



HONG LEONG FINANCE



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OVERVIEW

At Hong Leong Finance ("HLF" or the "Company"), 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\$10,278
million



SHAREHOLDERS' FUNDS
S\$1,874
million



DEPOSITS
S\$11,338
million



DIVIDENDS DECLARED
S\$62.4
million

AWARDS AND ACCOLADES

THE EDGE BILLION DOLLAR CLUB 2018

HLF emerged as the 'Fastest-Growing Company' at the The Edge Billion Dollar Club 2018 ranking. The Company recorded the highest three-year net profit compound annual growth rate among the financial institutions.

TOP BANK RANKINGS BY THE BANKER

For its first year of participation, HLF was ranked among the top 1000 banks in the world and top 100 banks in ASEAN in recognition for the Company's strong Tier 1 capital.



SIAS INVESTORS' CHOICE AWARDS 2018



HLF earned its spot at the 19th Investors' Choice Awards by Securities Investors Association (Singapore) for the first time, clinching the 'Runner-Up' title for 'Most Transparent Company' in the Finance category. According to the judging panel, HLF scored top marks in transparency in key areas such as risk and remuneration disclosures, as well as timely financial reports and financial announcements.

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2018 AWARDS

World and Regional Awards

- Top 1000 World Banks 2018



- Top 100 ASEAN Banks ranking 2018



- ASEAN Finance Company 2014 - 2018



Singapore Awards

- Top 50 in Singapore Governance and Transparency Index (SGTI) 2018
- Singapore 1000 Family of Rankings 2013 - 2018
- Fastest-Growing Company Award (Finance sector) 2018



- Most Transparent Company (Finance sector) – Runner-Up 2018



- Mortgage & Home Loan Award 2018



FIVE-YEAR FINANCIAL SUMMARY

		2018	2017	2016	2015	2014
Capital Employed						
Total assets	\$ million	13,381	12,543	12,313	13,287	12,262
Net equity	\$ million	1,874	1,742	1,697	1,688	1,659
Net assets per share	\$	4.20	3.91	3.82	3.80	3.74
Share Capital						
Number of shares in issue	million	445.8	445.2	443.8	443.8	443.5
Loans and Deposits						
Loans net of allowances	\$ million	10,278	9,877	9,515	10,091	9,583
Deposits	\$ million	11,338	10,659	10,442	11,444	10,469
Profit and Retained Earnings						
Profit before tax	\$ million	142.1	103.0	64.0	86.7	75.8
Profit after tax	\$ million	118.3	85.7	53.1	72.9	62.8
Interim/final dividend(s) declared in the year	\$ million	62.4	44.5	44.4	44.4	53.2
Earnings retained for the year	\$ million	55.9	41.2	8.7	28.5	9.6
Earnings Per Share and Dividends						
Earnings per share	cents	26.6	19.3	12.0	16.4	14.2
Dividend – tax exempt one-tier*	cents	15.0	13.0	9.0	11.0	10.0
Times covered*		1.8	1.5	1.3	1.5	1.4
Number of Employees		634	628	624	646	674

* 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 2018

13,381

FY 2017

12,543

Loans Net Of Allowances (\$ mil)

FY 2018

10,278

FY 2017

9,877

Deposits (\$ mil)

FY 2018

11,338

FY 2017

10,659

Profit Before Tax (\$ mil)

FY 2018

142.1

FY 2017

103.0

Profit After Tax (\$ mil)

FY 2018

118.3

FY 2017

85.7

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

FY 2018

62.4

FY 2017

44.5

Earnings Per Share (cents)

FY 2018

26.6

FY 2017

19.3



CHAIRMAN'S STATEMENT



KWEK LENG BENG
Chairman

On behalf of the Board of Directors, I am pleased to present this annual report of the Group and the Company for the financial year ended 31 December 2018.

FINANCIAL OVERVIEW

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

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

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

An interim dividend of 5 cents per share (tax exempt one-tier) was paid on 12 September 2018. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 10 cents per share (tax exempt one-tier) in respect of 2018. The aggregate distribution for the year will amount to approximately \$67 million, compared to \$58 million for 2017.



Through collaboration with the Infocomm Media Development Authority on 'SMEs Go Digital' Programme and Enterprise Singapore on government-assisted loans, HLF also capitalised on its leadership position to help SME customers by customising funding solutions to meet their specific needs and boost their competitiveness by offering solution partnerships.



OPERATING PERFORMANCE

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

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

Supporting SMEs' Growth

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

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

Through collaboration with the Infocomm Media Development Authority on 'SMEs Go Digital' Programme and Enterprise Singapore on government-assisted loans, HLF also capitalised on its leadership position to help SME customers by customising funding

solutions to meet their specific needs and boost their competitiveness by offering solution partnerships. Our relationship managers were equipped with information and guidance regarding the key government support aimed at SMEs, ensuring that they get favourable funding support.

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

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

Fulfilling Individuals' Dreams

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

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

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

Mortgage Equity @50 ('ME @50') launched in March 2017 was awarded 'Housing Loan and Mortgage Loan of the Year 2018' by Asian Banking & Finance. The product innovation had created positive impact on many retirees'

lives, enabling them to make more lifestyle choices. Customers were able to use the loan to meet their diverse needs from new business ventures to business transformation, home renovation and children's education, without having to sell their properties. Financing was up to 50% of LTV of private residential property value and Total Debt Servicing Ratio requirement was waived.

Balancing Business and Risk

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

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

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

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

Transforming Digitally

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

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

Offering Award-Winning Services

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

OUTLOOK FOR 2019

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

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

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

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

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

APPRECIATION

On behalf of the Board of Directors, I would like to convey our sincere gratitude to all our valued customers, shareholders and business partners for their continued support, trust and confidence in us. I would also like to express my appreciation and thanks to my fellow Directors for their invaluable advice and guidance during the year and to the management and staff for their commitment and efforts in 2018.

KWEK LENG BENG

Chairman

27 February 2019

MEETING
EVOLVING
NEEDS OF
OUR CUSTOMERS





Hong Leong Finance's unwavering commitment to establishing long-term partnerships with customers, businesses, shareholders, and the community has always been a cornerstone of its success. The Company helps customers unleash their potential and meet their diverse needs through unique solutions, such as Mortgage Equity @50 that serves the changing needs of customers in their retirement years, including new business ventures or supporting their children's education.

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
Catalist Continuing Sponsor

Corporate Advisory

- Financial Advisory
- Independent Financial Advisory
- Mergers and Acquisitions
- Restructuring

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
Mortgage Equity @50
Private Housing Loans
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 77 of this Annual Report for additional information on the President)

SECRETARIES

Yeo Swee Gim, Joanne

Ng Siew Ping, Jaslin

REGISTERED OFFICE

16 Raffles Quay #01-05

Hong Leong Building

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: 6877 8530 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: Ian Hong, appointed from commencement of audit of financial statements for the financial year ended 31 December 2018)

BANKERS

Australia and New Zealand Banking Group Limited

DBS Bank Ltd

HL Bank

Malayan Banking Berhad

Mizuho Bank, Limited

Oversea-Chinese Banking Corporation Limited

Standard Chartered Bank

Sumitomo Mitsui Banking Corporation

MUFG Bank, Ltd.

The Hongkong and Shanghai Banking Corporation Limited

United Overseas Bank Limited

CORPORATE PROFILE



Hong Leong Finance ("HLF" or the "Company") 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, HLF is the financial services arm of the Hong Leong Group Singapore.

OUR FINANCIAL PRODUCTS & SERVICES

HLF's core business involves taking deposits and savings from the public and providing a suite of financial products and services that include corporate and consumer loans, government assistance programmes for SMEs, corporate finance and advisory services.

With more than five decades of experience in serving the SME community, the Company has supported a large number of local business enterprises by offering customised financing solutions, enabling them to operate successfully in the corporate world. HLF is an active player in the SME market and a pioneer in the Local Enterprises Financing Scheme ('LEFS') administered by Enterprise Singapore.

To help our corporate customers gain greater business efficiency, HLF was the first to launch the Business Current Account in 2007 and the only finance company in Singapore to offer chequeing account services until 2018.

HLF is also a pioneer finance company with full sponsorship status for the SGX Catalyst



At HLF, we are committed to providing complete financial solutions to both business enterprises and retail customers.



Board, enabling us to provide financial advisory and fundraising services to SMEs aiming to list on Catalist, mergers and acquisitions, and underwrite the sale of shares by listed companies.

In our quest to maintain market leadership and deliver services efficiently to our SME customers, HLF maintains a strong network of 11 SME Centres @Hong Leong Finance to stay close to the business community. For our strong commitments towards SMEs, HLF was twice conferred the 'Friends of Enterprise' award by the Spirit of Enterprise.

At HLF, we are committed to providing complete financial solutions to both business enterprises and retail customers. We serve our customers by listening to their requests and tailoring our suite of products and services to best cater to their needs.

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.



BOARD OF DIRECTORS



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

KWEK LENG BENG, 78

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 26 April 2018. Mr Kwek is also the chairman of the Executive Committee ("Exco") and sits on the Board Risk Committee ("BRC") and Nominating Committee ("NC").

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"), which he founded. 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 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 has vast experience in real estate, hotels as well as trading and manufacturing.

Mr Kwek's other appointments include being 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 has received numerous accolades starting from 1997, when he was named "Businessman of the Year 1996" by Singapore Business Awards, organised by The Business Times and DHL. In 2012, he was jointly awarded the "Partners in the Office of the CEO" award in the Brendan Wood International – Securities Investors Association Singapore (SIAS) TopGun CEO Designation Award with the late Mr Kwek Leng Joo (former Deputy Chairman of CDL). This award is given to CEOs who are best in class rated by shareholders. In 2014, he received the inaugural Real Estate Developers' Association of Singapore (REDAS) Lifetime Achievement Award which honours a pioneering group of real estate leaders.

He received the Singapore Chinese Chamber of Commerce and Industry (SCCCI) SG50 Outstanding Chinese Business Pioneers Award in 2015. The award honours the Republic's outstanding Chinese business pioneers and their exemplary contributions to nation-building. That same year, he was accorded the Lifetime Achievement Award from Hotel Investment Conference Asia Pacific (HICAP). This accolade honours exceptional individuals who have distinguished themselves through accomplishments and contributions to the hotel industry.

In 2017, he was presented the Lifetime Achievement Award at the Asia Pacific Entrepreneurship Awards organised by Enterprise Asia, a regional non-governmental organisation for entrepreneurship. The award was in recognition of his outstanding achievements, visionary leadership and steadfast dedication that led to the successful growth of the Hong Leong Group for over five decades. That same year, he clinched the inaugural Global Blue Ocean Shift Award, given at the Global Entrepreneurship Community Summit in Kuala Lumpur. Most recently, Mr Kwek was awarded the Singapore Tatler Diamond Award (Lifetime Achievement) 2018, in recognition of his exceptional leadership that led Hong Leong Group to grow into a globally diversified enterprise.

KWEK LENG PECK, 62

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. He will be seeking re-election as a Director at the 2019 Annual General Meeting ("2019 AGM").

Mr Kwek is the Executive Chairman of HLA. He is also an Executive Director of Hong Leong Corporation Holdings Pte Ltd and HLIH (the immediate and ultimate holding companies of HLA respectively), the non-executive Chairman of Tasek Corporation Berhad ("TCB") and a non-executive

BOARD OF DIRECTORS

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, 64

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 26 April 2018.

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, 53

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 of Compact Metal Industries Ltd.

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

CHENG SHAO SHIONG @ BERTIE CHENG, 81

Non-Executive and
Independent Director

Appointed a Director of HLF since 23 April 2004, Mr Cheng was last 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. He will be seeking re-election as a Director at the 2019 AGM.

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 then 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, 71

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. He will be seeking re-election as a Director at the 2019 AGM.

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, 72

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, 59

Non-Executive and
Independent Director

Appointed a Director of HLF on 1 March 2012, Mr Lim was last re-elected as a Director on 26 April 2018. He also sits on the Exco, BRC and BSC of the Company.

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, 46

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.

ADVANCING

WITH SMART NATION INITIATIVES





A SME specialist for more than 50 years, Hong Leong Finance is well-positioned to help SMEs take advantage of emerging trends and digital technologies to optimise opportunities. In August 2017, the company signed a memorandum of intent with Infocomm Media Development Authority to introduce the SMEs Go Digital Programme. The programme is in support of the Smart Nation Master Plan to help SMEs build stronger digital capabilities and participate in the digital economy.

CORPORATE GOVERNANCE REPORT

Hong Leong Finance Limited ("HLF" or the "Company") is committed to maintaining a high standard of business integrity, professionalism and governance in its business dealings. The Company is pleased to be conferred Runner Up in 2018 for the "Most Transparent Company, Finance" Award by the Securities Investors Association Singapore.

The Company has complied with the transitional arrangement under Rule 710 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST Listing Manual") 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"). Where the Company's practices differ from the principles or guidelines under the 2012 Code, these differences and the Company's position in respect of the same are explained in this report. The Company has also taken note of the updated principles and provisions in the revised Code of Corporate Governance 2018 ("2018 Code"), and where the Company's practices are already aligned with the new principles and provisions under the 2018 Code, these are highlighted within 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 under its collective responsibility for the long-term success of the Company, working with the Senior Management to achieve the strategic objectives of the Company. The Board's 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. The Board assumes responsibility for good corporate governance and sets the Company's corporate values and ethical standards through the Company's policies with a view to ensuring that its obligations to shareholders and stakeholders are clearly understood and met.

Sustainability

The Board is committed to the Company's strategic approach to integrating sustainability in its business and operations, and to advance the Company's sustainability efforts.

In this regard, the Board has delegated to the Board Sustainability Committee ("BSC") the general oversight of the Board's attention to 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 Sustainability Report on pages 44 to 67 of this Annual Report 2018 ("AR").

Directors' Objective Discharge of Duties and Declaration of Interests

All Directors being fiduciaries, 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 and decision-making on such transactions, with abstention duly recorded within the minutes and/or the resolutions of the Board and/or the committees established by 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"), the Board Risk Committee

("BRC"), 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 composition, authority and responsibilities of the Board Committees and require each

Board Committee to submit at least an annual report of its activities to the Board (*note: aligned with Provision 1.4 of the 2018 Code*). 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.

