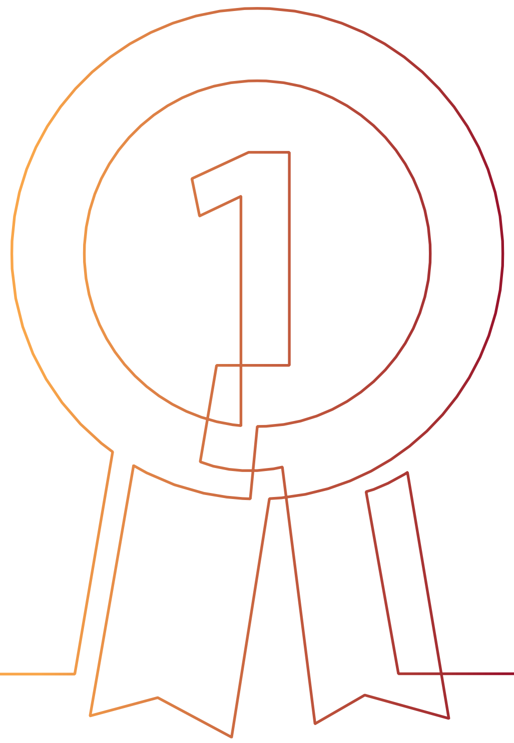
A review of the outlook for the Company's business can be found in the Chairman's Statement. Information on the background of the Directors is presented in the section on the Board of Directors, whilst information on the background of the President is set out below. Details of the Company's risk management policies and processes have been included in the corporate governance section of this Annual Report 2017.

The President, Ang Tang Chor

The President joined the Company in 2003. He has a wealth of experience from the banking industry, in particular in the SME lending sectors, having worked in Tat Lee Bank Ltd/Keppel Tatlee Bank Ltd for over 27 years before its acquisition by Oversea-Chinese Banking Corporation Limited ("OCBC"). His last held appointment with OCBC prior to joining the Company was that of General Manager, International Banking Division.

Date : 27 February 2018

DELIVERING GREATER VALUE



With a network of 28 branches and 11 SME Centres islandwide, Hong Leong Finance has become an integral part of the communities it serves, offering innovative products and services that bring value-added solutions to its customers. The company's offerings and its experienced professional team have played a key role in championing local businesses in Singapore.

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DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2017

The directors are pleased to present their statement to the members of Hong Leong Finance Limited (the "Company") together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2017.

In our opinion:-

(a) the consolidated financial statements of the Group set out on pages 71 to 130 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, 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 (the "Act") 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.

Directors

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

Kwek Leng Beng
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
Kevin Hangchi

Directors' Interests

Except as disclosed in this statement, 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 its related corporations, either at the beginning or at the end of the financial year. The directors 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 under Section 164 of the Act, particulars of interests of directors who held office at the end of the financial year (including those of their spouses and children below 18 years of age) in shares and/or share options in the Company and in related corporations are as follows:-

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2017

	Holdings in which the director, his spouse and children below 18 years of age have a direct interest	
	At beginning of the year	At end of the year
THE COMPANY		
Shares		
Kwek Leng Beng	5,603,567	5,603,567
Kwek Leng Peck	517,359	517,359
Kwek Leng Kee	1,595,079	1,595,079
Kevin Hangchi	472,109	472,109
Options to subscribe for shares under the Hong Leong Finance Share Option Scheme 2001		
Kwek Leng Beng	2,740,000	2,477,000
IMMEDIATE AND ULTIMATE HOLDING COMPANY		
Hong Leong Investment Holdings Pte. Ltd. Ordinary Shares		
Kwek Leng Beng	2,320	2,320
Kwek Leng Peck	10,921	10,921
Kevin Hangchi	147	147
RELATED CORPORATIONS		
Hong Leong Holdings Limited Ordinary Shares		
Kwek Leng Beng	259,000	259,000
Kwek Leng Peck	381,428	381,428
Kwek Leng Kee	997,000	997,000
Kevin Hangchi	284,333	284,333

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2017

	Holdings in which the director, his spouse and children below 18 years of age 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 Peck	43,758	43,758
Kevin Hangchi	50,000	50,000
Preference Shares		
Kwek Leng Beng	144,445	144,445
Kevin Hangchi	29,925	29,925
Hong Realty (Private) Limited Ordinary Shares		
Kwek Leng Beng	1,110	1,110
Kwek Leng Peck	150	150
Kwek Leng Kee	300	300
Kevin Hangchi	24	24
Hong Leong Asia Ltd. Ordinary Shares		
Kwek Leng Beng	660,000	660,000
Kwek Leng Peck	1,913,300	1,913,300
Kwek Leng Kee	150,000	150,000
Options to subscribe for ordinary shares under the Hong Leong Asia Share Option Scheme 2000		
Kwek Leng Peck	470,000	470,000

DIRECTORS' STATEMENT
YEAR ENDED 31 DECEMBER 2017

	Holdings in which the director, his spouse and children below 18 years of age have a direct interest	
	At beginning of the year	At end of the year
RELATED CORPORATIONS (CONTINUED)		
Millennium & Copthorne Hotels New Zealand Limited Ordinary Shares		
Kwek Leng Beng	906,000	906,000
Redeemable Non-Voting Preference Shares		
Kwek Leng Beng	453,000	453,000
Sun Yuan Holdings Pte Ltd Ordinary Shares		
Kwek Leng Beng	15,000,000	15,000,000

	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 2017 remained unchanged as at 21 January 2018.

Except as disclosed under the section on "Share Options" in this statement, 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' STATEMENT
YEAR ENDED 31 DECEMBER 2017

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' STATEMENT

YEAR ENDED 31 DECEMBER 2017

DIRECTORS' STATEMENT
YEAR ENDED 31 DECEMBER 2017

(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
21.9.2017	21.9.2018 to 20.9.2027	1,504,000 (net of options not accepted)	$2.61

(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 lapsed 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	115,000	4,899,000	1,000,000	1,422,000	2,477,000

(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 17,903,600 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.

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 during the year and as at the date of this statement are:-

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

The Audit Committee performs the functions of an audit committee under its terms of reference including those specified in the Act, the Listing Manual of the Singapore Exchange Securities Trading Limited ("Listing Manual") and the Code of Corporate Governance 2012.

The Audit Committee held six meetings during the financial year. In the performance of its functions, the Audit Committee met with the Company's internal and external auditors to discuss the scope of their work, the results of their examination and their evaluation of the Company's system of internal controls.

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2017

The Audit Committee also reviewed, *inter-alia*, the following:-

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly and annual financial statements of the Group and of the Company prior to their submission to the directors of the Company for approval; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual).

The Audit Committee has full access to management and is given the resources required by it to discharge its functions. It has full authority and the discretion to invite any director or executive officer or third party advisor to attend its meetings. The Audit Committee also reviews the nature and level of audit and non-audit fees and recommends the appointment/re-appointment of the external auditors.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the 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.

In appointing the auditors for the Company and its subsidiaries, the Company has complied with Rules 712 and 715 of the Listing Manual.

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

27 February 2018

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HONG LEONG FINANCE LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and statement of changes in equity of the Company for the year then ended, and notes to financial statements, including a summary of significant accounting policies, as set out on pages 71 to 130.

In our opinion, the accompanying 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 Singapore Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *'Auditors' responsibilities for the audit of the financial statements'* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans, advances and receivables
(Refer to Note 11 in the financial statements)

The key audit matter

The Group's loans, advances and receivables to customers represent 79% of its total assets. The allowance for impairment of loans, advances and receivables is highly subjective due to the judgement applied by management in estimating the allowances.

Given the magnitude of loans, advances and receivables and coupled with the estimation uncertainty, the valuation of loans, advances and receivables is considered a key audit risk.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HONG LEONG FINANCE LIMITED

INDEPENDENT AUDITORS' REPORT
MEMBERS OF THE COMPANY
HONG LEONG FINANCE LIMITED

How the matter was addressed in our audit

We assessed the controls implemented over credit approval, grading and monitoring of loans, advances and receivables. We also assessed the controls over impairment allowances for individually assessed loans, advances and receivables.

We focused on individually significant exposures that have become or were at risk of being impaired. For a sample of exposures that were subject to individual impairment assessment, we critically assessed the expected recoveries from realisable values of collaterals and other possible sources of repayment. We also checked the valuation of collaterals, where possible, to externally derived evidence, such as real estate valuations.

We assessed management's calculations and assumptions over collective allowances to ascertain that the Group's collective allowances is maintained in accordance with the financial reporting standards.

In our view, the impairment estimates were within an acceptable range of outcomes in the context of the overall loans, advances and receivables.