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

CORPORATE GOVERNANCE REPORT

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.

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 this report for further information on the activities of the AC, BRC, NC and RC. Information on the activities of the Exco can be found under the 'Board Approval' paragraph in this section on Principle 1, whilst information on the activities of the BSC can be found under the 'Sustainability' paragraph in this section on Principle 1 in the earlier part of this report. Information on the activities of the SOSC can be found in the Directors' Statement on pages 85 to 87 and in the Financial Statements on pages 119 to 122 of the AR.

Board Processes

Board and Board Committee meetings are held regularly, with the Board meeting no less than five times a year. Six Board meetings were held in 2018.

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 2018. 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 2018.

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 2018, 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 and/or the NEDs. 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. The Directors also, whether individually or collectively, engage with the Senior Management/Management team to better understand the challenges faced by the Group and the inputs of the Directors, through such engagement, provide valuable perspective to the Management.

Directors' Attendance at the AGM, and Meetings of the Board, Board Committees and the NEDs in 2018

(a)	Board	Exco	AC	NC	RC	SOSC	BRC	BSC	NEDs
Number of meetings held in 2018:	6	2	6	2	2	1	2	2	1
Name of Directors									
Number of meetings attended in 2018									
Kwek Leng Beng	6	2	N.A.	2	N.A.	N.A.	2	N.A.	N.A.
Kwek Leng Peck	6	2	N.A.	N.A.	N.A.	1	2	N.A.	1
Kwek Leng Kee	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1
Chng Beng Hua	6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1
Cheng Shao Shiong @ Bertie Cheng	6	2	6	2	2	1	2	N.A.	1
Po'ad bin Shaik Abu Bakar Mattar	6	N.A.	6	2	2	1	N.A.	N.A.	1
Ter Kim Cheu	6	2	6	N.A.	2	1	N.A.	2	1
Raymond Lim Siang Keat	6	2	N.A.	N.A.	N.A.	N.A.	2	2	1
Kevin Hangchi	6	N.A.	N.A.	N.A.	N.A.	N.A.	2	2	1

(b) All the Directors were present at the Company's AGM held in April 2018.

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 majority of its members being non-executive. 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, granting by the Company of loans, guarantees or credit facilities up to a limit fixed by the Board, and approving transactions (acquisition/disposal of certain assets and purchase of investments and certain marketable securities) other than those which are of a dealing nature and in the ordinary course of business and provided that such transactions are non-discloseable pursuant to the SGX-ST Listing Manual up to limits 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 where applicable, the relevant 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, and in the case of appointments to any of the Board Committees, the role and responsibilities of such Board Committees. The induction programme includes meetings with various key executives of the Management team to allow the new Directors to be acquainted with, and to facilitate their independent access to the Management team in future. The programme also includes briefings by the Management team 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 Entity Director ("LED") 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 LED 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 Company has noted that such training for first-time directors is now mandatory under the revised SGX-ST Listing Manual.

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 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.

Two in-house seminars were conducted by invited speakers in 2018, on the following topics:

1. Innovation in the Marketplace: Emerging Trends and Insights, with focus on Blockchain technology, Fintech and Smart Buildings
2. Ethical Standards and Culture: The Role of the Board
3. Unlocking Business Value from Sustainable Development Goals Integration

4. Driving Business Performance through Sustainability Reporting
5. Sustainability Reporting by SGX-ST listed companies

The AC members were also provided with a briefing from the Company's external auditors on accounting standards update during the year.

More than 50% of the Board attended various training seminars and workshops in 2018 which accounted for more than 35 training hours in aggregate.

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. All members of the Board except for the Chairman of the Board ("Board Chairman") are NEDs. Of the eight NEDs, the Board 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. No alternate Directors have been appointed in respect of any of the Directors.

When determining the independence of the 5 IDs, the guidelines for independence set out in Guideline 2.3 of the 2012 Code were considered together with information pertaining to the 5 IDs' 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 and decision-making 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 accordance with Listing Rule 210(5)(d), none of the 5 IDs are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations. None of the 5 IDs have immediate family members who are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations, and whose remuneration is determined by the RC. For purposes of determining independence, the 5 IDs have also provided confirmation that they are not related to the Directors and substantial shareholders of the Company. Each of the 5 IDs abstained from deliberation of their own independence.

Of the 5 IDs, three of them, namely Mr Chng Beng Hua, Mr Bertie Cheng and Mr Po'ad Mattar ("3 IDs") have served on the Board for more than nine years since their appointment to the Board on 1 July 2000, 23 April 2004 and 24 April 2009 respectively. In considering the independence of these 3 IDs, the Board took into consideration factors such as whether they have expressed their individual viewpoints and debated issues constructively during meetings of the Board and Board Committees (where applicable), 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 Board determined that these 3 IDs 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 Company'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.

Of the 3 IDs, Mr Cheng and Mr Mattar will be seeking re-election at the Company's AGM in April 2019. Having considered their independence, the Board therefore recommends the re-election of Mr Cheng and Mr Mattar as independent Directors of the Company.

Board Composition and Size

The NC reviews the size and composition mix of the Board and Board Committees annually. At the recommendation of the NC, the Board had approved in 2018 a formal Board Diversity Policy, setting out its policy and framework for promoting diversity on the Board (*note: aligned with Provision 2.4 of the 2018 Code*). The Board recognises that a diverse Board is an important element which will better support the Company's achievement of its strategic objectives for sustainable development by enhancing the decision-making process of the Board through the perspectives derived from the various skills, business experience, industry discipline, gender, age, ethnicity and culture, geographical background and nationalities, tenure of service and other distinguishing qualities of the Directors.

In this regard, the NC will strive to ensure that:

- (a) if external search consultants are used to search for candidates for Board appointments, the brief will include a requirement to also present female candidates;

- (b) when seeking to identify a new Director for appointment to the Board, the NC will request for female candidates to be fielded for consideration; and
- (c) female representation on the Board be continually improved over time based on the set objectives of the Board.

The final decision on selection of Directors will be based on merit against an objective criterion that complements and expands the skills and experience of the Board as a whole, and after having given due regard to the overall balance and effectiveness of a diverse Board.

When reviewing and assessing the composition of the Board and making recommendations to the Board for the appointment of Directors, the NC will consider all aspects of diversity to arrive at an optimum balanced composition of the Board.

The Board currently comprises business leaders and professionals with financial (including audit and accounting), banking, legal and business management backgrounds. When reviewing candidates for Board appointment, the NC will be considering female candidates as well as candidates with financial (including audit and accounting), banking and information technology 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.

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 2018 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 David Thong, Senior Vice President (Operations)
- Mr Andrew Low, Senior Vice President (Human Resources)

The President who has been with the Company for more than fifteen years has extensive working experience in the banking and finance sector. Please refer to the Operating and Financial Review on page 77 of the AR for additional information on the President. Mr Ang is not related to the Board Chairman.

The Board had considered Mr Kwek Leng Beng's roles as the MD and Board Chairman and the strengths he brings to these roles by virtue of his stature and experience. Through the establishment of various Committees with power and authority to perform key functions without the undue influence from the Board Chairman, and the putting in place of internal controls for proper accountability and to allow for effective oversight by the Board of the Company's business, the Board ensures there is

appropriate balance of power which allows the Board to exercise objective decision-making in the interests of the Company. The Board is of the view that Mr Kwek Leng Beng's role as the MD and the Board Chairman would continue to facilitate the Group's decision making and implementation process.

Lead Independent Director

Taking cognizance that the Board Chairman is the MD and thus not independent, 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 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 through the normal channels of the Board Chairman/MD or the President or the CFO 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 2018. Under the chairmanship of the Lead ID, a meeting of the NEDs was convened in 2018 without the presence of Management or the Board Chairman, and the views expressed by the NEDs at the meeting were communicated to the Board Chairman and the President, as appropriate.

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. Two NC meetings were held in 2018. 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 Kwek Leng Peck, Mr Bertie Cheng and Mr Po'ad Mattar will be retiring at the forthcoming AGM ("2019 AGM") and being eligible have offered themselves for re-election.

As mentioned on page 26 of this report, Mr Cheng and Mr Mattar have served on the Board for more than nine years since their appointment to the Board and will be seeking re-election at the Company's AGM in April 2019. The Board concurred that both Mr Cheng and Mr Mattar had maintained their independence throughout their service on the Board, having observed their objectivity in the review and evaluation of actions taken by or proposals from Management and their seeking of clarification, as and when necessary, to make informed decisions whilst remaining open to other viewpoints. The Company has also benefitted from their years of experience in their respective fields of expertise. The Board therefore recommends the re-election of Mr Cheng and Mr Mattar as independent Directors of the Company. The Board also recommends the re-election of Mr Kwek Leng Peck as a non-independent NED.

Criteria and Process for Nomination and Selection of New Directors

The NC interviews shortlisted candidates before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees. Searches for and selection of candidates to be considered for appointment as Directors are facilitated through recommendations from the Directors and various other sources. Where necessary, the NC may consider the use of external search firms to find appropriate candidates.

Shortlisted candidates would be required to furnish their curriculum vitae containing information on their academic/professional qualification, work experience, employment history and experience (if any) as directors of listed companies.

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 the fit and proper guidelines issued by the Monetary Authority of Singapore ("MAS") which require 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 considers 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 are 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 to address competing time commitments faced by Directors serving on multiple boards. The NC noted that, 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 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, which includes their date of first appointment and latest re-appointment to the Board, major appointments, directorships held in listed companies both currently and in the preceding three years, and other relevant information, in the notice of AGM and additional information for Directors proposed for re-election at the 2019 AGM.

Succession Planning for the Board, the Board Chairman and the MD and key management personnel ("KMP")

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. The NC also conducts annual review on the succession planning to ensure continuity of leadership for the KMP.

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 2018 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 also undertook an evaluation of the performance of the NC, RC, BRC, BSC and the AC with the assistance of self-assessment checklists completed by these Board Committees 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 qualitative 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.

The quantitative criteria used to evaluate the overall Board performance comprises the Company's monthly and year-to-date performance as compared to corresponding periods in the preceding year and the budget, quarterly performance indicators which include a comparison of the Company's performance for the financial period under review against the Company's performance and comparable industry players for the corresponding period.

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, BSC, 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 within the Board and the Board Committees and between Management and the Directors, facilitating the induction for newly appointed Directors and newly appointed Board Committee members, and assisting in the 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 KMP.

The Company has in place a remuneration framework (which covers all aspects of remuneration) for the Directors and the KMP. The MD who is the only Executive Director of the Company and the President were identified as the Company's KMP for FY 2018. On an annual basis, the RC reviews and approves the remuneration packages (including salary adjustments, where applicable, 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 ("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. Two meetings of the RC were convened during 2018.

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:

- (a) to ensure that the procedure for determining remuneration for Directors is formal and transparent;
- (b) 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
- (c) 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

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remuneration based on the Company's remuneration policy which comprises the following three distinct objectives:

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

The Company adopts a performance-based remuneration framework that is flexible and responsive to the market, and the performance of the Company and individual employees. In designing the remuneration framework, the Company seeks to ensure that the level and mix of remuneration is competitive, relevant and appropriate having regard to the strategic objectives of the Company.

Based on the remuneration framework, 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 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.

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, these specific indicators include those that track the growth and the quality of the Company's core business especially the size and quality of its loan assets, level and growth of deposits and percentage of non-performing loans. The monitoring and management of interests spreads, loan/deposits ratio, profitability, are also taken into account.

The Company currently has in place a long-term incentive scheme, which is the SOS.

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

85 to 87 and the Financial Statements on pages 119 to 122 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, which comprise base director's fee and additional fees for services rendered under the various Board Committees, 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. The RC is aware that the remuneration for IDs should not be excessive so as to compromise or reasonably be perceived to compromise their independence. 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 payable to Directors of the Company for FY 2018 is set out on the next page:

Appointment	Fees per annum (\$)
Director	75,000 (Basic fee)
Additional Fees:	
Board Chairman	20,000
Executive Committee (Exco)	
– Exco Chairman	30,000
– Exco Member	20,000
Nominating Committee (NC)	
– NC Chairman	18,000
– NC Member	12,000
Remuneration Committee (RC)	
– RC Chairman	18,000
– RC Member	12,000
Hong Leong Finance Share Option Scheme 2001 Committee (SOSC)	
– SOSC Chairman	4,000
– SOSC Member	3,000
Audit Committee (AC)	
– AC Chairman	60,000
– AC Member	40,000
Board Risk Committee (BRC)	
– BRC Chairman	120,000
– BRC Member	40,000
Board Sustainability Committee (BSC)	
– BSC Chairman	6,000
– BSC Member	4,000
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 85 to 87 and the Financial Statements on pages 119 to 122 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 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 2018.

Director's Remuneration for FY 2018

The remuneration of each Director for FY 2018 rounded off to the nearest thousand dollars including a breakdown in percentage terms earned through base salary, variable bonuses/allowances, fees, share option grants and other benefits for FY 2018, is set out below:

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							
1. Kwek Leng Beng (MD)	2,448	43	47	7	1	2	100
Non-executive Directors							
2. Kwek Leng Peck	138	–	–	100	–	–	100
3. Kwek Leng Kee	75	–	–	100	–	–	100
4. Chng Beng Hua	75	–	–	100	–	–	100
5. Cheng Shao Shiong @ Bertie Cheng	293	–	–	98	–	2	100
6. Po'ad bin Shaik Abu Bakar Mattar	179	–	–	100	–	–	100
7. Ter Kim Cheu	156	–	–	100	–	–	100
8. Raymond Lim Siang Keat	139	–	–	100	–	–	100
9. Kevin Hangchi	119	–	–	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 for FY 2018, which are subject to approval by shareholders as a lump sum at the 2019 AGM.

³ These relate to options granted during FY 2018. The fair value of the options as at the date of grant is \$0.1786 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 2018

For FY 2018, the Company identified the President as its only KMP (not being a Director).

The Board does not believe it is in the interest of the Company to disclose the FY 2018 remuneration of its KMP (not being a Director) whether in bands of \$250,000 or to the nearest thousand dollars having regard to the highly competitive human resource environment.

Remuneration of Director's Immediate Family Member for FY 2018

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 2018. Ms Kwek retired from the Company on 31 December 2018.

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 2018, the President and CFO 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.

The Board and Senior Management are committed to conducting business with integrity and consistent with high standards of business ethics, and in compliance with all applicable laws and regulatory requirements. The Company has established various corporate policies as necessary which provide a communicable and understandable framework for staff to observe the Company's principles on honesty, integrity, responsibility and accountability at all levels of the organisation and in the conduct of the Company's business in their relationships with the Company's stakeholders, including customers, suppliers

and employees. Further details of these policies are described in the segment entitled "Corporate Values and Conduct of Business" at the end of this report.

Principle 11: Risk Management and Internal Controls

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 has overall responsibility for determining the type and level of business risks that the Company undertakes to achieve its corporate objectives. The Board establishes and oversees the Company's risk management framework; and ensures the adequacy of independent risk management systems and practices.

Board Risk Committee

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.

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, Management

Risk Committee, and the Business Continuity Disaster Recovery Committee.

Risk Management Department

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 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) support Management in achieving the Company's strategic priorities by maintaining and enhancing the risk framework and (c) 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.

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. 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 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 135 to 139 of the AR.

Singapore Financial Reporting Standards (International), ("SFRS(I)") 9 Financial Instruments 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 of loss of income or market value fluctuations in the balance sheet arising from 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 different repricing periods between assets and liabilities. In the management of liquidity risk, the Company ensures that there are sufficient funds at all times to meet contractual and regulatory obligations. 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 the 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 also 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 140 to 146 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 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 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 CFO 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.

CORPORATE GOVERNANCE REPORT

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 CFO, 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 2018 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.

Based on the terms of reference of the AC, a former partner or director of the Company's existing auditing firm or auditing corporation should not act as a member of the AC: (a) within a period of two years commencing on the date of his ceasing to be a partner of the auditing firm or director of the auditing corporation; and in any case (b) for as long as he has any financial interest in the auditing firm or auditing corporation (*note: aligned with Provision 10.3 of the 2018 Code*). 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.

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 assurance by the MD, the President and the CFO that the financial records have been properly maintained, and that the financial statements give a true and fair view of the Company's and Group's operations and financial position (*note: complied with Provision 10.1(c) of the 2018 Code*);
- 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 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 2018. The AC was satisfied that the only significant matter identified impacting the financial statements was as follows:

Loan, advances and receivables represent a significant component of total assets with potential material impact to the Group's financial statements. The determination of the adequacy of the impairment allowance for loan, advances and receivables involves Management's assessment and judgement as disclosed in the Notes to the Financial Statements.

With effect from 1 January 2018, SFRS(I) 9 requires the Group to calculate impairment loss allowances using a forward-looking ECL model. The Group developed ECL model to compute the impairment loss allowance for non-credit impaired financial assets taking into consideration factors such as risk parameters, forward-looking estimates and management overlay based on a combination of statistical analysis, assumptions and judgements. The difference between the Stage 1 and 2 ECL and the Minimum Regulatory Loss Allowance ("MRLA") as required under Revised MAS Notice 811 is reported as Regulatory Loss Allowance Reserve ("RLAR").

Loss allowance for credit impaired financial assets is assessed based on individual exposures against the estimated collateral values.

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 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.

The Group adopted the SFRS(I)s which became effective for financial years beginning 1 January 2018. The initial adoption of SFRS(I)s does not have a material impact on the financial statements except SFRS(I) 9 as described above. These are the first financial statements of the Group and of the Company prepared in accordance with SFRS(I).

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.

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 2018. 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 2018 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 2018, please refer to note 21 of the Notes to the Financial Statements on page 131.

In reviewing the nomination of KPMG for re-appointment for the financial year ending 31 December 2019, 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 2019 AGM.

CORPORATE GOVERNANCE REPORT

Related Party and Interested Person Transactions

Taking a risk-based approach, the Company has established policies and procedures on related party ("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 relating to 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 2018 (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 2018 under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) (\$'000)
Hong Leong Investment Holdings Pte. Ltd. group of companies		
– Lease of office/branch premises	18,798*	Not applicable**
– Receipt of corporate secretarial services	369	Not applicable**

* This relates to the value of lease of premises by the Company for its operations from Interested Persons for lease tenures of three years and five years in duration.

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

The above IP transactions were carried out on normal commercial terms and were 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 Compliance department. Under these procedures, arrangements are in place for independent investigation of such matters raised and for appropriate follow up action to be taken.

In order to facilitate and encourage the reporting of such matters, an abridged version of the whistleblowing policy, together with the dedicated whistleblowing communication channels (email and postal address as well as telephone contact numbers) are available on the Company's website and is easily accessible by all employees and other persons.

The whistleblowing policy is reviewed by the AC annually to ensure that it remains current. 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 conduct. The AC reviews this policy which is administered by the Head of Compliance department.

Anti-Corruption Policy

HLF has established an anti-corruption policy to provide guidance and assistance to officers and employees of the Company on matters relating to the prevention, detection, reporting and investigation of corruption and bribery. The policy will be reviewed by BSC from time to time to ensure it remains current and 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 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 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 2018 and received regular reports during 2018 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 2018, 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 4 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 Chairman of the Board, 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 2018 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.

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 AGM minutes from 2019 onwards will be available on the Company's website, and the Company will furnish the minutes of the AGM upon request of any shareholder (*note: aligned with Provision 11.5 of the 2018 Code*).

Pursuant to Rule 730A(2) of the SGX-ST Listing Manual, all resolutions to be proposed at the 2019 AGM and at any adjournment thereof shall be put to the vote by way of poll.

In support of greater transparency and to allow for a more efficient voting system, the Company had been conducting electronic poll voting instead of by show of hands since its 2012 AGM and would continue to do so at the 2019 AGM. With electronic poll voting, shareholders present in person or represented by proxy at the 2019 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 2019 AGM. The detailed voting procedures for the electronic poll voting would be explained at the AGM. An external firm which is independent of the firm appointed to undertake the electronic poll voting process, is appointed as scrutineers for the AGM voting process.

Corporate Values and Conduct of Business

The Board and Senior Management are committed to conducting business with integrity and consistent with high standards of business ethics, and in compliance with all applicable laws and regulatory requirements. In addition to observing the Code of Conduct issued by the Finance Houses Association of Singapore, as well as the Code of Conduct for Banks and Bank Staff issued by the Association of Banks in Singapore to the extent applicable to the operations of the Company, the Company has in place an internal code of 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, regulators 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:

- (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 conducts;
- (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) Anti-Corruption Policy which provides guidance and assistance to the Company's officers and employees on matters relating to the prevention, detection, reporting and investigation of corruption and bribery;
- (v) 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;

- (vi) Personal Data Protection Policy which provides guidance to employees on matters related to the Personal Data Protection Act 2012;
- (vii) 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;
- (viii) 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;
- (ix) 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
- (x) 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 2019

SUSTAINABILITY REPORT



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INTRODUCTION

Hong Leong Finance ("HLF" or "the Company") is pleased to present the FY 2018 Sustainability Report ("SR") which sets out our approach and progress towards growing a sustainable business. The SR also aims to communicate to our stakeholders HLF's continued commitment and contribution towards sustainability and provide updates since the Company's inaugural report last year.

REPORTING FRAMEWORK

This SR has been prepared with reference to the internationally-recognised Global Reporting Initiatives ("GRI") Standards as well as the primary components detailed in the Singapore Exchange ("SGX") Listing Rule guide for sustainability reporting. A full list of disclosures referenced in this SR can be found in the GRI Content Index on page 66.

REPORTING PERIOD AND SCOPE

This SR outlines our practices, initiatives and performance for FY 2018 with no significant changes to our operations and supply chain during the financial year. Our operations are based in offices located at three buildings and 28 branches in Singapore which are all included in the scope of this SR, unless otherwise stated. The financial statements of our business can be found on page 81. Our SR is published annually for our stakeholders and is available on our website at www.hlf.com.sg/investor-relations/annual-reports.php

DATA AND EXTERNAL ASSURANCE

HLF applies a standardised approach to data collection and analysis across our business. Standard units of measurement are used in this SR and conversion factors, where applicable, are explained in their respective sections. We have not sought independent external assurance of the information contained in this report but will consider doing so in the future.

We welcome feedback from our stakeholders on this SR and any of the issues covered. Please contact us at Sustainability@hlf.com.sg with any comments or questions you may have.

BOARD STATEMENT



As a company committed to sustainable and responsible business practices, we would like to share with our stakeholders our journey thus far. This SR aims to present a transparent account of our commitments and progress towards managing five key Environmental, Social and Governance ("ESG") issues that we had identified in 2016 as being the most important to our stakeholders and to the business. Whilst these issues remain relevant for FY 2018, we will strive to conduct further stakeholder engagement in FY 2019 to ensure that we stay abreast of our stakeholders' expectations, which in turn guide our approach to sustainability.

Sustainability at HLF means doing business in a way that takes into account the short and long term needs of our various stakeholders. To the Board, sustainability is integral to HLF's strategy and the Board takes responsibility for ensuring that ESG factors are integrated into every part of our business. To assist the Board, the Board Sustainability Committee ("BSC") was set up in 2018 and is supported by an internal sustainability working team comprising senior managers and heads of departments. The BSC reports to the Board and is responsible for signing off on our material sustainability issues and ensuring that these issues are managed and monitored. The Board receives regular updates on sustainability performance and considers our material sustainability issues as part of our strategy formulation.

Looking back to FY 2017, the year we began formalising our approach to sustainability, we can be proud of the progress we have made. FY 2018 represented an important milestone for HLF – providing strong returns for our shareholders as well as making progress in key areas of sustainability within our business. We acknowledge the need to ensure we keep evolving as a business.

Sustained Economic Growth

To keep up with our strong momentum in revenue and profit growths, significant investments have been made, notably in staffing, risk management, technology and operations. Our financial highlights can be found on page 5.

Responsible Lending

As financing activities is our core business, we continued to closely assess borrowers which were classified as having elevated ESG risk profiles and implemented our Responsible Financing Guidelines ("RFG"). We are also in the process of enhancing our systems to better track and monitor such borrowers.

Supporting Small and Medium Enterprises ("SMEs")

We view SMEs as a crucial segment of the economy and providing them with greater access to capital is important to foster inclusive economic growth. One of our key highlights is our support towards the SMEs Go Digital Programme. Through the partnership with the Info-communications Media Development Authority ("IMDA"), we were able to invite our customers to IMDA industry briefings on the latest government support for the SME sector.

Robust Risk Management

We continue to raise the standards of corporate governance and strengthen risk management processes and systems in the Company.

While we strive to prevent fraudulent activities in our business, we had two incidents of fraud committed by our customers. Both cases were managed in accordance with our standard operating policies and procedures and the relevant authorities were informed and updated accordingly.

Preparing for a Digital World

To meet customers' expectations on the digital front, HLF is in the process of collaborating with a few FinTech companies to drive innovation and work towards adopting new customer-centric technologies to ensure that we keep pace with evolving digital needs. Our staff also attended the Digital Workplace programme under SkillsFuture to prepare them for the future economy.

Looking Ahead

We are operating in a complex and dynamic business environment with diverse risks. To grow a sustainable business, we must stay vigilant and cognisant of potential disruptions to our business and changing stakeholders'

expectations whilst recognising new business opportunities. Only then will we be able to achieve our vision to be a leading multi-model financial institution serving SMEs and consumers.

There is considerable drive in the business and a clear pathway going forward. We invite you to find out more and hope you will read this report with great interest. We look forward to our continuing progress on this journey.



SUSTAINABILITY AT HONG LEONG FINANCE

HLF is committed to integrating sustainability in the way we conduct our business activities.

Our approach to sustainability is based on accountability and transparency. We are open with our stakeholders and use a precautionary approach to mitigate our future sustainability risks and challenges. We acknowledge that incorporating sustainability practices into our business is an on-going process and we remain dedicated to taking progressive steps to achieve our goals.

MATERIALITY ASSESSMENT

Our first materiality assessment took place in late 2016 (please see our FY 2017 SR for details). As part of our strategic approach to sustainability, we sought to follow GRI's process of defining material issues as closely as possible – we considered the wider sustainability context to ensure that we sufficiently covered the significant ESG impacts of our business operations, as well as stakeholders' opinions and feedback. Whilst there were no major changes to the material issues determined this year, we will continue our efforts to keep up to date with our stakeholders' expectations which will impact our future plans and commitments.

The key material issues identified as integral to our business are outlined in the table below.

Material Issue	Description
Business Ethics and Integrity (Socioeconomic Compliance and Anti-Corruption)	Conducting business activities ethically and responsibly through stringent internal controls, including strong values and a robust governance framework.
Responsible Lending and Integration of ESG factors in Credit Risk Analysis	Ensuring that lending activities do not have direct or indirect adverse impacts on people, environment and the economy by integrating ESG factors in credit risk analysis.
Customer Privacy and Data Security	Handling data properly and protecting data privacy when conducting business.
Transparent Information and Fair Advice to Customer	Providing accurate, transparent, fair and appropriate advice to customers to ensure they can make the best-informed financial decisions.
Risk Management	Ensuring risk management policies and systems are kept up to date to reflect changes in market conditions, products and services offered, and emerging best practices.

SUSTAINABILITY GOVERNANCE

HLF set up the BSC in 2018, comprising three non-executive Directors, with the majority being independent. The BSC was appointed by the Board to ensure proper execution of our sustainability commitments and our sustainability reporting process. Matters relating to the ESG framework, ESG targets, sustainability reporting, as well as policies, practices and performance on material ESG factors all fall under the remit of the BSC. The BSC meets at least once every year and as often as it deems necessary to carry out its duties.

Senior Management is also fully involved in HLF's sustainability efforts. Comprising the President and Senior Vice Presidents, the Senior Management reviews and monitors our progress periodically. They ensure that the Sustainability Project Team, consisting of heads from various departments across the Company, manages and implements our sustainability action plans.

STAKEHOLDER ENGAGEMENT



Engaging in open and transparent dialogue with our stakeholders is essential to our long-term business success. Our stakeholders play a critical role in shaping our strategy, plans and policies. By maintaining good communication with them, the Company is able to respond to their invaluable feedback and ensure that our products and services are fit for purpose.