Other Information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for the analysis of shareholdings (the "Report") which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors 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 Act and FRSs, 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HONG LEONG FINANCE LIMITED

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Karen Lee Shu Pei.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore

27 February 2018

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		Group		Company	
	Note	**2017**	2016	**2017**	2016
Number of shares in issue	4	**445,173,033**	443,784,033	**445,173,033**	443,784,033
		$'000	$'000	**$'000**	$'000
Share capital	4	**882,829**	879,279	**882,829**	879,279
Reserves	4	**662,574**	642,622	**662,574**	642,622
Accumulated profits		**196,449**	175,207	**193,235**	172,072
Equity attributable to owners of the Company		**1,741,852**	1,697,108	**1,738,638**	1,693,973
Liabilities					
Deposits and balances of customers	6	**10,658,850**	10,441,758	**10,662,965**	10,445,816
Trade and other payables	7	**123,862**	162,075	**122,548**	160,765
Current tax payable		**18,322**	12,159	**18,317**	12,155
Total liabilities		**10,801,034**	10,615,992	**10,803,830**	10,618,736
Total equity and liabilities		**12,542,886**	12,313,100	**12,542,468**	12,312,709
Assets					
Cash at banks and in hand	9	**1,088,908**	1,207,113	**1,087,956**	1,206,188
Statutory deposit with the Monetary Authority of Singapore	9	**285,467**	278,099	**285,467**	278,099
Singapore Government securities	10	**1,248,850**	1,258,398	**1,248,850**	1,258,398
Loans, advances and receivables	11	**9,876,579**	9,514,927	**9,876,579**	9,514,927
Other receivables, deposits and prepayments	12	**21,230**	29,161	**21,229**	29,160
Subsidiaries	13	**–**	–	**535**	535
Investments (long-term)	14	**–**	546	**–**	546
Property, plant and equipment	15	**21,324**	24,530	**21,324**	24,530
Deferred tax assets	8	**528**	326	**528**	326
Total assets		**12,542,886**	12,313,100	**12,542,468**	12,312,709
Acceptances, guarantees and other obligations on behalf of customers	16	**16,531**	15,645	**16,531**	15,645

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	Note	Group 2017 $'000	Group 2016 $'000
Profit and loss account:			
Interest on loans		**223,932**	237,795
Hiring charges		**48,423**	38,749
Other interest income		**29,431**	30,661
Interest income/hiring charges		**301,786**	307,205
Less: Interest expense		**126,384**	170,536
Net interest income/hiring charges	17	**175,402**	136,669
Fee and commission income	18	**13,681**	12,538
Other operating income	19	**490**	214
Income before operating expenses		**189,573**	149,421
Less: Staff costs	20	**59,258**	59,212
Depreciation of property, plant and equipment	15	**3,720**	4,102
Other operating expenses	21	**19,836**	20,978
Profit from operations before allowances/provision		**106,759**	65,129
Less: Allowances for doubtful debts net of reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	7, 11	**3,819**	1,108
Profit before income tax		**102,940**	64,021
Less: Income tax expense	22	**17,255**	10,955
Profit for the year/Comprehensive income attributable to owners of the Company		**85,685**	53,066
Earnings per share (cents)	23		
Basic		**19.27**	11.96
Diluted		**19.24**	11.96

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Share capital $'000	Statutory reserve $'000	Capital reserve $'000	Share option reserve $'000	Accumulated profits $'000	Total equity $'000
Group						
At 1 January 2016	879,279	620,024	2,307	7,490	179,011	1,688,111
Value of employee services received for issue of share options				310		310
Value of employee services transferred for share options exercised or lapsed				(776)	776	–
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Interim dividend paid of 3 cents per share (tax exempt one-tier) in respect of year 2016					(13,314)	(13,314)
Comprehensive income for the year					53,066	53,066
Transfer to Statutory reserve		13,267			(13,267)	–
At 31 December 2016	879,279	633,291	2,307	7,024	175,207	1,697,108
At 1 January 2017	**879,279**	**633,291**	**2,307**	**7,024**	**175,207**	**1,697,108**
Issue of shares under share option scheme	**3,266**					**3,266**
Value of employee services received for issue of share options				**261**		**261**
Value of employee services transferred for share options exercised or lapsed	**284**			**(1,731)**	**1,447**	**–**
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016					**(26,677)**	**(26,677)**
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2017					**(17,791)**	**(17,791)**
Comprehensive income for the year					**85,685**	**85,685**
Transfer to Statutory reserve		**21,422**			**(21,422)**	**–**
At 31 December 2017	**882,829**	**654,713**	**2,307**	**5,554**	**196,449**	**1,741,852**

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 2017

	Share capital $'000	Statutory reserve $'000	Capital reserve $'000	Share option reserve $'000	Accumulated profits $'000	Total equity $'000
Company						
At 1 January 2016	879,279	620,024	2,307	7,490	175,979	1,685,079
Value of employee services received for issue of share options				310		310
Value of employee services transferred for share options exercised or lapsed				(776)	776	–
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Interim dividend paid of 3 cents per share (tax exempt one-tier) in respect of year 2016					(13,314)	(13,314)
Comprehensive income for the year					52,963	52,963
Transfer to Statutory reserve		13,267			(13,267)	–
At 31 December 2016	879,279	633,291	2,307	7,024	172,072	1,693,973
At 1 January 2017	**879,279**	**633,291**	**2,307**	**7,024**	**172,072**	**1,693,973**
Issue of shares under share option scheme	**3,266**					**3,266**
Value of employee services received for issue of share options				**261**		**261**
Value of employee services transferred for share options exercised or lapsed	**284**			**(1,731)**	**1,447**	**–**
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016					**(26,677)**	**(26,677)**
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2017					**(17,791)**	**(17,791)**
Comprehensive income for the year					**85,606**	**85,606**
Transfer to Statutory reserve		**21,422**			**(21,422)**	**–**
At 31 December 2017	**882,829**	**654,713**	**2,307**	**5,554**	**193,235**	**1,738,638**

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 2017

	Note	2017 $'000	2016 $'000
Operating activities			
Profit for the year		**85,685**	53,066
Adjustments for:-			
Impact of accrual of interest income		**(877)**	1,122
Impact of accrual of interest expense		**(40,220)**	24,224
Allowances for doubtful debts		**4,945**	6,088
Depreciation of property, plant and equipment		**3,720**	4,102
Loss on disposal of property, plant and equipment		**2**	3
Gain on liquidation of investments (long-term)		**(258)**	–
Value of employee services received for issue of share options		**261**	310
Income tax expense	22	**17,255**	10,955
		70,513	99,870
Changes in working capital:-			
Loans, advances and receivables		**(366,597)**	570,078
Other receivables, deposits and prepayments		**8,808**	7,195
Singapore Government securities		**9,548**	74,807
Deposits and balances of customers		**217,092**	(1,002,241)
Trade and other payables		**2,007**	(1,997)
Cash used in operations		**(58,629)**	(252,288)
Income taxes paid		**(11,294)**	(13,368)
Cash flows used in operating activities		**(69,923)**	(265,656)
Investing activities			
Purchase of property, plant and equipment		**(516)**	(741)
Proceeds from disposal of property, plant and equipment		**–**	3
Proceeds from liquidation of investments (long-term)	14	**804**	–
Cash flows from/(used in) investing activities		**288**	(738)
Financing activities			
Proceeds from exercise of share options		**3,266**	–
Dividends paid		**(44,468)**	(44,379)
Cash flows used in financing activities		**(41,202)**	(44,379)
Net decrease in cash and cash equivalents		**(110,837)**	(310,773)
Cash and cash equivalents at beginning of year		**1,485,212**	1,795,985
Cash and cash equivalents at end of year	9	**1,374,375**	1,485,212

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

These notes form an integral part of the financial statements.

The financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 27 February 2018.

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 2017 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 as otherwise described in the notes below.

(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.

3. Significant Accounting Policies

The Group adopted new/revised/amendments to financial reporting standards/interpretations of financial reporting standards which became effective during the year. The initial adoption of these standards/interpretations did not have a material impact on the financial statements.

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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 reporting date are translated 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 translated 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 translation are recognised in profit or loss, except for the following translation 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (continued)

(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 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, or when it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred assets. 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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them 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. Directly 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 initially measured 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.

Held-to-maturity financial assets comprise Singapore Government securities.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial assets (continued)

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 initially measured 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 initially measured 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.

(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 currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial liability 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. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(iii) Non-derivative financial liabilities (continued)

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. These financial liabilities comprise deposits and balances of customers, borrowings (if any) 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 initially measured at fair value; any 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.

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 adjusted to reflect changes in its 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.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

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

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 retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. In other cases as well, 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 initially measured 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.

NOTES TO THE FINANCIAL STATEMENTS

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3. Significant Accounting Policies (continued)

(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.

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. The cost of self-constructed assets includes cost of materials and direct labour, other costs directly attributable to bringing the assets to a working condition for their intended use, estimated reinstatement costs when the Group has an obligation to remove the asset or restore the site and capitalised borrowing costs. 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 (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised 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.

3. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for 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.

(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 an impact 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, or 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.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

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 the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

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.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(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 2017

3. **Significant Accounting Policies (continued)**

(g) Employee benefits (continued)

(iii) Share-based payment transactions

The grant date fair value of equity-settled 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. Provisions determined for the long term are arrived at after discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability with the unwinding of the discount subsequently recognised as finance cost.

(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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

3. **Significant Accounting Policies (continued)**

(i) Recognition of income and expense (continued)

(i) Interest (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017

3. Significant Accounting Policies (continued)

(j) Government grants

Cash grants received from the government are recognised as an offset against the related 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.

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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

3. Significant Accounting Policies (continued)

(l) Income tax (continued)

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; and

- temporary differences related to investments in subsidiaries 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.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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3. Significant Accounting Policies (continued)

(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

The Accounting Standards Council ("ASC") announced on 29 May 2014 that Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading on the Singapore Exchange, will apply a new financial reporting framework equivalent to the International Financial Reporting Standards (full convergence with IFRS) with effect from annual periods beginning on or after 1 January 2018. In December 2017, the ASC issued the Singapore Financial Reporting Standards (International) ("SFRS(I)s").

The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with the SFRS(I)s issued by the ASC. As a result, this will be the last set of financial statements prepared under the current FRS.

The adoption of the SFRS(I)s, together with a number of new/revised/amendments to financial reporting standards/interpretations of financial reporting standards, are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. The Group does not expect the adoption of the SFRS(I)s and the application of these standards and interpretations to have a significant impact on the financial statements except for SFRS(I) 9.

SFRS(I) 9 also referred to as FRS 109 (Financial Instruments) comes into effect on 1 January 2018. The two main areas applicable under this standard relate to classification and measurement of financial assets and liabilities, and impairment allowances of financial assets. Regulatory requirements in relation to credit loss provisioning under Notice to Finance Companies MAS 811 have also been revised effective from the same date.

Under FRS 109, there will be no material impact in the area of classification and measurement. There will be a reversal of collective allowance for doubtful debts and at the same time, the Group will be required under MAS 811 to set up a non-distributable regulatory loss allowance reserve account, as allowances under FRS 109 will fall below the minimum regulatory loss allowance. At initial adoption on 1 January 2018, the Group's current best estimate as it continues to refine and finalise its models for expected credit loss provisioning is for this reserve account to amount to approximately $16.9 million with the Group also booking a credit to accumulated profits amounting to approximately $39.2 million and to Statutory Reserve amounting to approximately $18.7 million.

4. Capital and Reserves

Share capital

		Company	
	Note	**2017 Number of shares**	2016 Number of shares
Fully paid shares, with no par value:-			
At 1 January		**443,784,033**	443,784,033
Issue of shares under share option scheme	5	**1,389,000**	–
At 31 December		**445,173,033**	443,784,033

In 2017, 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
Exercise price	**2017 Number of shares**
$2.28	**233,200**
$2.45	**213,000**
$2.56	**107,000**
$2.66	**43,000**
$2.34	**506,400**
$2.23	**286,400**
	1,389,000

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.

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YEAR ENDED 31 DECEMBER 2017

4. Capital and Reserves (continued)

Reserves

	Group and Company	
	2017	2016
	$'000	$'000
Statutory reserve	**654,713**	633,291
Capital reserve	**2,307**	2,307
Share option reserve	**5,554**	7,024
	662,574	642,622

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 and 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 reporting date, the Directors proposed a final dividend of 9 cents per share, tax exempt one-tier, amounting to $40,066,000 (2016: 6 cents per share, tax exempt one-tier, amounting to $26,677,000) when estimated based on the number of shares in issue as at the reporting 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 $17,791,000 (2016: 3 cents per share, tax exempt one-tier, amounting to $13,314,000) paid on 12 September 2017 (2016: 16 September 2016).

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 2017:-

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

5. Employee Share Options (continued)

Information regarding the Share Option Scheme is as follows:-

(a) 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.

(b) 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.

(c) All options are settled by delivery of shares upon receipt of the exercise price in cash.

(d) 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	**Number of options**	Weighted average exercise price	Number of options
	2017	**2017**	2016	2016
	$	**'000**	$	'000
At 1 January	**2.78**	**21,556**	2.85	22,429
Granted	**2.61**	**1,544**	2.23	1,794
Not accepted	**2.61**	**(40)**	2.23	(43)
Lapsed	**3.34**	**(3,767)**	3.05	(2,624)
Exercised	**2.35**	**(1,389)**	–	–
At 31 December	**2.68**	**17,904**	2.78	21,556
Exercisable at 31 December	**2.70**	**15,963**	2.84	19,348

The options outstanding at 31 December 2017 have an exercise price in the range of $2.23 to $3.10 (2016: $2.23 to $3.62) and a weighted average remaining contractual life of 4.6 years (2016: 4.7 years).

The weighted average share price at the date of exercise for share options exercised in 2017 was $2.35. No option was exercised in 2016.

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5. Employee Share Options (continued)

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	**19.9.2007**	**30.9.2008**	**29.9.2009**	**28.9.2010**	**29.9.2011**	**14.9.2012**	**25.9.2013**	**25.9.2014**	**23.9.2015**	**23.9.2016**	**21.9.2017**
Fair value at grant date	$0.39	$0.26	$0.53	$0.49	$0.28	$0.31	$0.36	$0.29	$0.17	$0.13	$0.20
Share price	$3.68	$2.95	$2.76	$3.09	$2.29	$2.45	$2.60	$2.67	$2.30	$2.22	$2.60
Exercise price	$3.62	$3.06	$2.74	$3.10	$2.28	$2.45	$2.56	$2.66	$2.34	$2.23	$2.61
Expected volatility	21.3%	21.3%	28.3%	28.1%	27.2%	26.7%	25.7%	20.5%	15.0%	14.8%	14.8%
Expected option life	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	5.6 to 10 years	5.8 to 10 years	5.9 to 10 years	6.0 to 10 years	5.9 to 10 years
Expected dividend yield	4.9%	5.1%	2.9%	3.9%	5.2%	4.9%	4.6%	4.5%	4.4%	4.5%	3.9%
Risk-free interest rate (based on government bonds)	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%	1.1 to 2.4%	1.7 to 2.5%	2.3 to 2.7%	1.4 to 1.8%	1.7 to 2.1%

Employee expenses:-

	2017 $'000	2016 $'000
Share options granted in		
2013	**–**	15
2014	**15**	47
2015	**28**	195
2016	**146**	53
2017	**72**	–
Total expense recognised as employee costs	**261**	310

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YEAR ENDED 31 DECEMBER 2017

5. Employee Share Options (continued)

Details of the options granted under the Share Option Scheme on unissued shares of the Company at the end of the year are as follows:-

		(1)	(2)	(3)	(4)	(5)	(6)
Date of grant of options		19.9.2007	30.9.2008	29.9.2009	28.9.2010	29.9.2011	14.9.2012
Expiry date		18.9.2017	29.9.2018	28.9.2019	27.9.2020	28.9.2021	13.9.2022
Exercise price		$3.62	$3.06	$2.74	$3.10	$2.28	$2.45
Number of options outstanding at 1.1.2017		2,558,000	2,780,000	2,446,500	3,030,200	1,626,260	2,074,500
Options lapsed		2,558,000	232,500	231,500	261,200	94,700	173,000
Options exercised (1.1.2017 to 31.12.2017)		–	–	–	–	233,200	213,000
Number of options outstanding at 31.12.2017		–	2,547,500	2,215,000	2,769,000	1,298,360	1,688,500
Number of options exercisable at 1.1.2017		2,558,000	2,780,000	2,446,500	3,030,200	1,626,260	2,074,500
Number of options exercisable at 31.12.2017		–	2,547,500	2,215,000	2,769,000	1,298,360	1,688,500
Option exercise period of options outstanding at 31.12.2017							
30.9.2009 to 29.9.2018	vested on 30.9.2009		1,926,410				
	vested on 30.9.2010		305,910				
	vested on 30.9.2011		315,180				
29.9.2010 to 28.9.2019	vested on 29.9.2010			1,624,060			
	vested on 29.9.2011			291,060			
	vested on 29.9.2012			299,880			
28.9.2011 to 27.9.2020	vested on 28.9.2011				2,119,033		
	vested on 28.9.2012				320,133		
	vested on 28.9.2013				329,834		
29.9.2012 to 28.9.2021	vested on 29.9.2012					842,090	
	vested on 29.9.2013					224,730	
	vested on 29.9.2014					231,540	
14.9.2013 to 13.9.2022	vested on 14.9.2013						1,305,260
	vested on 14.9.2014						188,760
	vested on 14.9.2015						194,480

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5. Employee Share Options (continued)

		(7)	(8)	(9)	(10)	(11)
Date of grant of options		25.9.2013	25.9.2014	23.9.2015	23.9.2016	21.9.2017
Expiry date		24.9.2023	24.9.2024	22.9.2025	22.9.2026	20.9.2027
Exercise price		$2.56	$2.66	$2.34	$2.23	$2.61
Number of options outstanding at 1.1.2017		1,697,240	1,836,120	1,756,865	1,750,000	–
Options granted		–	–	–	–	1,544,000
Options not accepted		–	–	–	–	40,000
Options lapsed		75,240	73,080	26,365	37,500	4,000
Options exercised (1.1.2017 to 31.12.2017)		107,000	43,000	506,400	286,400	–
Number of options outstanding at 31.12.2017		1,515,000	1,720,040	1,224,100	1,426,100	1,500,000
Number of options exercisable at 1.1.2017		1,697,240	1,670,880	1,464,745	–	–
Number of options exercisable at 31.12.2017		1,515,000	1,720,040	1,075,860	1,133,980	–
Option exercise period of options outstanding at 31.12.2017						
25.9.2014 to 24.9.2023	vested on 25.9.2014	1,232,930				
	vested on 25.9.2015	138,930				
	vested on 25.9.2016	143,140				
25.9.2015 to 24.9.2024	vested on 25.9.2015		1,404,650			
	vested on 25.9.2016		150,150			
	vested on 25.9.2017		165,240			
23.9.2016 to 22.9.2025	vested on 23.9.2016			952,925		
	vested on 23.9.2017			122,935		
	vesting on 23.9.2018			148,240		
23.9.2017 to 22.9.2026	vested on 23.9.2017				1,133,980	
	vesting on 23.9.2018				143,880	
	vesting on 23.9.2019				148,240	
21.9.2018 to 20.9.2027	vesting on 21.9.2018					1,258,800
	vesting on 21.9.2019					118,800
	vesting on 21.9.2020					122,400

6. Deposits and Balances of Customers

	Group		Company	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Fixed deposits	**10,277,802**	10,136,970	**10,281,917**	10,141,028
Savings deposits and other balances of customers	**370,117**	292,345	**370,117**	292,345
Current accounts and other deposits	**10,931**	12,443	**10,931**	12,443
Total deposits and balances of customers	**10,658,850**	10,441,758	**10,662,965**	10,445,816

7. Trade and Other Payables

	Group		Company	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Due after 12 months				
Amount due to SPRING Singapore	**5,023**	1,366	**5,023**	1,366
Due within 12 months				
Amount due to SPRING Singapore	**2,781**	1,552	**2,781**	1,552
Interest payable	**74,051**	114,271	**74,067**	114,289
Other trade payables and accrued operating expenses	**40,404**	43,029	**39,171**	41,801
Other payables	**1,603**	1,857	**1,506**	1,757
	118,839	160,709	**117,525**	159,399
Total trade and other payables	**123,862**	162,075	**122,548**	160,765

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, reversal of provision for settlements and legal and other costs relating to distribution of wealth management products amounted to $0.2 million (2016: $3.2 million).