HLF engages with our stakeholders through a variety of channels. These engagements allow us to understand the concerns of our stakeholders and respond in a timely and appropriate manner.



SUSTAINABILITY AT HONG LEONG FINANCE

The table below sets out our key stakeholders, our engagement with them, some of the key topics raised and our responses.

Our Key Stakeholders	Forms of Engagement	Area of Interest	HLF's Response
Customers 	<ul style="list-style-type: none"> Website feedback form Calls to Customer Service Centre Formal correspondences Face-to-face meetings SME market survey Customer events SR Annual Report ("AR") 	<ul style="list-style-type: none"> Feedback on products and services Customers' challenges and priorities 	<ul style="list-style-type: none"> Introduced AXS services for ease of loan repayment Launched "HLF Empowers SME" Campaign to help SMEs with their challenges and priorities Enhanced SME HDB Loan to better meet business cash flow needs Formed Branch and Operations Improvement Teams to address feedback and streamline processes
Regulators 	<ul style="list-style-type: none"> Consultations with regulators Inspection reports Survey updates Clearance for quarterly financial statements, annual audited financial statements, submission of regulatory and tax returns/surveys per prescribed by the Monetary Authority of Singapore ("MAS") Notices, SGX circulars and regulations SR Audit reports Compliance assurance reports 	<ul style="list-style-type: none"> Prevention of financial fraud, prevention of money laundering and countering the financing of terrorism Regulations, accounting, taxes and financial reporting Enhancements in IT security to address IT risks such as threats of cyberattacks 	<ul style="list-style-type: none"> Maintained regular engagements with the regulators Actively participated in consultation papers issued by regulators Evaluated automation in compliance oversight so as to align with the industry trends and regulatory requirements. Implemented revised IT security policies Hosted regular IT Security Awareness Staff Training

Our Key Stakeholders	Forms of Engagement	Area of Interest	HLF's Response
Investors 	<ul style="list-style-type: none"> Annual General Meeting Presentation slides from Annual General Meetings (released via SGXNet) Disclosure of material information through SGXNet announcements and press releases Quarterly results announcement AR SR Website 	<ul style="list-style-type: none"> HLF's plans towards digital transformation Corporate governance Accurate and timely disclosures of material information relating to the Company and its financial performance Dividend payment policy 	<ul style="list-style-type: none"> Initiated collaborations with FinTech companies to drive innovation Achievements in governance and transparency excellence (please refer to Awards and Accolades on page 2)
Employees 	<ul style="list-style-type: none"> SR Staff Award Ceremony Performance appraisals Seminar and training sessions Staff orientation Sports and Recreation Club activities for staff and family members Staff volunteering 	<ul style="list-style-type: none"> Business strategies and operational performance Up-skilling and upgrading Career development Staff welfare, health and safety 	<ul style="list-style-type: none"> Organised yearly townhall meeting with the President to review HLF's performance against our strategy Staff participation in SkillsFuture for Digital Workplace programme Implemented Project Team Award to promote teamwork
Local Community 	<ul style="list-style-type: none"> Community engagement activities, donations 	<ul style="list-style-type: none"> Community projects, local welfare organisations Support towards the under-privileged 	<ul style="list-style-type: none"> Introduced regular staff volunteering charity activities Supported a variety of community projects and organisations Made use of social enterprises' services to support business needs

EXTERNAL INITIATIVES

In addition to engaging our stakeholders, we also actively participate in dialogues with organisations to stay abreast of issues that are relevant to us. We are members of the following organisations:

- Association of Banks in Singapore ("ABS")
- Finance Houses Association of Singapore
- Hire Purchase, Finance & Leasing Association of Singapore
- Singapore Chinese Chamber of Commerce & Industry
- Singapore Business Federation
- Singapore Food & Manufacturers Association
- Singapore International Chamber of Commerce
- Singapore National Employers Federation
- The Institute of Banking and Finance

GOVERNANCE, ETHICS AND INTEGRITY



HLF is committed to conducting business with high standards of ethics and integrity through strong governance, accountability and transparency.

We are committed to maintaining high standards of business integrity, professionalism and governance in our business dealings. It is vital that we conduct our business ethically and responsibly through strong internal controls and risk management, and by inculcating the right values in our people.

Business ethics and integrity, and risk management are HLF's material governance issues. Managing these issues will ensure we have the trust of our customers and the markets, which in turn leads to long-term sustainable value for us. It also enables us to be agile as a business and evolve according to our rapidly changing operating environment.

BUSINESS ETHICS AND INTEGRITY

Employee Code of Conduct

The Board is responsible for ensuring that HLF maintains high standards of business ethics, and that it complies with all applicable laws and regulatory requirements. The Board provides leadership, sets strategic goals, oversees HLF's governance framework and monitors performance.

Our Board adopts and follows a Code of Conduct ("the Code") that guides our operations and the actions of all our employees. The Code is based on 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 ABS. The Code prescribes the acceptable and appropriate standards of behaviour expected of all employees. It also provides a communicable and understandable framework for employees to follow HLF's principles such as honesty, integrity, responsibility and accountability in their relationships with our stakeholders, including situations where there are potential conflicts

of interest. The Code is communicated to employees through various platforms such as handouts, the Company's intranet and trainings.

Conflict of Interest

In addition to the Code that guides all employees on the topic of conflict of interests, HLF has also instituted segregation of business activities such as "Chinese Walls" within the Company and written policies and procedures to limit the flow of confidential and price-sensitive information between departments. We have also in place internal controls on personal dealings.

Anti-corruption, Preventing Fraud and Whistle Blowing

We launched our new Anti-Corruption Policy in October 2018. The policy was established as part of the overall corporate governance framework to provide guidance and assistance to the officers and employees on matters relating to the prevention, detection, reporting and investigation of corruption and bribery.

HLF has a Fraud Policy which provides guidance to the Company's employees on matters relating to fraudulent activities.

HLF also has a Whistle Blowing Policy to ensure that employees and non-employees of the Company that have any legitimate concerns about any possible improprieties relating to accounting, financial reporting, internal controls and auditing or other matters, may be raised without fear of reprisals in any forms, discriminating or adverse consequences.

All new employees at HLF undergo a mandatory orientation training programme which covers various topics, including anti-corruption, internal fraud and whistleblowing. Such information is also available on the Company's intranet. Any cases of suspected corruption or fraud are reported to the relevant authorities through our Legal, Human Resource or Internal Audit departments, which will also keep the Managing Director and Senior Management informed of such incidents.

Anti-Money Laundering and Countering the Financing of Terrorism

To ensure that the risk of financial crime is minimised, we have in place the Policy on Anti-Money Laundering ("AML") and Countering the Financing of Terrorism ("CFT"). This policy is supplemented by advisory capabilities, training, monitoring and assurance review. All new employees are provided with training on AML and CFT. In addition, we also provide refresher training on AML and CFT to the Board, Senior Management and general staff biennially.

Other Policies

Other complementary policies which serve to minimise the risk of corruption and fraudulent activities taking place include the Personal Data Protection Policy (see Our Customers chapter on page 56), Procurement Policy, Competition Law Policy and the Policy on transactions with Related Party/Interested Person Policy.

More details on our corporate governance practices can be found on pages 22-43.

COMPLIANCE

The Compliance Department supports and works alongside business management to ensure relevant policies and controls are adequately designed and implemented for compliance risks to be effectively managed. We aim to ensure that our respective departments comply with all applicable regulatory and legislative requirements. The overall responsibility for compliance lies with the Board.

RISK MANAGEMENT

The Company believes that the vital elements to achieve stable and sustainable growth include the adoption of sound risk management policies and a risk focused organisational culture.

At the highest level, the Board bears the ultimate responsibility for limiting and monitoring the Company's

risk exposures. To assist the Board in fulfilling its duties, the Company's Board Risk Committee ("BRC") oversees and reports to the Board on matters relating to risk functions. The BRC reviews the adequacy and effectiveness of, as well as approves the risk management framework, related risk management policies, systems, and risk appetite.

The Management Risk Committee, Business Continuity Disaster Recovery Committee and Asset & Liability Committee comprising Senior Management meet regularly to review the Company's performance against a changing macro-economic and regulatory environment and report to the BRC.

The Risk Management and Compliance functions are performed by two separate dedicated teams that are independent from business in the reporting line. Our robust Risk Management framework enables the Company to seize business opportunities in a fast-changing environment through informed, risk-based decisions.

HLF's reputation and financial stability are of fundamental importance to the Company and our stakeholders comprising customers, shareholders, and employees. We manage reputational risks through maintaining high standards in corporate governance, a robust operational risk management framework and business continuity planning and adopting and implementing, where relevant, industry best practices and norms including standards such as ISO 22301.

RESPONSIBLE AND INCLUSIVE FINANCING

HLF strives to deliver products and services to help more people, businesses and the wider society progress in a sustainable way, ensuring we manage current and emerging risks in a prudent manner.

As a financier, what we do and whom we conduct business with can directly or indirectly impact people, the economy and the environment. As such, HLF recognises that it has an important role to play in shaping and expecting responsible actions from our employees and customers alike, as well as providing services that promote the interests of our customers.

Our key material issue related to responsible financing includes incorporating ESG risk analysis into our responsible lending practices. It is through our financing activities that we believe we can have the biggest environmental and social impact.

RESPONSIBLE LENDING

We are committed to responsible lending practices as part of our business model and strive to ensure that we do not (directly or indirectly) have an adverse impact on people, the environment and the economy. Since the establishment of the RFG by ABS, we have been conducting our core business activities in line with those guidelines.

As part of the review process for corporate borrowers, ESG checks are carried out annually for companies operating in sectors with an elevated ESG risk profile and those noted to have ESG issues from the last assessment. Additionally, as part of our internal ESG capacity building efforts, HLF staff from the Business, Credit and Risk Management Departments attended ESG-related training organised by ABS. Similarly, our Relationship Managers ("RM") were trained internally on the Company's ESG framework and policies.

According to the RFG, loan portfolios are also identified to undergo an ESG risk profile assessment at point of loan origination and regular reviews. Through a robust

due diligence process, HLF is able to assess whether borrowers operate in an industry with an elevated ESG risk profile and whether it could result in material credit risk. This requirement is stipulated in the Company's Credit Manual and supplemented by internal guidelines which have been expanded to incorporate the principles and approaches to ESG issues in our lending practices. This approach provides a more structured and detailed process to identify and assess potential ESG risks as part of the credit origination process.

Where appropriate, sector-specific guidance or approach for ESG-sensitive industries are incorporated to provide further information on ESG risks that are unique to that particular industry.

The scope of RFG considerations includes the following ESG issues listed below.

ESG Issues	
Environmental	Greenhouse gas emission ("GHG"), deforestation and forest degradation, loss of biodiversity and critical ecosystem services, water, air and soil pollution and contamination, and resource efficiency.
Social	Labour standards, community relations and engagement, human rights, health and safety, food security and other basic necessities of local communities or indigenous people.
Governance	Corporate ethics and integrity, reputation, management effectiveness, and risk management.

As per the RFG provided by ABS, companies which operate in eight sectors, namely agriculture, chemicals, energy, infrastructure, mining and metals, waste management, forestry and defenses are classified as having elevated ESG risk profiles. For borrowers in these industries, RMs conduct detailed risk assessments together with the borrowers, covering areas such as incidents of pollution, and whether there are any existing grievances with local communities.

Where ESG issues are identified, and depending on the scale, borrowers may (under certain conditions) be granted the credit facilities. For example, a borrower may be asked to submit a detailed action plan to correct the issues identified within a set timeline. In this case, progress is tracked and reviewed periodically. Currently, only a small proportion of our total corporate borrowers operate in sectors with elevated ESG risk profiles and none of them have unmitigated ESG risks.

Going forward, we will continue to closely assess borrowers which are classified as having an elevated ESG risk profile. We are also in the process of enhancing our system to better track and monitor borrowers in such sectors.

INCLUSIVE FINANCE THROUGH PRODUCT INNOVATION

At HLF, we acknowledge that product innovation is important to meet the evolving needs of our diverse customers and ensure that everyone has access to financial services. With changing demographics and behaviour, as well as shifts in demand against the backdrop of digital transformation, HLF must continue to innovate and create products that are relevant to our customers' needs.

Rigorous New Product Submission Guidelines are in place to guide new product development processes and facilitate fast time to market, while complying with our risk management framework and relevant regulations. As part of the new product development process, we enhanced our product submission guidelines. They now incorporate compulsory Solely Payments of Principal and Interest Assessment, and Data Privacy Impact Assessment



to ensure proper practices in accordance with accounting standards and data privacy policy changes.

Supporting SMEs

SMEs are a crucial segment of the Singaporean economy, contributing to two-third of the employment opportunities and nearly S\$200 billion in gross value added to the economy. Obtaining financing remains a challenge for many SMEs. As such, we believe that supporting them to gain access to credit facilities will create inclusive growth in the economy. Our dedicated efforts to serve them are described in the Our Customers chapter on page 56.

Serving retirees

Launched in March 2017, Mortgage Equity @50 (ME @50) has been recognised as the *Mortgage and Home Loan Product of the Year Singapore 2018* by Asian Banking & Finance for being innovative in meeting the evolving needs of consumers.

With ME @50, customers are able to cash-out with a term loan of up to 50% of private residential property value without having to sell it by using a relaxed Total Debt Servicing Ratio (TDSR). Over S\$50 million loans were written within 12 months of the launch with a significant 24% of the loans taking up the unique Convenience Feature that allows customers to make partial loan prepayment without incurring penalty.

OUR CUSTOMERS

We aim to build solid relationships with our customers that will withstand the test of time by safeguarding their data and information as well as providing fair advice.

Our customers include individuals, SMEs, and corporations. We endeavour to deliver an unparalleled service experience to our customers by meeting their needs in a fair and transparent manner, while protecting their personal data.

The two material issues which address the needs of our customers have been identified as data security and customer privacy, as well as transparent information and fair advice. Our drive towards building and sustaining company-wide service excellence helps bring about better customer satisfaction and retention.