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8. Deferred Tax

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

	Group and Company				
	At 1 January 2016 $'000	Recognised in profit or loss (Note 22) $'000	At 31 December 2016 $'000	**Recognised in profit or loss (Note 22) $'000**	**At 31 December 2017 $'000**
Deferred tax assets					
Trade and other payables	(228)	20	(208)	**1**	**(207)**
Loans, advances and receivables	(1,718)	983	(735)	**114**	**(621)**
	(1,946)	1,003	(943)	**115**	**(828)**
Deferred tax liabilities					
Property, plant and equipment	945	(375)	570	**(298)**	**272**
Other items	76	(29)	47	**(19)**	**28**
	1,021	(404)	617	**(317)**	**300**
Net deferred tax assets	(925)	599	(326)	**(202)**	**(528)**

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	
	2017 $'000	2016 $'000
Cash at banks and in hand	**1,088,908**	1,207,113
Statutory deposit with the Monetary Authority of Singapore	**285,467**	278,099
Cash and cash equivalents in the consolidated statement of cash flows	**1,374,375**	1,485,212

10. Singapore Government Securities

	Group and Company	
	2017 $'000	2016 $'000
Singapore Government securities, held to maturity at amortised cost		
- Within 12 months	**172,965**	136,289
- After 12 months	**1,075,885**	1,122,109
	1,248,850	1,258,398
Market value	**1,248,017**	1,253,469

11. Loans, Advances and Receivables

	Group and Company	
	2017 $'000	2016 $'000
(a) Loans, advances and receivables at amortised cost		
Due after 12 months		
Loans, advances and hire purchase receivables	**7,666,705**	6,959,202
Less: Unearned charges and interest	**64,781**	51,326
	7,601,924	6,907,876
Less: Allowances for doubtful debts		
- Loans and advances	**69,364**	64,660
- Hire purchase receivables	**15,892**	14,690
	85,256	79,350
	7,516,668	6,828,526
Due within 12 months		
Loans, advances, factoring receivables and hire purchase receivables	**2,432,724**	2,756,803
Less: Unearned charges and interest	**45,433**	38,889
	2,387,291	2,717,914
Less: Allowances for doubtful debts		
- Loans, advances and factoring receivables	**19,992**	24,395
- Hire purchase receivables	**7,388**	7,118
	27,380	31,513
	2,359,911	2,686,401
Total loans, advances and receivables	**9,876,579**	9,514,927
(b) Allowances for doubtful debts		
Specific allowances		
At 1 January	**14,736**	6,647
Net allowances made during the year	**1,298**	11,871
Receivables written off against allowances	**(3,172)**	(3,782)
At 31 December	**12,862**	14,736
Collective allowances		
At 1 January	**96,127**	101,910
Allowances made/(reversed) during the year	**3,647**	(5,783)
At 31 December	**99,774**	96,127
Total allowances for doubtful debts	**112,636**	110,863

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11. Loans, Advances and Receivables (continued)

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

	Group and Company					
	<— 2017		—>	<— 2016		—>
	Receivables $'000	**Interest $'000**	**Principal $'000**	Receivables $'000	Interest $'000	Principal $'000
Due within 1 year	**559,836**	**43,564**	**516,272**	541,327	36,975	504,352
Due after 1 year but within 5 years	**1,083,070**	**61,827**	**1,021,243**	1,030,387	49,080	981,307
Due after 5 years	**91,554**	**2,220**	**89,334**	61,163	1,549	59,614
Total	**1,734,460**	**107,611**	**1,626,849**	1,632,877	87,604	1,545,273

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

12. Other Receivables, Deposits and Prepayments

	Group		Company	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Interest receivables	**10,092**	9,215	**10,092**	9,215
Deposits	**1,924**	1,939	**1,924**	1,939
Prepayments	**1,562**	1,288	**1,561**	1,287
Other receivables	**7,652**	16,719	**7,652**	16,719
Total	**21,230**	29,161	**21,229**	29,160

13. Subsidiaries

	Company	
	2017 $'000	2016 $'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 **2017 %**	2016 %
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	
	2017 $'000	2016 $'000
Available for sale unquoted equity securities, at cost	**12**	558
Less: Impairment losses at 1 January and 31 December	**12**	12
Net investments	**-**	546

During the financial year, a first interim return of surplus assets of $804,000 was received for the investment in Asfinco Singapore Limited (in members' voluntary liquidation).

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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 2016	50	2,938	27,196	13,810	15,244	959	60,197
Additions	–	–	–	466	275	–	741
Disposals	–	–	–	(373)	(57)	–	(430)
At 31 December 2016	50	2,938	27,196	13,903	15,462	959	60,508
Additions	**–**	**–**	**–**	**131**	**385**	**–**	**516**
Disposals	**–**	**–**	**–**	**(133)**	**(1,082)**	**–**	**(1,215)**
At 31 December 2017	**50**	**2,938**	**27,196**	**13,901**	**14,765**	**959**	**59,809**
Accumulated depreciation and impairment losses							
At 1 January 2016	–	1,480	8,157	11,541	10,626	496	32,300
Depreciation charge for the year	–	60	616	1,001	2,233	192	4,102
Disposals	–	–	–	(367)	(57)	–	(424)
At 31 December 2016	–	1,540	8,773	12,175	12,802	688	35,978
Depreciation charge for the year	**–**	**59**	**617**	**616**	**2,237**	**191**	**3,720**
Disposals	**–**	**–**	**–**	**(131)**	**(1,082)**	**–**	**(1,213)**
At 31 December 2017	**–**	**1,599**	**9,390**	**12,660**	**13,957**	**879**	**38,485**
Carrying amount							
At 1 January 2016	50	1,458	19,039	2,269	4,618	463	27,897
At 31 December 2016	50	1,398	18,423	1,728	2,660	271	24,530
At 31 December 2017	**50**	**1,339**	**17,806**	**1,241**	**808**	**80**	**21,324**

The carrying amount of property, plant and equipment of the Group and the Company includes amounts totalling $17,806,000 (2016: $18,423,000) in respect of leasehold buildings held under finance leases.

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15. Property, Plant and Equipment (continued)

Properties held at 31 December are as follows:-

	Group and Company 2017 $'000	2016 $'000
Freehold Land and Buildings		
(1) Property with carrying amount more than $500,000 to $1,000,000 comprises 1 shop unit held as branch premises.	**946**	973
(2) Properties with carrying amounts up to $500,000 each comprise 2 shop units held as branch premises.	**443**	475
Total	**1,389**	1,448
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, comprising 4,026 sq. ft. on a 84-year lease commencing July 1992 held as branch premises.	**1,263**	1,315
(b) A shop unit at Block 725 Clementi West Street 2 #01-216, Singapore, comprising 3,832 sq. ft. on a 85-year lease commencing November 1995 held as branch premises.	**1,570**	1,627
(c) 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.	**1,426**	1,468
(d) A shop unit at Block 134 Jurong Gateway Road #01-313, Singapore, comprising 2,669 sq. ft. on a 91-year lease commencing April 1993 held as branch premises.	**7,677**	7,853
(2) Properties with carrying amounts more than $500,000 to $1,000,000 each comprise 4 shop units held as branch premises.	**3,055**	3,164
(3) Properties with carrying amounts up to $500,000 each comprise 6 shop units held as branch premises and 4 industrial units used as warehousing facilities.	**2,815**	2,996
Total	**17,806**	18,423

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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	
	2017	2016
	$'000	$'000
Letters of credit	**1,634**	341
Guarantees	**14,897**	15,304
Total	**16,531**	15,645

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

17. Net Interest Income/Hiring Charges

	Group	
	2017	2016
	$'000	$'000
Interest income/hiring charges		
Loans, advances and receivables	**272,355**	276,544
Deposits placed	**10,968**	12,537
Singapore Government securities and other liquid assets	**18,463**	18,124
Total interest income/hiring charges	**301,786**	307,205
Interest expense		
Deposits and balances of customers	**126,170**	170,490
Others	**214**	46
Total interest expense	**126,384**	170,536
Net interest income/hiring charges	**175,402**	136,669

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.

18. Fee and Commission Income

	Group	
	2017	2016
	$'000	$'000
Fee and commission income arising from:-		
Loans and advances	**11,855**	10,541
Non-lending activities	**1,788**	1,943
Others	**38**	54
Total	**13,681**	12,538

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	
	2017	2016
	$'000	$'000
Loss on disposal of plant and equipment	**(2)**	(3)
Loss on disposal of Singapore Government securities close to their maturity	**(7)**	–
Gain on liquidation of investments (long-term)	**258**	–
Other operating income	**241**	217
Total	**490**	214

20. Staff Costs

	Group	
	2017	2016
	$'000	$'000
Short-term employee benefits	**52,976**	52,859
CPF contributions to defined contribution plans	**6,021**	6,043
Share-based payments	**261**	310
Total	**59,258**	59,212

21. Other Operating Expenses

	Group	
	2017	2016
	$'000	$'000
Audit fees to auditors	**432**	389
Non-audit fees to auditors	**76**	41
Operating lease expenses	**7,452**	7,343
IT-related expenses	**1,741**	1,962
Other expenses	**10,135**	11,243
Total	**19,836**	20,978

Included in other expenses are fee and commission expenses arising from loans, advances and receivables amounting to $580,000 (2016: $1,435,000).

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22. Income Tax Expense

	Note	Group 2017 $'000	Group 2016 $'000
Current tax expense			
Current year		**18,317**	10,356
Adjustment for prior years		**(860)**	-
		17,457	10,356
Deferred tax expense			
Origination and reversal of temporary differences		**(937)**	599
Adjustment for prior years		**735**	-
	8	**(202)**	599
Income tax expense		**17,255**	10,955
Current year		**17,380**	10,955
Adjustment for prior years		**(125)**	-
Income tax expense		**17,255**	10,955

Reconciliation of income tax expense

	Group 2017 $'000	Group 2016 $'000
Profit after tax for the year	**85,685**	53,066
Income tax expense	**17,255**	10,955
Profit before income tax	**102,940**	64,021
Tax calculated using Singapore tax rate of 17% (2016: 17%)	**17,500**	10,884
Tax effect of:-		
Exempt income not taxable for tax purposes	**(34)**	(36)
Enhanced tax deductions	**(28)**	(35)
Bad debts recovered not subject to tax	**(2)**	(2)
Income taxed at a 10% concessionary tax rate	**(452)**	(272)
Expenses not deductible for tax purposes	**365**	437
Others	**31**	(21)
	17,380	10,955
Adjustment for prior years	**(125)**	-
Income tax expense	**17,255**	10,955

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23. Earnings Per Share

(a) Basic earnings per share

	Group 2017 $'000	Group 2016 $'000
Basic earnings per share is based on:-		
Profit after tax for the year attributable to owners of the Company	**85,685**	53,066

	2017 Number of shares '000	2016 Number of shares '000
Issued shares at 1 January	**443,784**	443,784
Effect of share options exercised	**786**	-
Weighted average number of shares during the year	**444,570**	443,784

(b) Diluted earnings per share

	Group 2017 $'000	Group 2016 $'000
Diluted earnings per share is based on:-		
Profit after tax for the year attributable to owners of the Company	**85,685**	53,066

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 2017 Number of shares '000	Group 2016 Number of shares '000
Weighted average number of:-		
shares used in the calculation of basic earnings per share	**444,570**	443,784
potential shares issuable under share options	**732**	-
Weighted average number of issued and potential shares assuming full conversion	**445,302**	443,784

Outstanding share options that were not included in the computation of diluted earnings per share because the share options were anti-dilutive amounted to 10,751,540 at $2.66 to $3.10 as at 31 December 2017 (2016: 21,555,685 at $2.28 to $3.62).

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; and is supported by a strong risk culture and risk management approach. 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.

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 ("RMC") (renamed as Board Risk Committee in 2018), a dedicated risk committee at board level oversees and reports to the Board on matters relating to the risk function of the Group. The RMC reviews the adequacy and effectiveness of and approves the risk management framework, related risk management policies and systems. Management, through its Management Risk Committee and Assets and Liabilities Committee, is accountable to the RMC and Board for ensuring the effectiveness of the risk management framework. A risk management team is accountable to 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 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 regularly monitor risks and adherence to limits. 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.

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24. Financial Risk Management (continued)

(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, 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
The Group has clearly defined credit guidelines for the approval and 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. Credit exposures and limits are managed to align with the Group's risk appetite, to maintain the target business mix and that there is no undue risk concentration. Credit concentration limits are reviewed on a regular basis after taking into account business, economic, financial and regulatory environments.

The Board of Directors has delegated responsibility for the management of credit risk oversight to its RMC 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.

Credit stress testing forms an integral part of the credit portfolio analysis. It is conducted periodically to assess the developments in the current operating environment that are relevant to borrower segments as well as to determine the impact of a deterioration of security values and a rise in non-performing loans to the Capital Adequacy Ratio.

Environmental, Social and Governance Factors
The Group incorporates Responsible Financing practices when deciding on credit extensions to corporate borrowers. This is done as part of the adoption of the Guidelines on Responsible Financing issued by the Association of Banks in Singapore. The Group implements an Environmental, Social and Governance ("ESG") Risk Assessment tool to evaluate customers from industries with elevated ESG risk profiles. This risk assessment tool is to ensure that material ESG matters are considered for new borrowing customers, new credit applications and periodic reviews.

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24. Financial Risk Management (continued)

(b) Credit risk (continued)

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	
	2017	2016
	$'000	$'000
Performing accounts that are		
- neither past due nor impaired	**9,588,456**	9,330,068
- past due but not impaired	**314,979**	205,240
Gross amount	**9,903,435**	9,535,308
Collective allowances	**(99,774)**	(96,127)
Carrying amount	**9,803,661**	9,439,181
Individually impaired		
- Substandard (payment not kept current for 90 days but fully secured)	**72,918**	75,746
- Loss (fully provided for)	**12,862**	14,736
Gross amount	**85,780**	90,482
Specific allowances	**(12,862)**	(14,736)
Carrying amount	**72,918**	75,746
Total carrying amount	**9,876,579**	9,514,927

There are no loans and advances graded as doubtful as at 31 December 2017 and 2016.

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.

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
31 December 2017		
Substandard	**72,918**	**72,918**
Loss	**12,862**	**–**
Total	**85,780**	**72,918**
31 December 2016		
Substandard	75,746	75,746
Loss	14,736	–
Total	90,482	75,746

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 $9,887,612,000 (2016: $9,504,211,000). The Group's claim against such collateral has been limited to the obligations of the respective obligors.

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24. Financial Risk Management (continued)

(b) Credit risk (continued)

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	
	2017	2016
	$'000	$'000
Motor vehicles	**276**	444
Equipment	**–**	630
Properties	**1,351**	–
Total	**1,627**	1,074

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	
	2017	2016
	$'000	$'000
Gross carrying amount	**9,989,215**	9,625,790
Concentration by sector		
Hire purchase/block discounting	**1,626,849**	1,545,273
Housing loans secured by property under finance	**1,134,480**	1,209,427
Other loans and advances:-		
Agriculture, mining and quarrying	**1,022**	690
Manufacturing	**91,167**	87,478
Building and construction	**3,622,307**	3,486,002
General commerce	**97,610**	95,470
Transport, storage and communication	**216,623**	158,000
Investment and holding companies	**897,661**	977,220
Professional and private individuals	**322,941**	348,819
Others (including hotels, associations and charitable organisations)	**1,978,555**	1,717,411
Total	**9,989,215**	9,625,790

At the reporting 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 $14,897,000 as at 31 December 2017 (2016: $15,304,000). At the reporting date, the Company does not consider it probable that claims will be made against the Company under the guarantees.

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24. Financial Risk Management (continued)

(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. The most common sources of liquidity risk arise from mismatches in the timing and value of cash inflows and outflows from the Group's statement of financial position exposures.

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. This approach is established to meet the Group's current and prospective commitments in normal business conditions, and to maintain soundness in times of stress.

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.

Liquidity risk is managed in accordance with the Group's liquidity framework of policies, contingency funding plan, controls and limits approved by the RMC. 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, which guide the Group's actions and responses, 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 ("MAS") and reserve assets principally comprising Singapore Government securities) to net liabilities (computed in accordance with MAS Notice 806) 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	
	2017	2016
At 31 December	**16.32%**	16.69%
Average for the period	**16.57%**	16.62%
Maximum for the period	**17.01%**	17.16%
Minimum for the period	**16.32%**	16.20%

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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 $'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
Group							
31 December 2017							
Non-derivative financial liabilities							
Deposits and balances of customers	**10,658,850**	**(10,795,993)**	**(1,649,753)**	**(2,352,165)**	**(6,079,118)**	**(714,957)**	**–**
Amount due to SPRING Singapore	**7,804**	**(7,854)**	**(509)**	**(421)**	**(1,868)**	**(5,056)**	**–**
Other liabilities	**32,134**	**(32,134)**	**(16,395)**	**(473)**	**(14,628)**	**–**	**(638)**
	10,698,788	**(10,835,981)**	**(1,666,657)**	**(2,353,059)**	**(6,095,614)**	**(720,013)**	**(638)**
Financial guarantees	**–**	**(14,897)**	**(14,897)**	**–**	**–**	**–**	**–**
	10,698,788	**(10,850,878)**	**(1,681,554)**	**(2,353,059)**	**(6,095,614)**	**(720,013)**	**(638)**
Undrawn loan commitments	**–**	**(1,854,220)**	**(1,193,118)**	**(661,102)**	**–**	**–**	**–**
	10,698,788	**(12,705,098)**	**(2,874,672)**	**(3,014,161)**	**(6,095,614)**	**(720,013)**	**(638)**
31 December 2016							
Non-derivative financial liabilities							
Deposits and balances of customers	10,441,758	(10,555,999)	(1,942,071)	(2,458,596)	(5,759,454)	(395,878)	–
Amount due to SPRING Singapore	2,918	(2,948)	(412)	(227)	(929)	(1,380)	–
Other liabilities	34,231	(34,231)	(16,795)	(481)	(16,255)	(21)	(679)
	10,478,907	(10,593,178)	(1,959,278)	(2,459,304)	(5,776,638)	(397,279)	(679)
Financial guarantees	–	(15,304)	(15,304)	–	–	–	–
	10,478,907	(10,608,482)	(1,974,582)	(2,459,304)	(5,776,638)	(397,279)	(679)
Undrawn loan commitments	–	(1,649,110)	(1,361,998)	(287,112)	–	–	–
	10,478,907	(12,257,592)	(3,336,580)	(2,746,416)	(5,776,638)	(397,279)	(679)

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YEAR ENDED 31 DECEMBER 2017

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 2017							
Non-derivative financial liabilities							
Deposits and balances of customers	**10,662,965**	**(10,800,160)**	**(1,650,081)**	**(2,352,165)**	**(6,082,957)**	**(714,957)**	**–**
Amount due to SPRING Singapore	**7,804**	**(7,854)**	**(509)**	**(421)**	**(1,868)**	**(5,056)**	**–**
Other liabilities	**30,801**	**(30,801)**	**(15,085)**	**(466)**	**(14,612)**	**–**	**(638)**
	10,701,570	**(10,838,815)**	**(1,665,675)**	**(2,353,052)**	**(6,099,437)**	**(720,013)**	**(638)**
Financial guarantees	**–**	**(14,897)**	**(14,897)**	**–**	**–**	**–**	**–**
	10,701,570	**(10,853,712)**	**(1,680,572)**	**(2,353,052)**	**(6,099,437)**	**(720,013)**	**(638)**
Undrawn loan commitments	**–**	**(1,854,220)**	**(1,193,118)**	**(661,102)**	**–**	**–**	**–**
	10,701,570	**(12,707,932)**	**(2,873,690)**	**(3,014,154)**	**(6,099,437)**	**(720,013)**	**(638)**
31 December 2016							
Non-derivative financial liabilities							
Deposits and balances of customers	10,445,816	(10,560,075)	(1,942,394)	(2,458,596)	(5,763,207)	(395,878)	–
Amount due to SPRING Singapore	2,918	(2,948)	(412)	(227)	(929)	(1,380)	–
Other liabilities	32,903	(32,903)	(15,490)	(475)	(16,238)	(21)	(679)
	10,481,637	(10,595,926)	(1,958,296)	(2,459,298)	(5,780,374)	(397,279)	(679)
Financial guarantees	–	(15,304)	(15,304)	–	–	–	–
	10,481,637	(10,611,230)	(1,973,600)	(2,459,298)	(5,780,374)	(397,279)	(679)
Undrawn loan commitments	–	(1,649,110)	(1,361,998)	(287,112)	–	–	–
	10,481,637	(12,260,340)	(3,335,598)	(2,746,410)	(5,780,374)	(397,279)	(679)

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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 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 and long term within approved risk appetite. Interest rate risk exposures are measured and monitored using a combination of repricing gap, present value of 1 basis point reports and income simulation modeling. The RMC approves policies, strategies and limits in the management of interest rate risk. Policies and limits are reviewed regularly to ensure that they remain relevant.