DATA SECURITY AND CUSTOMER PRIVACY

At HLF, we take data security and customer privacy very seriously. Data, which we collect and use while conducting our business activities, is a critical asset at HLF. The proper handling of data is therefore essential to developing trust and sustaining long-term relationships with our customers.

Our employees have a responsibility to protect the confidentiality and integrity of data generated, accessed, transmitted, stored or used by the Company. Our Data Classification Policy provides a system for protecting electronic data, data recorded on paper and information accessed orally, visually or by other means.

Our policy is reviewed annually, taking into account any changes in our business processes and use of data, to ensure it is kept up to date and relevant. Any changes to the policy are approved by the Data Management Committee.

We recognise that inadequate and improper data protection, including data held and managed by third party suppliers, could lead to serious business disruptions including, security breaches, data loss, financial loss as well as regulatory sanctions and reputational damage for the Company. We therefore place great emphasis in training all our employees on the importance of data privacy and data protection.

Personal Data Protection Act ("PDPA")

We recognise both the rights of individuals to protect their personal data, including rights of access and correction, and the needs of organisations to collect, use or disclose personal data for legitimate and reasonable purposes. Our Data Protection Officer is responsible for ensuring that the Company complies with the PDPA.

In FY 2018, there was one complaint concerning the potential breach of the privacy of a customer's personal data. The complaint was managed in accordance with our standard operating procedure and we have investigated the nature and details of the complaint thoroughly. It was concluded and agreed by the the Personal Data Protection Commission that we have not breached the PDPA.

MyInfo

HLF has plans to link up with MyInfo, a service under the government's SMART Nation Initiative that provides verified personal data for ease of loan application and deposit account opening. It will be rolled out gradually to different areas of the business in 2019.

TRANSPARENT INFORMATION AND FAIR ADVICE

Treating our customers fairly and providing them with accurate, transparent, and appropriate advice and information is critical to safeguarding their interests and earning their trust. All marketing teams undergo compulsory product training. This is to ensure that customers are given correct information by our staff, to make well-informed decisions with their interests at heart.

In addition, having previously won an award for the *Best Website of the Year* in 2016 by Asian Banking & Finance, we continue to provide concise information through our user-friendly website. Our website uses infographics to explain complex concepts to our customers. We ensure that our marketing materials and product factsheets are clear and accurate using simple words in our communication.

In addition, our employees comply with the Code, which contains provisions on fair marketing and advertising, when conducting business on behalf of the Company. In FY 2018, there were no reported incidents of non-compliance with the Singapore Code of Advertising

Practice nor were there any legal actions filed against us for anti-competitive behaviour.

SME Market Survey

As a SME specialist, we strive to foster growth opportunities and partner with SMEs to achieve their business goals. To step up our services and financing solutions that meet the different needs of SMEs, we conducted an inaugural SME Market Survey. The survey was recognised as a finalist in the *Marketing Excellence Awards* for its high research standards.

The survey polled about 200 local SMEs on their key business challenges and priorities, their level of adoption of digital technologies for enhancing work productivity, as well as the types of value-added services they wish to receive from financial service providers. The survey results showed that 75% of local SMEs put sales growth as their top priority and 36% are hard pressed on high business costs.

SME Branding Campaign

At the back of our inaugural SME Market Survey findings, HLF launched a new campaign for the SME community called "Hong Leong Finance Empowers Me". Through the campaign, the Company reached out to more SMEs to empower them to grow and manage costs better. This campaign also reinforced our brand identity as a SME specialist, enhanced our market presence and raised awareness among the younger generation of SMEs on their role in the economy.

Supporting the SMEs Go Digital Programme

From our SME market survey, we learnt that SMEs are neither familiar with the various financing solutions nor with the assistance from the government available to help them in digitalising their businesses. We therefore partnered with the IMDA to promote the SMEs Go Digital Programme.

HLF invited our SME customers to the IMDA industry briefings. The presentation gave an overview of the new Productivity Solutions Grant that was announced during the Singapore Budget 2018, and the streamlining of existing grants offering support for re-scoped IT solution and equipment into a single grant.

The presentation also provided details on the scope of support and the grant application process. Participants learnt about the challenges and requirements of SME sectors, business opportunities as well as Government programmes and initiatives to support their businesses.

Partnering with FinTech to enhance customer experience

HLF is collaborating with a few FinTech companies to drive innovation. With their agile architecture, we are working towards adopting new customer-centric technologies to ensure that we keep pace with our customers' evolving digital needs.

OUR CUSTOMERS

Boosting SME Cash Flow with Enhanced Loan Scheme

We offer a wide range of SME cash flow loan schemes from Accounts Receivable Financing and Project Receivable and Payable Financing, to Working Capital Revolving Loans and HDB SME Loans for their working capital needs. In response to feedback, we further improved the HDB SME Loans to provide our customers the flexibility of choosing single or multiple-tranche disbursements. The value-added feature allows customers to time the loan disbursements with their cash flow needs and hence reduce their interest costs.

CUSTOMER SATISFACTION & EXPERIENCE

Customer satisfaction is a good measure of our success as a business and is mostly driven by the quality and reliability of the products and services that we provide. Customer feedback is an important avenue for us to understand the needs of one of our key stakeholders, the areas we are doing well in and where improvements can be made.

Feedback, in the form of complaints, compliments or suggestions, can come from our customers and non-customers via the Customer Service Centre hotline or our HLF website. Through our Procedure of Handling Feedback, the Company ensures that all complaints are tracked in a rigorous manner and dealt with professionally, promptly and diligently.

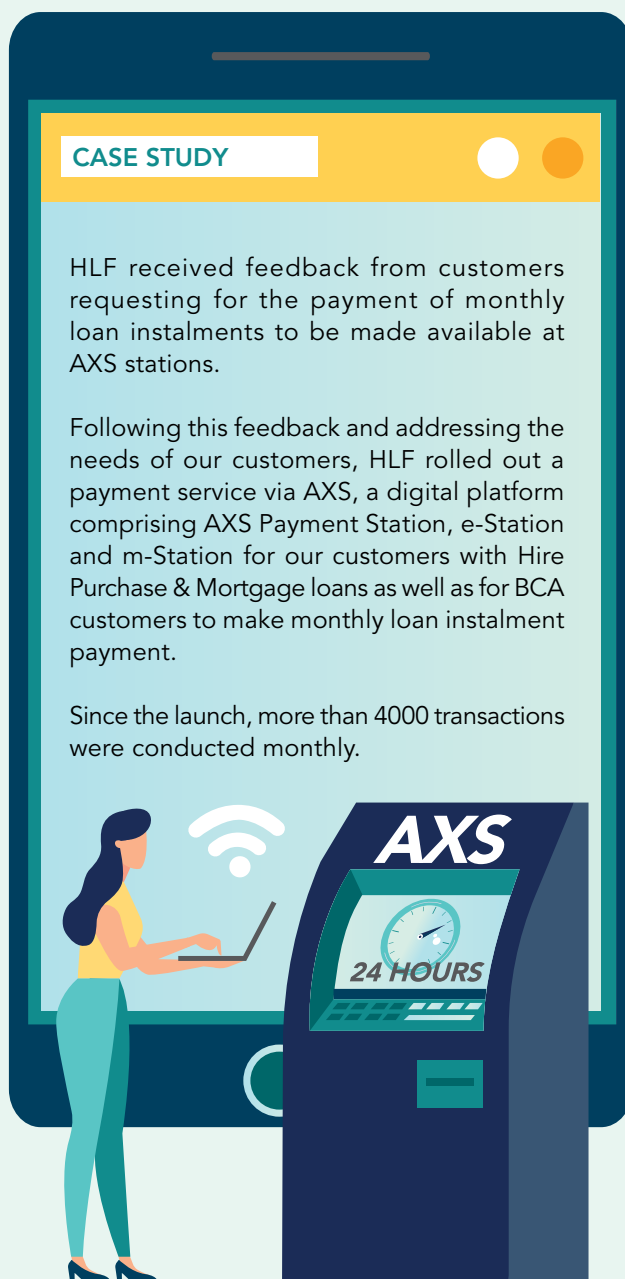
Our commitment towards improving customer experience is demonstrated through the rollout of various initiatives. For example, we established a Branch Improvement Team and an Operations Improvement Team to introduce customer-centric measures by enhancing and streamlining our operations. Furthermore, a Customer Experience Team would be set up to review and manage customer feedback processes and work with internal stakeholders to identify new areas for improvement based on feedback received.

CASE STUDY

HLF received feedback from customers requesting for the payment of monthly loan instalments to be made available at AXS stations.

Following this feedback and addressing the needs of our customers, HLF rolled out a payment service via AXS, a digital platform comprising AXS Payment Station, e-Station and m-Station for our customers with Hire Purchase & Mortgage loans as well as for BCA customers to make monthly loan instalment payment.

Since the launch, more than 4000 transactions were conducted monthly.



OUR PEOPLE

We aim to nurture an engaged and diverse workforce, with the right expertise and leadership to drive business excellence.

We recognise that our employees are vital to achieving sustainable business growth and as such, they are our most important asset. As an employer, we are committed to promoting a fair and inclusive work environment based on meritocracy. We also abide by all applicable employment laws and regulations in Singapore.

As at 31 December 2018, our multi-disciplinary team of employees comprised 634 full time employees, each bringing relevant skill sets to the workplace.

EMPLOYEE ATTRACTION AND RETENTION

Our employee retention strategy focuses on career development, employee compensation and employee engagement. To attract and retain talent, our compensation policy which includes remuneration and welfare benefits, is regularly reviewed to ensure it is in line with market practices and norms.

For FY 2018, HLF's voluntary attrition rose largely due to re-engineering of operation processes.

In addition to the Star Service Award in recognition of service excellence by staff, we launched a Teamwork Process Improvement Award to drive innovation and promote collaboration. The new accolade was given

	2018		2017	
	Number of New Hires	Number of Voluntary Attrition	Number of New Hires	Number of Voluntary Attrition
By age group				
<=30 years old	21	10	17	9
>=30 & <=50 years old	36	28	19	22
>50 years old	3	23	1	8
Total	60	61	37	39
By gender				
Female	30	37	18	28
Male	30	24	19	11
Total	60	61	37	39

to winning teams who delivered successful projects in improving the Company's processes and productivity.



Winners of Star Service Award and Teamwork Process Improvement Award with Senior Management

OUR PEOPLE

DIVERSITY & EQUAL OPPORTUNITIES

To ensure that we are able to meet the evolving and diverse needs of our customers, we offer equal employment opportunities in an inclusive environment that is free from discrimination.

We advocate fair and merit-based employment for each employee. We strive to recruit and select staff on the basis

of their skills, experience and ability to perform the job, without considering factors such as age, race, gender, religion, marital status or disability.

We provide our employees with fair access to training and development based on their strengths and job functions, and we reward them fairly based on their performance, contribution and experience. The Company also offers re-employment opportunities to employees who have reached retirement age.

The Profile of Our Workforce

			Breakdown by Gender		Breakdown by Age Group		
			Female	Male	<30 years old	30 - 50 years old	>50 years old
Senior Vice President to Managing Director	2018	Number	3	6	0	1	8
		Percentage	33%	67%	0%	11%	89%
	2017	Number	3	6	0	1	8
		Percentage	33%	67%	0%	11%	89%
Senior Officer to Vice President	2018	Number	240	99	27	178	134
		Percentage	71%	29%	7%	53%	40%
	2017	Number	226	95	21	164	136
		Percentage	70%	30%	7%	51%	42%
Non-Clerical to Junior Executive	2018	Number	243	43	17	174	95
		Percentage	85%	15%	6%	61%	33%
	2017	Number	260	38	12	193	93
		Percentage	87%	13%	4%	65%	31%
Total	2018	Number	486	148	44	353	237
		Percentage	77%	23%	7%	56%	37%
	2017	Number	489	139	33	358	237
		Percentage	78%	22%	5%	57%	38%

With our strong focus on equal opportunities within HLF, 3 out of 9 key management committee members, 71% of management employees, and 85% of non-management employees are females.

TRAINING & DEVELOPMENT

We recognise the benefits of investing in the training and development of our employees and promoting a culture of continuous learning. Our approach to training and development aims to equip our workforce with the skills and competencies that are necessary to navigate the competitive business environment and to support our strategic priorities.

All new employees are required to attend the HLF Orientation Programme, which aims to onboard and integrate new hires into the organisational culture. Apart from that, our learning programmes include functional and technical trainings that provide our employees with the requisite knowledge and skills to excel in their roles. They also include more targeted developmental opportunities to further an employee's career aspirations. Beyond training on functional skills that are required to carry out their day-to-day duties, a wide range of soft skills and leadership training programmes are also available to our employees.



To empower our employees to take charge of their development needs and complement their core skill set, our Professional Education Incentive Award ("PEIA") scheme is in place to encourage them to take up educational programmes ranging from certificate programmes to master programmes.

In 2018, we began tracking the average hours of training attended by our employees which are shown in the table below.

Average number of hours of training undertaken by employees

2018		
	Female	Male
Average training hours by gender	21	23

2018		
Average training hours by employee category	Senior Vice President to Managing Director	12
	Senior Officer to Vice President	25
	Non-Clerical to Junior Executive	18

SkillsFuture Programme

In 2018, we participated in the SkillsFuture for Digital Workplace programme, a national initiative which aims to equip Singaporeans with the mindset and basic functional skills to prepare for the future economy. Through this programme, around 100 employees have been provided foundational knowledge on emerging technologies and how they impact on our current work, how they may be used to interpret and process data, as well as how to adopt a positive mindset for any changes in the workplace.

OUR PEOPLE



EMPLOYEE BENEFITS, HEALTH & WELL-BEING

HLF complies with all the statutory regulations relating to employment terms and staff benefits such as childcare, maternity, paternity, marriage, compassionate and examination leave.

Additionally, the Company promotes a strong workplace safety culture and complies with the Workplace Safety & Health ("WSH") Act. Every department has a staff member who is First Aid trained and attends a refresher course annually.

HLF promotes a healthy lifestyle for our employees through activities organised by Hong Leong Group Sports & Recreation Club. We believe that a strong and motivated workforce is instrumental to the success of HLF, to help us to achieve our objectives, goals and vision. Also, to strengthen family bonding amongst our employees, events were organised for them to participate together with their family members, such as Family Day Walkathon and Sky Mirror/Tanjung Sepat trips.