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 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.

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

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

		Group				
	Note	Carrying amount $'000	Up to 1 year $'000	Over 1 to 5 years $'000	After 5 years $'000	Non-interest bearing $'000
31 December 2017						
Financial assets						
Loans, advances and receivables	11	**9,876,579**	**8,504,848**	**1,273,079**	**98,652**	**–**
Singapore Government securities	10	**1,248,850**	**172,965**	**1,033,887**	**41,998**	**–**
Cash at banks and in hand	9	**1,088,908**	**1,076,808**	**–**	**–**	**12,100**
Statutory deposit with the Monetary Authority of Singapore	9	**285,467**	**–**	**–**	**–**	**285,467**
Other assets		**19,668**	**–**	**–**	**–**	**19,668**
Financial liabilities						
Deposits and balances of customers	6	**10,658,850**	**9,771,979**	**699,280**	**–**	**187,591**
Amount due to SPRING Singapore	7	**7,804**	**2,781**	**5,023**	**–**	**–**
Other liabilities	7	**116,058**	**–**	**–**	**–**	**116,058**
31 December 2016						
Financial assets						
Loans, advances and receivables	11	9,514,927	7,989,509	1,455,534	69,884	–
Singapore Government securities	10	1,258,398	136,289	1,058,894	63,215	–
Cash at banks and in hand	9	1,207,113	1,195,314	–	–	11,799
Statutory deposit with the Monetary Authority of Singapore	9	278,099	–	–	–	278,099
Other assets		27,873	–	–	–	27,873
Investments (long-term)	14	546	–	–	–	546
Financial liabilities						
Deposits and balances of customers	6	10,441,758	9,927,867	391,467	–	122,424
Amount due to SPRING Singapore	7	2,918	1,552	1,366	–	–
Other liabilities	7	159,157	–	–	–	159,157

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24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

		Company				
	Note	Carrying amount $'000	Up to 1 year $'000	Over 1 to 5 years $'000	After 5 years $'000	Non-interest bearing $'000
31 December 2017						
Financial assets						
Loans, advances and receivables	11	**9,876,579**	**8,504,848**	**1,273,079**	**98,652**	**–**
Singapore Government securities	10	**1,248,850**	**172,965**	**1,033,887**	**41,998**	**–**
Cash at banks and in hand		**1,087,956**	**1,075,856**	**–**	**–**	**12,100**
Statutory deposit with the Monetary Authority of Singapore		**285,467**	**–**	**–**	**–**	**285,467**
Other assets		**19,668**	**–**	**–**	**–**	**19,668**
Financial liabilities						
Deposits and balances of customers	6	**10,662,965**	**9,776,094**	**699,280**	**–**	**187,591**
Amount due to SPRING Singapore	7	**7,804**	**2,781**	**5,023**	**–**	**–**
Other liabilities	7	**114,744**	**–**	**–**	**–**	**114,744**
31 December 2016						
Financial assets						
Loans, advances and receivables	11	9,514,927	7,989,509	1,455,534	69,884	–
Singapore Government securities	10	1,258,398	136,289	1,058,894	63,215	–
Cash at banks and in hand		1,206,188	1,194,389	–	–	11,799
Statutory deposit with the Monetary Authority of Singapore		278,099	–	–	–	278,099
Other assets		27,873	–	–	–	27,873
Investments (long-term)	14	546	–	–	–	546
Financial liabilities						
Deposits and balances of customers	6	10,445,816	9,931,925	391,467	–	122,424
Amount due to SPRING Singapore	7	2,918	1,552	1,366	–	–
Other liabilities	7	157,847	–	–	–	157,847

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	
	2017 $'000	2016 $'000
+ 100 basis points parallel shift in yield curves	**31,783**	18,133
– 100 basis points parallel shift in yield curves	**(34,123)**	(19,736)

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 eligible total capital to total risk-weighted assets.

The Group's eligible total 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.

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24. Financial Risk Management (continued)

(e) Capital management (continued)

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

	2017 $'000	2016 $'000
Share capital	**882,829**	879,279
Accumulated profits	**130,739**	134,632
Statutory reserve	**633,291**	620,024
Capital reserve	**2,307**	2,307
Share option reserve	**7,024**	7,490
Eligible total capital	**1,656,190**	1,643,732
Risk-weighted assets	**10,454,386**	10,033,254
Capital adequacy ratio	**15.8%**	16.4%

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

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.

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			
	Note	Carrying amount 2017 $'000	Fair Value 2017 $'000	Carrying amount 2016 $'000	Fair Value 2016 $'000
Financial assets					
Loans, advances and receivables	11	**9,876,579**	**9,871,832**	9,514,927	9,496,166
Singapore Government securities	10	**1,248,850**	**1,248,017**	1,258,398	1,253,469
		11,125,429	**11,119,849**	10,773,325	10,749,635
Financial liabilities					
Deposits and balances of customers	6	**(10,658,850)**	**(10,681,551)**	(10,441,758)	(10,471,810)
Net financial assets		**466,579**	**438,298**	331,567	277,825
Unrecognised loss			**(28,281)**		(53,742)

		Company			
	Note	Carrying amount 2017 $'000	Fair Value 2017 $'000	Carrying amount 2016 $'000	Fair Value 2016 $'000
Financial assets					
Loans, advances and receivables	11	**9,876,579**	**9,871,832**	9,514,927	9,496,166
Singapore Government securities	10	**1,248,850**	**1,248,017**	1,258,398	1,253,469
		11,125,429	**11,119,849**	10,773,325	10,749,635
Financial liabilities					
Deposits and balances of customers	6	**(10,662,965)**	**(10,685,675)**	(10,445,816)	(10,475,882)
Net financial assets		**462,464**	**434,174**	327,509	273,753
Unrecognised loss			**(28,290)**		(53,756)

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25. Financial Instruments (continued)

Fair value hierarchy
Fair value measurements for financial assets and financial liabilities by the levels in the fair value hierarchy are based on the inputs to valuation techniques. The different levels are defined as follows:-

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: unobservable inputs for the asset or liability including prices of an item that is not identical.

*Group financial assets and financial liabilities not carried at fair value but for which fair values are disclosed**
The fair value of the portion of loans, advances and receivables being Level 3 instruments amounts to $2.22 billion (2016: $2.57 billion) against a carrying value of $2.223 billion (2016: $2.593 billion). Singapore Government securities are Level 1 instruments with fair value of $1.25 billion (2016: $1.25 billion). The portion of deposits and balances of customers being Level 2 instruments have a fair value of $9.13 billion (2016: $8.80 billion) against a carrying value of $9.11 billion (2016: $8.77 billion).

* Excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature or frequent repricing and where the effect of discounting is immaterial.

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	
	2017	2016
	$'000	$'000
Within 1 year	**6,773**	7,267
After 1 year but within 5 years	**17,164**	6,209
After 5 years	**891**	–
	24,828	13,476

The Group leases office 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.

26. Commitments (continued)

(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 $7,000 (2016: $209,000).

(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 $1,854,220,000 (2016: $1,649,110,000).

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.

Key Management Personnel Compensation
Key management personnel compensation comprised:-

	Group	
	2017	2016
	$'000	$'000
Short-term employee benefits	**2,932**	2,975
CPF contributions to defined contribution plans	**15**	15
Depreciation of motor vehicles	**25**	36
Other operating expenses including principally directors' fees	**1,289**	1,218
Share-based payments	**52**	46
	4,313	4,290

Directors' remuneration (inclusive of fees) included in key management personnel compensation amounted to $3,212,000 (2016: $2,972,000).

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YEAR ENDED 31 DECEMBER 2017

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YEAR ENDED 31 DECEMBER 2017

27. Related Party Transactions (continued)

Key management personnel of the Company participate in the Share Option Scheme as described in Note 5. During the year, options to 171,500 (2016: 215,000) shares were granted to key management personnel. These share options are subject to a vesting schedule.

Options held by key management personnel at the end of the year are as follows:-

	2017	2016
Granted on		
19.9.2007	**–**	505,500
30.9.2008	**543,000**	543,000
29.9.2009	**517,000**	517,000
28.9.2010	**572,000**	572,000
29.9.2011	**503,190**	503,190
14.9.2012	**383,000**	383,000
25.9.2013	**236,000**	236,000
25.9.2014	**236,000**	236,000
23.9.2015	**215,000**	215,000
23.9.2016	**215,000**	215,000
21.9.2017	**171,500**	–

Options held by an Executive Director included in key management personnel at the end of the year are as follows:-

	2017	2016
Granted on		
19.9.2007	**–**	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**	256,000
25.9.2013	**160,000**	160,000
25.9.2014	**160,000**	160,000
23.9.2015	**144,000**	144,000
23.9.2016	**144,000**	144,000
21.9.2017	**115,000**	–

27. Related Party Transactions (continued)

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 2016	–	6,095	149,136
Increase	–	34	3,362
(Decrease)	–	(2,176)	(88,726)
As at 31 December 2016	–	3,953	63,772
Increase	**–**	**26**	**75**
(Decrease)	**–**	**(1,734)**	**(13,374)**
As at 31 December 2017	**–**	**2,245**	**50,473**
Undrawn loan commitments:			
As at 1 January 2016	20,000	3,293	76,960
Increase	–	–	16
(Decrease)	–	(3,293)	(2,961)
As at 31 December 2016	20,000	–	74,015
Increase	**–**	**600**	**90**
(Decrease)	**–**	**–**	**(2,651)**
As at 31 December 2017	**20,000**	**600**	**71,454**
(b) Specific allowances for doubtful debts			
As at 31 December 2016	–	–	–
As at 31 December 2017	**–**	**–**	**–**
(c) Other receivables, deposits and prepayment			
Outstanding balances:			
As at 1 January 2016	–	1,594	–
Increase	–	–	–
(Decrease)	–	–	–
As at 31 December 2016	–	1,594	–
Increase	**–**	**–**	**–**
(Decrease)	**–**	**–**	**–**
As at 31 December 2017	**–**	**1,594**	**–**

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YEAR ENDED 31 DECEMBER 2017

27. Related Party Transactions (continued)

	Group		
	Holding Company $'000	Fellow Subsidiaries and Associates of Holding Company $'000	Key Management Personnel* $'000
(d) Deposits and balances of customers			
Outstanding balances:			
As at 1 January 2016	112,089	428,580	43,862
Increase	–	63,818	1,631
(Decrease)	(49,676)	(212,570)	(10,309)
As at 31 December 2016	62,413	279,828	35,184
Increase	**–**	**74,072**	**3,864**
(Decrease)	**(51,835)**	**(50,123)**	**(9,260)**
As at 31 December 2017	**10,578**	**303,777**	**29,788**
(e) Trade and other payables			
Outstanding balances:			
As at 1 January 2016	377	1,569	186
Increase	–	819	20
(Decrease)	(164)	(717)	(74)
As at 31 December 2016	213	1,671	132
Increase	**–**	**125**	**4**
(Decrease)	**(175)**	**(492)**	**(33)**
As at 31 December 2017	**38**	**1,304**	**103**
(f) Lease commitments			
Operating lease commitments			
As at 31 December 2016	–	10,884	–
As at 31 December 2017	**–**	**22,387**	**–**

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YEAR ENDED 31 DECEMBER 2017

27. Related Party Transactions (continued)

	Group		
	Holding Company $'000	Fellow Subsidiaries and Associates of Holding Company $'000	Key Management Personnel* $'000
(g) Profit and loss transactions			
Year ended 31 December 2017			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	**–**	**75**	**1,903**
- Interest expense on deposits	**(324)**	**(3,393)**	**(334)**
- Fee, commission and other income	**5**	**–**	**14**
- Other operating expenses	**–**	**(7,109)**	**–**
- Specific allowances for bad and doubtful debts	**–**	**–**	**–**
Year ended 31 December 2016			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	–	128	3,325
- Interest expense on deposits	(1,376)	(5,854)	(465)
- Fee, commission and other income	5	–	173
- Other operating expenses	–	(7,057)	–
- Specific allowances for bad and doubtful debts	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

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YEAR ENDED 31 DECEMBER 2017

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 2016	–	6,095	149,136	–
Increase	–	34	3,362	–
(Decrease)	–	(2,176)	(88,726)	–
As at 31 December 2016	–	3,953	63,772	–
Increase	**–**	**26**	**75**	**–**
(Decrease)	**–**	**(1,734)**	**(13,374)**	**–**
As at 31 December 2017	**–**	**2,245**	**50,473**	**–**
Undrawn loan commitments:				
As at 1 January 2016	20,000	3,293	76,960	–
Increase	–	–	16	–
(Decrease)	–	(3,293)	(2,961)	–
As at 31 December 2016	20,000	–	74,015	–
Increase	**–**	**600**	**90**	**–**
(Decrease)	**–**	**–**	**(2,651)**	**–**
As at 31 December 2017	**20,000**	**600**	**71,454**	**–**
(b) Specific allowances for doubtful debts				
As at 31 December 2016	–	–	–	–
As at 31 December 2017	**–**	**–**	**–**	**–**
(c) Other receivables, deposits and prepayment				
Outstanding balances:				
As at 1 January 2016	–	1,594	–	–
Increase	–	–	–	–
(Decrease)	–	–	–	–
As at 31 December 2016	–	1,594	–	–
Increase	**–**	**–**	**–**	**–**
(Decrease)	**–**	**–**	**–**	**–**
As at 31 December 2017	**–**	**1,594**	**–**	**–**

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 2016	112,089	428,580	43,862	4,003
Increase	–	63,818	1,631	55
(Decrease)	(49,676)	(212,570)	(10,309)	–
As at 31 December 2016	62,413	279,828	35,184	4,058
Increase	**–**	**74,072**	**3,864**	**57**
(Decrease)	**(51,835)**	**(50,123)**	**(9,260)**	**–**
As at 31 December 2017	**10,578**	**303,777**	**29,788**	**4,115**
(e) Trade and other payables				
Outstanding balances:				
As at 1 January 2016	377	1,562	186	31
Increase	–	820	20	2
(Decrease)	(164)	(717)	(74)	(3)
As at 31 December 2016	213	1,665	132	30
Increase	**–**	**123**	**4**	**–**
(Decrease)	**(175)**	**(492)**	**(33)**	**(4)**
As at 31 December 2017	**38**	**1,296**	**103**	**26**
(f) Lease commitments				
Operating lease commitments				
As at 31 December 2016	–	10,884	–	–
As at 31 December 2017	**–**	**22,387**	**–**	**–**

* 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 2017

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 decreased by $833,000 (2016: $4,929,000), with a corresponding entry in the fair value reserve in equity.

ANALYSIS OF SHAREHOLDINGS

AS AT 1 MARCH 2018

Number of Shares in Issue	:	445,340,133
Class of Shares	:	Ordinary shares
Number of Shareholders	:	11,498
Voting Rights	:	1 vote for 1 share

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly, there were no treasury shares held as at 1 March 2018. As at 1 March 2018, there were also no shares held as subsidiary holdings in the Company. 'Subsidiary holdings' is defined in the Listing Manual of Singapore Exchange Securities Trading Limited ("Listing Manual") to mean shares referred to in Sections 21(4), 21(4B), 21(6A) and 21(6C) of the Companies Act, Chapter 50.

Range of Shareholdings	No. of Shareholders	%	No. of Shares Held	%
1 – 99	334	2.90	13,932	0.00
100 – 1,000	1,767	15.37	1,195,229	0.27
1,001 – 10,000	7,119	61.92	31,636,716	7.10
10,001 – 1,000,000	2,246	19.53	108,309,360	24.32
1,000,001 and above	32	0.28	304,184,896	68.31
	11,498	100.00	445,340,133	100.00

Based on the information available to the Company as at 1 March 2018, approximately 45.48% of the total number of issued shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual is complied with.

Major Shareholders List - Top 20 as at 1 March 2018

No.	Name	No. of Shares Held	% *
1.	Hong Leong Investment Holdings Pte. Ltd.	99,608,176	22.37
2.	DBS Nominees Pte Ltd	23,565,809	5.29
3.	Hong Realty (Private) Limited	23,271,370	5.23
4.	Hong Leong Corporation Holdings Pte Ltd	19,685,812	4.42
5.	SGI Investment Holdings Pte Ltd	16,899,187	3.79
6.	Garden Estates (Pte.) Limited	16,710,670	3.75
7.	Hong Leong Foundation	13,854,823	3.11
8.	United Overseas Bank Nominees Private Limited	11,065,076	2.48
9.	Citibank Nominees Singapore Pte Ltd	9,465,269	2.13
10.	City Developments Limited	9,149,817	2.05
11.	BPSS Nominees Singapore (Pte.) Ltd.	7,595,133	1.71
12.	HSBC (Singapore) Nominees Pte Ltd	7,081,111	1.59
13.	Tudor Court Gallery Pte Ltd	6,517,000	1.46
14.	Chng Gim Huat	5,614,000	1.26
15.	Hong Leong Holdings Limited	5,460,422	1.23
16.	Hong Leong Enterprises Pte. Ltd.	4,485,047	1.01
17.	Raffles Nominees (Pte) Ltd	2,706,018	0.61
18.	OCBC Nominees Singapore Private Limited	2,116,361	0.48
19.	Morph Investments Ltd	2,060,000	0.46
20.	HL Bank Nominees (S) Pte Ltd	2,001,000	0.45
		288,912,101	64.88

* The percentage of shares held is based on the total number of issued shares of the Company as at 1 March 2018.

ANALYSIS OF SHAREHOLDINGS

AS AT 1 MARCH 2018

Substantial Shareholders

(As shown in the Register of Substantial Shareholders as at 1 March 2018)

	<— No. of Shares		—>	
	Direct Interest	Deemed Interest	Total Interest	% *
Hong Realty (Private) Limited	23,271,370	23,678,335 (1)	46,949,705	10.54
Hong Leong Enterprises Pte. Ltd.	4,485,047	19,968,812 (2)	24,453,859	5.49
Hong Leong Investment Holdings Pte. Ltd.	99,608,176	106,252,582 (3)	205,860,758	46.23
Davos Investment Holdings Private Limited	-	205,860,758 (4)	205,860,758	46.23
Kwek Holdings Pte Ltd	-	205,860,758 (4)	205,860,758	46.23

* The percentage of shares held is based on the total number of issued shares of the Company as at 1 March 2018.

Notes:

(1) Hong Realty (Private) Limited ("HR") is deemed under Section 4 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA") 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 4 of the SFA 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 4 of the SFA 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 4 of the SFA, 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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-Eighth 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 Thursday, 26 April 2018 at 3.00 p.m. for the following purposes:

A) Ordinary Business:

1. To receive and adopt the Directors' Statement and Audited Financial Statements for the year ended 31 December ("FY") 2017 and the Auditors' Report thereon.

2. To declare a final one-tier tax exempt dividend of 9 cents per share for FY 2017 ("Final Dividend").

3. To approve Directors' Fees (excluding Fees to the Audit Committee and Board Risk Committee) of $777,000 for FY 2017 (FY 2016: $732,000).