HLF team receiving the Hong Leong Olympics 2018 Championship Trophy



Sky Mirror and Tanjung/Sepat Trip

HLF beat five other Hong Leong Group companies to be crowned the winner of the 2018 Hong Leong Olympics at the recent Hong Leong Group Sports and Recreational Club Annual Dinner. 62 staff from different departments and branches participated and had great fun in the Olympic events.

OUR COMMUNITY



HLF is committed to achieving business excellence while serving and giving back to the communities in which we operate.

COMMUNITY OUTREACH

We believe in contributing positively and giving back to the communities where we operate. Through a range of activities focused on helping those in need, we aim to promote the progress of individuals and businesses, the socio-economic development of communities as well as employee engagement through volunteering opportunities.

To encourage our employees to take part in community activities, HLF grants each employee the equivalent of one working day off to attend such community activities. This year, 45 employees (7%) volunteered their time during working hours. We aim to encourage more of our employees to take part in such activities next year.

To emphasise our strong support for SMEs and their importance in the economy, we actively participated in SME community activities. By engaging in such initiatives, we were also able to leverage on our core competency as a SME specialist, for the benefit of the community.

Assisi Fun Day 2018

HLF participated and setup a charity stall in the Assisi Fun Day. 21 staff volunteers from different departments peddled wares from chopsticks to decorative items to raise funds for Assisi Home residents. The efforts and team work of all volunteers contributed to the overall event success with a total fund of \$233,000 raised.



HLF staff volunteers at Assisi Fun Day

Christmas Celebration with Seniors from St. John's Home

HLF organised an early Christmas outing for seniors from St. John's Home. 35 elderly enjoyed a joyful activities packed day from Gingerbread baking workshop to a sumptuous lunch, as well as karaoke sessions with the companion of our 20 staff volunteers.



Gingerbread Baking Workshop for St. John's Home Seniors



SCORE Mooncake Gift for Our Customers



SCCCI Conference for SMEs



Children for Children Fundraising Event

HLF was a sponsor in the Children for Children, annual fundraising and charity event jointly organised by The Business Times, CHIJ (Kellock) and The Rice Company Ltd. 1,000 disadvantaged children were treated to an outing at The Maritime Experiential Museum, S.E.A. Aquarium and a live musical performance at Resorts World Sentosa. The fundraising event is dedicated to bringing underprivileged children to celebrate Children's Day at one of the Singapore's iconic attractions and to enjoy entertaining performances put up by CHIJ.

Sponsoring the SCCCI Annual SMEs Conference

HLF has been a long-standing Gold Sponsor of the SCCCI Annual SMEs Conference, a testament of our strong support for the business community. This year's conference theme was "New Faces of SMEs: Disruptor. Challenger. Leader." SME customers were invited to attend the conference to first look inwards and deconstruct their business to flush out biases, assumptions and inefficiencies, and to face the challenges ahead because of a disruptive economy. The conference provided guidance to SMEs on improving their competitiveness and practical advice on how to sustain and grow their company. The conference was a very good platform to engage the general SME communities in understanding their challenges they face today. It also enabled us to deepen rapport with our SME customers who were invited to the event.

Mooncakes for a Social Cause

HLF collaborated with Singapore Corporation of Rehabilitative Enterprises ("SCORE") to bring mooncake delicacies to our business partners in celebration of the Mid-Autumn Festival. SCORE Bakery, accredited by AVA, produces mooncakes that are handmade by prison inmates. Proceeds from the sales of mooncakes are channelled back into the Yellow Ribbon Fund and funds that help to run the bakery training workshops.

Charity Golf Day

HLF has been a regular supporter for the Charity Golf event organised by Lexus. In FY 2018, we were again the Gold Sponsor. The event proceeds went to Canossian School, a special education school which plays an important role in bringing hearing impaired children into mainstream school curriculum and helping them to integrate into the society.

OUR ENVIRONMENT

HLF is committed to promoting environmental stewardship through the management of our own environmental footprint as well as our banking activities.

OUR ENVIRONMENTAL IMPACT

HLF has been focusing on identifying and addressing environmental issues where we believe we have the greatest potential to make a difference, namely our banking activities.

In relation to our direct environmental footprint and as an office-based company, we are focused on minimising the use of paper and energy.

PAPER CONSUMPTION

We are conscientiously striving to reduce paper consumption. Initiatives to promote sustainable practice on paper use include introducing "All-in-One" printers and gradually replacing desktops with laptops to encourage employees to print less. We also purchase paper that is certified to meet internationally-recognised standards such as the Programme for the Endorsement of Forest Certification ("PEFC").

For our 2017 Annual Report, HLF discontinued the production and distribution of 14,000 reports in compact disc format to our shareholders to reduce the use of materials. They were instead directed to refer to the corporate website for the report and the number of shareholders who requested for hardcopy reports fell. Production of hardcopy reports was further reduced by 29% to 1000 copies in 2018 which resulted in a saving of 8,800kg of paper consumption.

In addition, our IT department converted over 200 corporate reports into e-reports, which led to a reduction of 2,834kg in paper consumption, translating into cost savings of \$5,777.

GHG AND ENERGY REDUCTION

Our direct use of energy is limited to our office operations. HLF aims to continuously improve our energy efficiency and reduce our GHG emissions, taking advantage of opportunities to do so when they arise. This primarily involves engaging our employees on energy efficiency, promoting sustainable behaviours and upgrading our existing infrastructure and facilities. Installing new environmentally friendly features in our offices will help us conserve and become more efficient in the way we use energy. Our total energy consumption and GHG emissions (scope 2)¹ are shown in the table below.

Year	Total energy consumption in kWh	Scope 2 Emissions ¹ in tonne CO ₂ e
2018	2,100,000	880
2017	2,200,000	930
2016	2,400,000	1,020

In 2018, we continued with our Technology Refresh initiative and invested in more energy efficient IT equipment. We also commenced installation of more energy-efficient LED lighting systems at all our new branches to reduce energy consumption.

¹ HLF GHG emissions are from the consumption of purchased electricity. The conversion factor used is obtained from the Energy Market Authority (Electricity Grid Emission Factor).



GRI CONTENT INDEX

The GRI Standards provide a globally accepted framework for companies to report their economic, environmental and social performance. The GRI Standards have influenced the preparation of HLF's SR.

The content of this report references GRI Standards GRI 101: Foundation, 2016; GRI 102 General Disclosures, 2016; GRI 103: Management Approach, 2016.

The following content index provides a listing of the GRI Standards referenced in this SR by HLF in FY 2018.

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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. Our activities are principally governed by the Finance Companies Act (Chapter 108) and regulated by the Monetary Authority of Singapore ("MAS"). The principal activity of our 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 57 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 our dedication and commitment, serving the SME business community has evolved to be HLF's core business activity.

HLF is committed to strengthening our leadership status in the market and believes that it takes more than just assets to be a real leader. We are devoted to building mutually rewarding relationships with our customers and business partners, understanding their financial needs and ensuring that we are 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 our core customers, HLF has been constantly developing and creating more value in our products and services. The SME Centre @Hong Leong Finance network has further strengthened our foothold in the SME market and increased our visibility to businesses through our extensive branch network.

As value-add services to our corporate customers, HLF's full sponsorship status for the SGX Catalyst Board makes us the only finance company in Singapore to provide financial advisory and fund raising services to SMEs aiming to list on Catalyst. We also render corporate advisory services to companies interested in listing on the Singapore Exchange and for mergers and acquisitions, and underwrite 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 our unwavering support for local entrepreneurs.

To maintain our 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. To stay relevant in the digital age, the Company has embarked on the digital journey to digitalise some of our processes and services.

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 our 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.

FINANCIAL ANALYSES

Analysis of Performance

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

	2018	2017	Variance*
	\$mil	\$mil	+ / (-) %
Selected Profit and Loss Items			
Net interest income/hiring charges	212.1	175.4	20.9
Fee and commission income	15.4	13.7	12.1
Other operating income	0.6	0.5	25.3
Income before operating expenses	228.1	189.6	20.3
Less: Operating expenses	88.2	82.8	6.5
Profit from operations before allowances/provision	139.9	106.8	31.0
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts, other financial assets and provision for settlements and costs relating to distribution of wealth management products	2.2	(3.8)	(159.6)
Profit before tax	142.1	103.0	38.1
Profit after tax attributable to owners	118.3	85.7	38.1
Selected Balance Sheet Items			
Loans, advances and receivables (net of allowances)	10,278	9,877	4.1
Deposits and balances of customers	11,338	10,659	6.4
Total assets	13,381	12,543	6.7
Total liabilities	11,507	10,801	6.5
Total equity	1,874	1,742	7.6
Key Financial Ratios			
Net interest margin (%)	1.7	1.4	
Net interest income/total income (%)	93.0	92.5	
Non-interest income/total income (%)	7.0	7.5	
Cost/income ratio (%)	38.7	43.7	
Loans/deposits ratio (%)	91	93	
Non-performing loans ratio (%)			
- Secured by collateral	0.7	0.8	
- Unsecured and fully provided for	0.1	0.1	
Return on equity (%)	6.4	5.0	
Return on assets (%)	0.9	0.7	
Capital adequacy ratio (%)	15.7	15.8	
Earnings per share (cents)			
- per basic share	26.6	19.3	37.8
- per diluted share	26.5	19.2	37.8
Net assets per share (\$)			
- per basic share	4.20	3.91	7.4
- per diluted share	4.08	3.78	7.9

* Calculated based on actual figures before rounding.

OPERATING AND FINANCIAL REVIEW

	2018	2017
	cents	cents
Dividend per share (tax exempt)		
- interim	5	4
- final	10	9
Total	15	13

(a) Results for the year

Pre-tax profit from operations before allowances/provision was \$139.9 million in 2018, an increase of 31.0% from \$106.8 million in 2017. The Group reported profit before tax of \$142.1 million for 2018, an increase of \$39.1 million or 38.1% over the previous year. The results were arrived at after net recoveries of doubtful debts amounting to \$2.2 million against an additional net allowance of \$3.8 million in 2017. Group profit after tax for the year registered an increase of \$32.6 million or 38.1% over the previous year.

Net interest income/hiring charges increased by 20.9% to \$212.1 million mainly due to an uplift of net interest margin on the back of a rise in average loan yield from higher floating rate loans portfolios outpacing a rise in average funding costs as compared to last year. Net interest margin increased from 1.4% in 2017 to 1.7% in 2018.

Non-interest income increased to \$16.0 million (2017 : \$14.2 million) or by 12.6% in 2018. Fee and commission income, the largest component of non-interest income, increased by 12.1%. Total operating expenses increased by 6.5% to \$88.2 million, mainly from higher staff costs, partially offset by lower depreciation on computer equipment and rental costs. The cost to income ratio decreased to 38.7% from 43.7% a year ago.

(b) Loans and deposits

Loans, advances and receivables (net of allowances) increased by 4.1% in 2018 to \$10,278 million from \$9,877 million. The non-performing loans ("NPL") ratio decreased marginally to an aggregate of 0.8% after accounting for recoveries and write-offs. The NPL ratio comprised secured NPL of 0.7% (2017 : 0.8%), with the balance 0.1% (2017 : 0.1%) being the unsecured portion which is fully covered by specific allowances.

Deposits and balances of customers amounted to \$11,338 million as at 31 December 2018. The loans to deposits ratio stood at 91% (2017 : 93%).

(c) Shareholders' equity and dividends

Return on equity was 6.4% in 2018, up from 5.0% in 2017 and return on assets was 0.9% in 2018, up from 0.7% in 2017. This is attributable to higher profits in 2018. Net assets per share rose to \$4.20 in 2018 from \$3.91 in 2017.

As detailed in the Chairman's Statement, an interim dividend of 5 cents per share (tax exempt one-tier) was paid on 12 September 2018. With the proposed payment of a final dividend of 10 cents per share (tax exempt one-tier) in respect of the financial year ended 31 December 2018, subject to the approval of shareholders, the total distribution for 2018 will amount to approximately \$67 million, compared to \$58 million for 2017.

(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 2018 based on figures that have been audited.

OPERATING AND FINANCIAL REVIEW

Net Interest Income

Net interest income includes hiring charges.

Overall, net interest income increased by 20.9% to \$212.1 million in 2018 from \$175.4 million in 2017 with a closing loans to deposits ratio of 91% in 2018 (2017 : 93%). Net interest income was the major source of income contributing 93.0% (2017 : 92.5%) to total income.

Net interest margin as a percentage of interest-bearing assets stood at 1.7% in 2018 (2017 : 1.4%).

	2018			2017		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$mil	\$mil	%	\$mil	\$mil	%
Interest-bearing Assets						
Loans, advances and receivables	10,323	312.7	3.0	9,692	272.4	2.8
Singapore Government securities	1,323	21.3	1.6	1,240	18.5	1.5
Other assets	1,114	15.9	1.4	1,178	10.9	0.9
Total	12,760	349.9	2.7	12,110	301.8	2.5
Interest-bearing Liabilities						
Deposits and balances of customers	10,946	137.5	1.3	10,351	126.2	1.2
Other liabilities	8	0.3	4.0	5	0.2	3.8
Total	10,954	137.8	1.3	10,356	126.4	1.2
Net interest income/margin as a percentage of interest-bearing assets	–	212.1	1.7	–	175.4	1.4

Volume and Rate Analysis

The table below analyses the changes in net interest income in 2018 over 2017 due to changes in volume and changes in rates.

Increase/(decrease) due to change in	Volume	2018 Rate	Total
	\$mil	\$mil	\$mil
Interest Income			
Loans, advances and receivables	17.7	22.6	40.3
Singapore Government securities	1.2	1.6	2.8
Other assets	(0.5)	5.5	5.0
Net	18.4	29.7	48.1
Interest Expense			
Deposits and balances of customers	7.2	4.1	11.3
Other liabilities	0.1	–	0.1
Net	7.3	4.1	11.4
Net interest income	11.1	25.6	36.7

OPERATING AND FINANCIAL REVIEW

Non-Interest Income

Non-interest income increased by 12.6% to \$16.0 million in 2018 (2017 : \$14.2 million). Fee and commission income which constituted 96.2% (2017 : 96.5%) of non-interest income was \$15.4 million in 2018 (2017 : \$13.7 million).

Total non-interest income for 2018 was 7.0% of total income, down from 7.5% for 2017, with the non-lending portion comprising 0.8% of total income (2017 : 0.9%).

	2018	2017	Variance*
	\$mil	\$mil	+ / (-) %
Fee and Commission Income			
Loan related and other financing business	13.7	11.9	14.4
Non-lending business including corporate advisory services and other trailer fees	1.7	1.8	(3.3)
	15.4	13.7	12.1
Other Operating Income	0.6	0.5	25.3
Total	16.0	14.2	12.6

Operating Expenses

Total operating expenses increased by 6.5% to \$88.2 million in 2018 from \$82.8 million in 2017.

	2018	2017	Variance*
	\$mil	\$mil	+ / (-) %
Staff costs			
- Short-term employee benefits	59.7	53.0	12.8
- Employer's CPF contributions to defined contribution plans	6.9	6.0	14.4
- Share-based payments	0.3	0.3	9.6
	66.9	59.3	13.0
Depreciation of property, plant and equipment	2.0	3.7	(47.4)
Other operating expenses			
- Operating lease expenses	7.0	7.5	(6.7)
- IT-related expenses	2.2	1.7	27.7
- Other operating expenses	10.1	10.6	(4.7)
	19.3	19.8	(2.6)
Total	88.2	82.8	6.5
Group staff strength – period end	634	628	1.0
Group staff strength – average	627	623	0.6

* Calculated based on actual figures before rounding.

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

Net recoveries of doubtful debts at \$2.2 million was recognised in 2018 as compared to a net allowance of \$3.8 million in 2017.

With effect from 1 January 2018, SFRS(I) 9 requires the Group to calculate credit loss allowance using forward-looking expected credit loss ("ECL") model. Accordingly, stages 1 and 2 loss allowances of \$1.5 million was made for 2018 (2017 : additional collective allowance of \$3.6 million). An additional specific allowance for loans of \$5.9 million was made in 2018 (2017 : \$1.3 million).

	2018	2017	Variance*
	\$mil	\$mil	+ / (-) %
Allowances for loans and advances (net)	(7.4)	(4.9)	49.1
Other recoveries (net)	9.6	1.1	756.9
Total	2.2	(3.8)	(159.6)

Total Assets

Total assets were \$13,381 million as at 31 December 2018, representing an increase of 6.7% over the figure of \$12,543 million as at 31 December 2017.

Assets mix

	2018	2017	Variance*
	\$mil	\$mil	+ / (-) %
Cash at banks and in hand – net	1,442	1,089	32.5
Statutory deposit with the Monetary Authority of Singapore	298	285	4.3
Singapore Government securities	1,322	1,249	5.9
Customer loans – net	10,278	9,877	4.1
Others	41	43	(4.2)
Total Assets	13,381	12,543	6.7

* Calculated based on actual figures before rounding.

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 2018 (2017 : 80%), with property loans other than housing/HDB home loans taking the bigger share at 67% of total portfolio (2017 : 66%). The housing loans component stood at 13% of the total (2017 : 14%) inclusive of HDB home loans of 8% (2017 : 8%).

Hire purchase loans formed 16% of total loan portfolio as at 31 December 2018 (2017 : 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.

	2018		2017	
	\$mil	%	\$mil	%
Housing and HDB Home Loans	1,306	13	1,399	14
Other Property Loans	6,920	67	6,592	66
Hire Purchase/Block Discounting	1,681	16	1,627	16
Share Loans	257	3	218	2
Others	133	1	153	2
Total	10,297	100	9,989	100

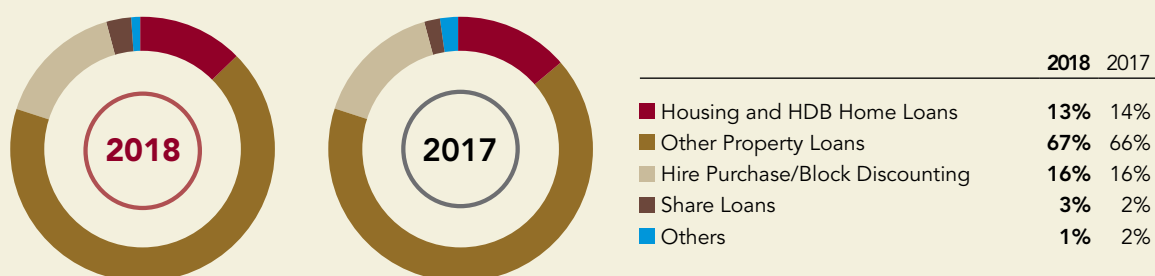
(b) Customer loans by industrial classification

	2018		2017	
	\$mil	%	\$mil	%
Hire purchase/block discounting	1,681	16	1,627	16
Housing loans secured by property under finance	1,054	10	1,134	12
Other loans and advances:				
Agriculture, mining and quarrying	1	–	1	–
Manufacturing	80	1	91	1
Building and construction	4,021	39	3,622	36
General commerce	76	1	98	1
Transport, storage and communication	187	2	217	2
Investment and holding companies	748	7	898	9
Professional and private individuals	295	3	323	3
Others (including hotels, associations and charitable organisations)	2,154	21	1,978	20
Total	10,297	100	9,989	100

(c) Customer loans by remaining contractual maturity

	2018		2017	
	\$mil	%	\$mil	%
Reviewable/due within 1 year	2,279	22	2,387	24
Due after 1 year but within 3 years	2,938	29	3,035	30
Due after 3 years but within 5 years	1,940	19	1,397	14
Over 5 years	3,140	30	3,170	32
Total	10,297	100	9,989	100

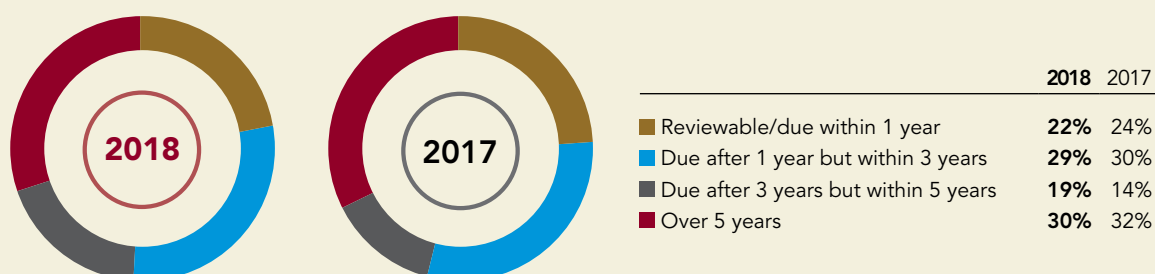
(a) Customer loans by product group



(b) Customer loans by industrial classification



(c) Customer loans by remaining contractual maturity



OPERATING AND FINANCIAL REVIEW

(d) Non-performing loans

The loan portfolio includes secured non-performing loans of 0.7% of the portfolio in 2018 (2017 : 0.8%) together with unsecured non-performing loans of 0.1% of the portfolio in 2018 (2017 : 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 2018 and 2017.

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

	2018	2017	Variance*
	\$mil	\$mil	+ / (-) %
Substandard	79.5	72.9	9.0
Loss	7.7	12.9	(40.0)
Total	87.2	85.8	1.6
(i) Secured non-performing loans ("NPLs")	79.5	72.9	9.0
Secured NPLs as % of total NPLs	91.2	85.0	6.2%pt
(ii) Unsecured NPLs	7.7	12.9	(40.0)
Specific allowances for NPLs	7.7	12.9	(40.0)
(iii) Specific allowances as % of total NPLs	8.8	15.0	(6.2%pt)

Funding Sources

Total funding (including total equity) increased by 6.7% in 2018 to \$13,381 million from \$12,543 million in 2017. Customers' deposits remained the main funding source contributing 84.7% (2017 : 85.0%) of total funds. This funding source was \$679 million or 6.4% higher in 2018 closing at \$11,338 million from \$10,659 million in 2017 in line with higher funding requirements. There are no bank borrowings outstanding.

	2018	2017	Variance*
	\$mil	\$mil	+ / (-) %
Fixed deposits	11,102	10,278	8.0
Savings deposits and other balances of customers	217	370	(41.3)
Current accounts and other deposits	19	11	72.2
Total customer deposits	11,338	10,659	6.4
Other liabilities	169	142	18.9
Total shareholders' equity	1,874	1,742	7.6
Total	13,381	12,543	6.7
Customer deposits by remaining contractual maturity			
On demand/up to 1 year	9,640	9,960	(3.2)
Over 1 year to 3 years	1,698	699	142.8
Total customer deposits	11,338	10,659	6.4

* 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 2018, the capital adequacy ratio was 15.7% compared to 15.8% as at 31 December 2017.

	2018	2017
	\$mil	\$mil
Share capital	884	883
Reserves	797	773
Eligible total capital	1,681	1,656
Risk-weighted assets	10,734	10,454
Ratio	15.7%	15.8%

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 2018.

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 2019

INNOVATING

FOR FUTURE GROWTH





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. With Financial Technology (FinTechs) entering the financial ecosystem, the company has explored ways to collaborate with FinTechs to innovate and bring about process simplification to deliver customer-centric products, services, and experiences.

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DIRECTORS' STATEMENT

Year ended 31 December 2018

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 2018.

In our opinion:–

- (a) the consolidated financial statements of the Group set out on pages 93 to 158 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 2018 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 (International); 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 2018

	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	2,477,000	2,255,000
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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 2018

	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	3,826,600
Kwek Leng Kee	150,000	300,000
Options to subscribe for ordinary shares under the Hong Leong Asia Share Option Scheme 2000		
Kwek Leng Peck	470,000	300,000

DIRECTORS' STATEMENT

Year ended 31 December 2018

	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
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Redeemable Non-Voting Preference Shares

Kwek Leng Beng	453,000	453,000
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Sun Yuan Holdings Pte Ltd Ordinary Shares

Kwek Leng Beng	15,000,000	15,000,000
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	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 2018 remained unchanged as at 21 January 2019.

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.

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 2018

(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
25.9.2018	25.9.2019 to 24.9.2028	2,407,500 (net of options not accepted)	\$2.58

- (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	156,000	5,055,000	1,000,000	1,800,000	2,255,000

- (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 16,187,455 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 2018

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 2019

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 2018, 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 the financial statements, including a summary of significant accounting policies, as set out on pages 93 to 158.

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 Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") 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 2018 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 77% of its total assets.

Effective 1 January 2018, SFRS(I) 9 *Financial Instruments* introduces a new requirement for the Group to determine the probability weighted estimate of the expected credit loss ("ECL") of loans, advances and receivables to customers.

The Group has developed models to calculate the ECL allowances for non credit-impaired exposures. Significant judgement and assumptions are required in the development of the model parameters, including the probability of default, loss given default and exposure at default.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Hong Leong Finance Limited

The ECL allowances for credit-impaired exposures is highly subjective due to the judgement applied by management in estimating the valuation of collaterals, and consequently the ECL allowances required.

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

How the matter was addressed in our audit

In respect of non credit-impaired exposures, we tested the controls surrounding the governance over the computation of the ECL allowances.

We tested the accuracy and integrity of the inputs used to compute the ECL allowances, which include testing the controls surrounding collateral valuation. We assessed and challenged the appropriateness of the model methodology and parameters for compliance with SFRS(I) 9 requirements. We also reviewed the back-testing results performed by the model validation team. For a sample of non credit-impaired exposures, we re-calculated the ECL allowance using the modelled attributes.

In respect of credit-impaired exposures, we assessed the controls implemented over credit approval, grading and monitoring of loans, advances and receivables. We also assessed the controls over the determination of ECL allowances for credit-impaired exposures. For a sample of credit-impaired exposures, 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 found that the methodology and management's assumptions used in the ECL model were appropriate and the ECL allowances computation was consistent with the ECL model.

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.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Hong Leong Finance Limited

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 SFRS(I)s, 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 controls 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 controls.
- 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.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Hong Leong Finance Limited

- 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.