4. To re-elect the following Directors retiring in accordance with the Company's Constitution and who, being eligible, offer themselves for re-election:

   (a) Mr Kwek Leng Beng
   (b) Mr Kwek Leng Kee
   (c) Mr Raymond Lim Siang Keat

5. 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 which will be proposed as Ordinary Resolutions:

6. 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

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 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 10% of the total number of issued shares of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by 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 percentage of issued shares of the Company shall be based on the total number of issued shares 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 SGX-ST for the time being in force (unless such compliance has been waived by SGX-ST) and the Constitution 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 Annual General Meeting ("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.

7. 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 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 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.

C) To Transact Any Other Ordinary Business

BY ORDER OF THE BOARD

Yeo Swee Gim, Joanne
Company Secretary
Singapore, 28 March 2018

Books Closure Date and Payment Date for Final Dividend

Subject to the approval of the shareholders at the Meeting for the payment of the Final Dividend, the Share Transfer Books and Register of Members of the Company will be closed on 9 May 2018. 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 8 May 2018 will be registered to determine shareholders' entitlement to the Final Dividend.

The Final Dividend, if approved by the shareholders at the Meeting, will be paid on 23 May 2018.

Explanatory Notes:

1. With reference to item 3 of the Ordinary Business above, the Directors' Fees of $777,000 for FY 2017 exclude the fees of $140,000 and $280,000 paid to the Audit Committee ("AC") and the Board Risk Committee ("BRC") respectively for FY 2017, which had been approved by shareholders at the 2017 AGM of the Company. The structure of fees paid or payable to Directors for FY 2017 can be found on page 32 of the Annual Report.

2. With reference to item 4(a) above (under the heading "Ordinary Business"), Mr Kwek Leng Beng will, upon re-election as a Director of the Company, remain as Chairman of the Board, chairman of the Executive Committee ("Exco"), and a member of the Nominating Committee and the BRC.

   Key information on Mr Kwek Leng Beng is found on page 14 of the Annual Report. Mr Kwek Leng Beng is an executive Director of the Company. He is the cousin of Mr Kwek Leng Peck and Mr Kwek Leng Kee, and uncle of Mr Kevin Hangchi. Details of his share interest in the Company and its related corporations can be found on pages 59 to 62 of the Annual Report. Mr Kwek Leng Beng is also a director and shareholder of Hong Realty (Private) Limited ("HR"), Hong Leong Investment Holdings Pte. Ltd. ("HLIH") and Kwek Holdings Pte Ltd ("KH"). Each of HR, HLIH and KH holds more than 10% direct and/or deemed interest in the Company.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF ANNUAL GENERAL MEETING

3. Key information on Mr Kwek Leng Kee, who is seeking re-election as a Director of the Company under item 4(b) of the Ordinary Business above, is found on page 15 of the Annual Report. Mr Kwek Leng Kee is a non-executive non-independent Director of the Company. He is the cousin of Mr Kwek Leng Beng and Mr Kwek Leng Peck, and uncle of Mr Kevin Hangchi. Details of his share interest in the Company and its related corporations can be found on pages 59 to 62 of the Annual Report. Mr Kwek Leng Kee is also a director and a shareholder of HR, HLIH and Davos Investment Holdings Pte Ltd ("Davos"). Each of HR, HLIH and Davos holds more than 10% direct and/or deemed interest in the Company.

4. With reference to item 4(c) above (under the heading "Ordinary Business"), Mr Raymond Lim will, upon re-election as a Director of the Company, remain as a member of the Exco, BRC and Board Sustainability Committee. Mr Lim is considered an independent Director.

   Key information on Mr Lim is found on page 17 of the Annual Report. Mr Lim has no shareholdings in the Company and its related corporations, and has no relationships with the Company, its related corporations, its 10% shareholders or its Directors that could interfere, or be reasonably perceived to interfere, with the exercise of his independent business judgement with a view to the best interests of the Company.

5. With reference to item 5 above (under the heading "Ordinary Business"), the re-appointment of KPMG as the Company's Auditors is subject to and conditional upon the approval of the Monetary Authority of Singapore pursuant to Section 41 of the Finance Companies Act, Chapter 108. Such approval is currently pending.

6. The Ordinary Resolution set out in item 6 of the Special Business above, if passed, will empower the Directors of the Company from the date of the Meeting until the next AGM (unless such authority is revoked or varied at a general meeting) to issue shares and/or make or grant Instruments that might require new shares to be issued up to a number not exceeding 50% of the Company's total number of issued shares, of which up to 10% may be issued other than on a *pro rata* basis to shareholders. The aggregate number of shares which may be issued under this Ordinary Resolution will be calculated based on the total number of issued shares of the Company at the time this Ordinary Resolution is passed, after adjusting for 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 any subsequent bonus issue, consolidation or subdivision of shares.

7. The Ordinary Resolution set out in item 7 of the Special Business above, 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 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 Rule 859 of the Listing Manual of SGX-ST:

   Please note that if a shareholder is eligible to participate in the SOS (other than as a director and/or employee of HLIH 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 7 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.

Meeting Notes:

1. (i) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (ii) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act.

2. A proxy need not be a member of the Company.

3. The form of proxy must be deposited at the office of the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902, not less than 72 hours before the time appointed for holding the Meeting.

4. Completion and return of the form of proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the Meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under this form of proxy to the Meeting.

5. All resolutions at the Meeting shall be voted on by way of a poll. Polling will be done by way of an electronic poll voting system and members 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.

NOTICE OF ANNUAL GENERAL MEETING

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company:

(a) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable legislation, the Listing Manual of SGX-ST and/or other regulatory guidelines (collectively, the "Purposes");

(b) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and

(c) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

HONG LEONG FINANCE LIMITED
Co. Reg. No. 196100003D
(Incorporated in the Republic of Singapore)

PROXY FORM

FOR 58TH ANNUAL GENERAL MEETING

IMPORTANT:
1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50 of Singapore) may appoint more than two proxies to attend, speak and vote at the AGM.
2. This Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by CPF/SRS investors who hold shares through their CPF/SRS funds. CPF/SRS investors should contact their respective Agent Banks/SRS operators if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 28 March 2018.

*I/We, (name) ______________________ with NRIC/Passport No. ____________

of (address) ____

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

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of shares	%
Address			

as *my/our *proxy/proxies to attend, speak and vote on *my/our behalf at the 58th 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 Thursday, 26 April 2018 at 3.00 p.m. and at any adjournment thereof in the following manner as specified below. *My/our *proxy/proxies may vote or abstain from voting at *his/their discretion on any of the resolutions where *I/we have not specified any voting instruction, and on any other matter arising at the AGM.

NOTE: Voting on all resolutions will be conducted by poll. If you wish to exercise 100% of your votes **For** or **Against** a resolution, please tick with "✓" in the corresponding box against that resolution. If you wish to split your votes, please indicate the number of votes **For** and/or **Against** that resolution.

No.	Resolutions		For	Against
A)	**ORDINARY BUSINESS:**			
1.	Adoption of the Directors' Statement and Audited Financial Statements together with the Auditor's Report thereon			
2.	Declaration of a Final Dividend			
3.	Approval of Directors' Fees			
4.	Re-election of Directors:	(a) Mr Kwek Leng Beng		
		(b) Mr Kwek Leng Kee		
		(c) Mr Raymond Lim Siang Keat		
5.	Re-appointment of KPMG LLP as Auditors			
B)	**SPECIAL BUSINESS:**			
6.	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 of Singapore and the Listing Manual of Singapore Exchange Securities Trading Limited			
7.	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			

Dated this ________ day of ____________________ 2018

Total No. of Shares Held

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

*Delete accordingly

NOTES: SEE OVERLEAF

Notes:

1. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the AGM. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

2. A proxy need not be a member of the Company.

3. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (maintained by The Central Depository (Pte) Limited), you should insert that number of shares. If you have shares registered in your name in the Register of Members (maintained by or on behalf 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 form of proxy will be deemed to relate to all the shares held by you.

4. This form of proxy must be signed by the appointor or his attorney duly authorised in writing. Where the form of proxy is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer. Where a form of proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the form of proxy, failing which, the form of proxy may be treated as invalid.

5. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM in accordance with its Constitution and Section 179 of the Companies Act, Chapter 50 of Singapore.

6. Completion and return of this form of proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under this form of proxy to the AGM.

7. This form of proxy must be deposited at the office of the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902, not less than 72 hours before the time fixed for holding the AGM.

8. The Company shall be entitled to reject the form 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 the form of proxy (including any related attachment). In addition, in the case of shares entered in the Depository Register, the Company may reject any form of proxy lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.

Fold Here

PROXY FORM

Affix
Postage
Stamp

HONG LEONG FINANCE LIMITED
c/o The Share Registrar
M & C Services Private Limited
112 Robinson Road
#05-01
Singapore 068902

Fold Here

BRANCHES AND SME CENTRES

BRANCHES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Redhill (Jln Tiong) Branch
Blk 75D Redhill Road
#01-100
Singapore 154075
Tel: 6479 0277
Fax: 6479 0218

Sengkang Branch
1 Sengkang Square
#02-35 Compass One
Singapore 545078
Tel: 6384 3696
Fax: 6386 3364

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

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

Toa Payoh Branch
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#02-54 HDB Hub
Singapore 310520
Tel: 6253 4821
Fax: 6256 5676

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

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

Woodlands Branch
Blk 306 Woodlands Street 31
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Tel: 6368 7928
Fax: 6368 1448

Yishun Branch
Blk 743 Yishun Ave 5
#01-542/544
Singapore 760743
Tel: 6758 3711
Fax: 6753 5001

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Fax: 6254 8801

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#01-451
Singapore 460203
Tel: 6446 7320
Fax: 6444 3827

Bukit Merah
Blk 125 Bukit Merah Lane 1
#01-156
Singapore 150125
Tel: 6274 7535
Fax: 6272 7158

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

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180 Kitchener Road
#B2-41 City Square Mall
Singapore 208539
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Blk 725 Clementi West Street 2
#01-216
Singapore 120725
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Fax: 6534 5868

Hougang
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#01-211/213
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