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 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 the law or regulations preclude 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 Ian Hong Cho Hor.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

27 February 2019

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Note	Group			Company		
		31 Dec 2018	31 Dec 2017	1 Jan 2017	31 Dec 2018	31 Dec 2017	1 Jan 2017
Number of shares in issue	4	445,818,433	445,173,033	443,784,033	445,818,433	445,173,033	443,784,033
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Share capital	4	884,440	882,829	879,279	884,440	882,829	879,279
Reserves	4	726,600	662,574	642,622	726,600	662,574	642,622
Accumulated profits		263,311	196,449	175,207	260,020	193,235	172,072
Equity attributable to owners of the Company		1,874,351	1,741,852	1,697,108	1,871,060	1,738,638	1,693,973
Liabilities							
Deposits and balances of customers	6	11,337,820	10,658,850	10,441,758	11,341,986	10,662,965	10,445,816
Trade and other payables	7	129,822	123,862	162,075	128,507	122,548	160,765
Current tax payable		37,112	18,322	12,159	37,108	18,317	12,155
Deferred tax liabilities	8	2,150	–	–	2,150	–	–
Total liabilities		11,506,904	10,801,034	10,615,992	11,509,751	10,803,830	10,618,736
Total equity and liabilities		13,381,255	12,542,886	12,313,100	13,380,811	12,542,468	12,312,709
Assets							
Cash at banks and in hand	9	1,442,327	1,088,908	1,207,113	1,441,349	1,087,956	1,206,188
Statutory deposit with the Monetary Authority of Singapore	9	297,645	285,467	278,099	297,645	285,467	278,099
Singapore Government securities	10	1,322,326	1,248,850	1,258,398	1,322,326	1,248,850	1,258,398
Loans, advances and receivables	11	10,277,663	9,876,579	9,514,927	10,277,663	9,876,579	9,514,927
Other receivables, deposits and prepayments	12	21,218	21,230	29,161	21,217	21,229	29,160
Subsidiaries	13	–	–	–	535	535	535
Investments (long-term)	14	–	–	546	–	–	546
Property, plant and equipment	15	20,076	21,324	24,530	20,076	21,324	24,530
Deferred tax assets	8	–	528	326	–	528	326
Total assets		13,381,255	12,542,886	12,313,100	13,380,811	12,542,468	12,312,709
Acceptances, guarantees and other obligations on behalf of customers	16	5,526	16,531	15,645	5,526	16,531	15,645

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

		Group	
	Note	2018 \$'000	2017 \$'000
Profit and loss account:			
Interest on loans		259,537	223,932
Hiring charges		53,247	48,423
Other interest income		37,158	29,431
Interest income/hiring charges		349,942	301,786
Less: Interest expense		137,823	126,384
Net interest income/hiring charges	17	212,119	175,402
Fee and commission income	18	15,337	13,681
Other operating income	19	614	490
Income before operating expenses		228,070	189,573
Less: Staff costs	20	66,933	59,258
Depreciation of property, plant and equipment	15	1,955	3,720
Other operating expenses	21	19,321	19,836
Profit from operations before allowances/provision		139,861	106,759
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts, other financial assets and provision for settlements and costs relating to distribution of wealth management products	7, 11	2,276	(3,819)
Profit before income tax		142,137	102,940
Less: Income tax expense	22	23,794	17,255
Profit for the year/Comprehensive income attributable to owners of the Company		118,343	85,685
Earnings per share (cents)	23		
Basic		26.56	19.27
Diluted		26.52	19.24

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Share capital	Statutory reserve	Capital reserve	Share option reserve	Regulatory loss allowance reserve	Accumulated profits	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Group							
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
At 1 January 2018, as previously stated	882,829	654,713	2,307	5,554	–	196,449	1,741,852
Effect of initial adoption of SFRS(I) 9 (net of tax)		18,695				56,084	74,779
Amount set up under MAS 811					16,932	(16,932)	–
At 1 January 2018, as restated	882,829	673,408	2,307	5,554	16,932	235,601	1,816,631
Issue of shares under share option scheme	1,490						1,490
Value of employee services received for issue of share options				286			286
Value of employee services transferred for share options exercised or lapsed	121			(1,085)		964	–
Final dividend paid of 9 cents per share (tax exempt one-tier) in respect of year 2017						(40,110)	(40,110)
Interim dividend paid of 5 cents per share (tax exempt one-tier) in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					(388)	388	–
Comprehensive income for the year						118,343	118,343
Transfer to Statutory reserve		29,586				(29,586)	–
At 31 December 2018	884,440	702,994	2,307	4,755	16,544	263,311	1,874,351

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 2018

	Share capital	Statutory reserve	Capital reserve	Share option reserve	Regulatory loss allowance reserve	Accumulated profits	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Company							
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
At 1 January 2018, as previously stated	882,829	654,713	2,307	5,554	–	193,235	1,738,638
Effect of initial adoption of SFRS(I) 9 (net of tax)		18,695				56,084	74,779
Amount set up under MAS 811					16,932	(16,932)	–
At 1 January 2018, as restated	882,829	673,408	2,307	5,554	16,932	232,387	1,813,417
Issue of shares under share option scheme	1,490						1,490
Value of employee services received for issue of share options				286			286
Value of employee services transferred for share options exercised or lapsed	121			(1,085)		964	–
Final dividend paid of 9 cents per share (tax exempt one-tier) in respect of year 2017						(40,110)	(40,110)
Interim dividend paid of 5 cents per share (tax exempt one-tier) in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					(388)	388	–
Comprehensive income for the year						118,266	118,266
Transfer to Statutory reserve		29,586				(29,586)	–
At 31 December 2018	884,440	702,994	2,307	4,755	16,544	260,020	1,871,060

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 2018

		2018	2017
	Note	\$'000	\$'000
Operating activities			
Profit for the year		118,343	85,685
Adjustments for:–			
Impact of accrual of interest income		(466)	(877)
Impact of accrual of interest expense		13,005	(40,220)
Allowances for doubtful debts		7,373	4,945
Depreciation of property, plant and equipment		1,955	3,720
(Gain)/loss on disposal of property, plant and equipment		(296)	2
Gain on liquidation of investments (long-term)		(106)	(258)
Value of employee services received for issue of share options		286	261
Income tax expense	22	23,794	17,255
		163,888	70,513
Changes in working capital:–			
Loans, advances and receivables		(318,501)	(366,597)
Other receivables, deposits and prepayments		478	8,808
Singapore Government securities		(73,476)	9,548
Deposits and balances of customers		678,970	217,092
Trade and other payables		(6,879)	2,007
Cash generated from/(used in) operations		444,480	(58,629)
Income taxes paid		(17,643)	(11,294)
Cash flows from/(used in) operating activities		426,837	(69,923)
Investing activities			
Purchase of property, plant and equipment		(742)	(516)
Proceeds from disposal of property, plant and equipment		331	–
Proceeds from liquidation of investments (long-term)	14	106	804
Cash flows from/(used in) investing activities		(305)	288
Financing activities			
Proceeds from exercise of share options		1,490	3,266
Dividends paid		(62,399)	(44,468)
Cash flows used in financing activities		(60,909)	(41,202)
Net increase/(decrease) in cash and cash equivalents		365,623	(110,837)
Cash and cash equivalents at beginning of year, as restated*		1,374,349	1,485,212
Cash and cash equivalents at end of year	9	1,739,972	1,374,375

* Cash and cash equivalents before adoption of SFRS(I) 9 in relation to allowance on cash at banks as at 31 December 2017 stated at \$1,374,375,000 has been restated at \$1,374,349,000 as at 1 January 2018 after initial adoption.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

These notes form an integral part of the financial statements.

The financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 27 February 2019.

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 2018 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 (International) (SFRS(I)). These are the Group’s first financial statements prepared in accordance with SFRS(I) and SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)* has been applied.

In the previous financial years, the financial statements were prepared in accordance with Financial Reporting Standards in Singapore (FRS). An explanation of how the transition to SFRS(I) and application of SFRS(I) 9 and SFRS(I) 15 have affected the reported financial position, financial performance and cash flows is provided in Note 28.

(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.

2. Basis of Preparation (continued)

(d) Use of estimates and judgements

The preparation of financial statements in conformity with SFRS(I) 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 3(f) Impairment and Note 24, Financial Risk Management.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening SFRS(I) statements of financial position at 1 January 2017 for the purposes of the transition to SFRS(I), unless otherwise indicated. In this regard, the date of transition to SFRS(I) for the Group was 1 January 2017. As the Group elected to apply the exemptions granted under SFRS(I) 1 not to restate the financial information of its comparative period in respect to financial instruments, the date of transition to SFRS(I) 9 was 1 January 2018.

The accounting policies have been applied consistently by Group entities.

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(b) Foreign currency transactions (continued)

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 foreign currency differences arising from the translation of qualifying cash flow hedges to the extent the hedge is effective are recognised in other comprehensive income.

(c) Financial instruments

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

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 ("FVTPL")) and financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financial component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments at FVOCI

On initial recognition of an equity investment that is not held-for-trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment – Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Non-derivative financial assets: Subsequent measurement and gains and losses – Policy applicable from 1 January 2018.

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Non-derivative financial assets – Policy applicable before 1 January 2018

The Group classifies non-derivative financial assets into the following categories: financial assets at FVTPL, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Non-derivative financial assets: Subsequent measurement and gains and losses – Policy applicable before 1 January 2018

Financial assets at FVTPL

A financial asset was classified at FVTPL if it was classified as held-for-trading or was designated as such upon initial recognition. Financial assets were designated at FVTPL if the Group managed such investments and made 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 were recognised in profit or loss as incurred. Financial assets at FVTPL were measured at fair value, and changes therein were recognised in profit or loss.

Held-to-maturity financial assets

If the Group had the positive intent and ability to hold debt securities to maturity, then such financial assets were 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 were measured at amortised cost using the effective interest method, less any impairment losses.

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

Loans and receivables

Loans and receivables were financial assets with fixed or determinable payments that were 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 were measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprised 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 were non-derivative financial assets that were designated as available-for-sale or were 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 were measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on available-for-sale monetary items, were recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment was derecognised, the gain or loss accumulated in equity was 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 comprised equity securities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such upon initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

Other financial liabilities are initially measured at fair value less any directly attributable transaction cost. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. 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.

(iii) Derecognition

Financial assets

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 liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial 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 set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(v) Derivative financial instruments, and hedge accounting

Derivative financial instruments and hedge accounting – Policy applicable from 1 January 2018
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 host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value and any directly 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 generally recognised in profit or loss.

The Group designates certain derivatives and non-derivative financial instruments as hedging instruments in qualifying hedging relationships. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. 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 OCI and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

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

Derivative financial instruments and hedge accounting – Policy applicable before 1 January 2018

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. However, embedded derivatives are not separated from host contracts that are financial assets in the scope of SFRS(I) 9. Instead, the hybrid financial instrument is assessed as a whole for classification of financial assets under SFRS(I) 9. Furthermore, for all cash flow hedges, including hedges of transactions resulting in the recognition of non-financial items, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affected profit or loss.

(vi) 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.

(vii) 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 issued are initially measured at fair value and the initial fair value is amortised over the life of the guarantees. Subsequent to initial measurement, the financial guarantees are measured at the higher of the amortised amount and the amount of loss allowance.

Expected credit losses (“ECLs”) are a probability-weighted estimate of credit losses. ECLs are measured for financial guarantees issued as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Loss allowances for ECLs for financial guarantees issued, if any, are presented in the Group’s statement of financial position under ‘Loans, advances and receivables’.

Financial guarantees – Policy applicable before 1 January 2018

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. However, for subsequent measurement, the financial guarantees were measured at the higher of the amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

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

Policy applicable from 1 January 2018

The Group recognises loss allowances for ECLs on financial assets measured at amortised costs.

Loans, advances and receivables

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers loans, advances and receivables to be in default if they are classified as non-performing loans.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full; or
- the financial asset is more than 90 days past due.

Other financial assets

The Group considers financial guarantee ("FG") contracts to be in default when the debtor of the loan is unlikely to pay its credit obligations to the creditor and the Group in full. The Group only applies a discount rate if, and to the extent that, the risks are not taken into account by adjusting the expected cash shortfalls.

The Group considers Singapore Government securities and bank deposits to have low credit risk when their credit risk rating is equivalent to "investment grade" assigned by internationally recognised external credit rating agencies.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

The 3 main components used to measure ECLs are:

- Probability of default ("PD");
- Loss given default ("LGD"); and
- Exposure at default ("EAD").

The components are generally derived from internally developed statistical models using historical data, adjusted for forward-looking information.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

Probability of default

The 12-month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instruments, respectively, based on conditions existing at the reporting date and future economic conditions that affect credit risk.

The PD is derived using historical default rates adjusted for forward-looking information and reflecting current portfolio composition and market data.

For portfolios without sufficient default data, forward-looking proxy PDs from external credit agencies are used.

Loss given default

LGD is the percentage of exposure the Group might lose in the event the borrower defaults. The Group adopts three approaches for LGD:–

- Historical write-off;
- Collateral hair-cut; and
- Proxy LGD.

Historical write-off is calculated for portfolios with sufficient default data. For portfolio without sufficient default data, collateral hair-cut approach or Proxy LGD is used.

Exposure at default

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

To compute the final ECL, the Group applies forward-looking adjustments and management overlay, taking into account past events, current conditions and future macroeconomic conditions. Forward-looking scenario that takes into account stressed economic condition is incorporated.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

Loss allowances for FG are recognised as a financial liability to the extent that they exceed the initial carrying amount of the FG less the cumulated income recognised.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

A financial asset not carried at FVTPL was assessed at the end of each reporting period to determine whether there was objective evidence that it was impaired. A financial asset was impaired if objective evidence indicated that a loss event(s) had occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that could be estimated reliably.

Objective evidence that financial assets (including equity investments) were impaired included 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 would enter bankruptcy, adverse changes in the payment status of borrowers or issuers, 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 was objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considered evidence of impairment for loans and receivables and held-to-maturity investment securities at both an individual asset and collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The amount reclassified was 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. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security was recognised in other comprehensive income.

(ii) Non-financial assets

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

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

Impairment losses are recognised in profit or loss.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(ii) Non-financial assets (continued)

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.

(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).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(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.

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.

3. Significant Accounting Policies (continued)

(i) Recognition of income and expense (continued)

(i) Interest (continued)

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

Interest expense is accrued on a time-apportioned basis.

(ii) Fee and commission

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

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

(iii) Dividend income

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

(iv) Offsetting

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

(j) Government 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).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. Significant Accounting Policies (continued)

(k) Lease payments (continued)

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.

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.

Current tax assets and liabilities are offset only if certain criteria are met.

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.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the assets 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.

3. Significant Accounting Policies (continued)

(l) Income tax (continued)

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

(m) Earnings per share

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

(n) Segment reporting

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

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. An explanation of the impact, if any, on adoption of these new requirements is provided in Note 29.

4. Capital and Reserves

Share capital

	Note	Company	
		2018	2017
		Number of shares	Number of shares
Fully paid shares, with no par value:–			
At 1 January		445,173,033	443,784,033
Issue of shares under share option scheme	5	645,400	1,389,000
At 31 December		<u>445,818,433</u>	<u>445,173,033</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

4. Capital and Reserves (continued)

In 2018, 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	
	2018	2017
Exercise price	Number of shares	Number of shares
\$2.28	141,400	233,200
\$2.45	58,000	213,000
\$2.56	34,500	107,000
\$2.66	10,500	43,000
\$2.34	134,000	506,400
\$2.23	267,000	286,400
	645,400	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.

Reserves

	Group and Company	
	2018	2017
	\$'000	\$'000
Statutory reserve	702,994	654,713
Capital reserve	2,307	2,307
Share option reserve	4,755	5,554
Regulatory loss allowance reserve	16,544	–
	726,600	662,574

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.

The regulatory loss allowance reserve is maintained in compliance with Monetary Authority of Singapore Notice 811 to maintain additional loss allowance through an appropriation of its accumulated profits when the Accounting Loss Allowance under Singapore Financial Reporting Standards (International) 9 falls below the Minimum Regulatory Allowance.

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

4. Capital and Reserves (continued)

Dividends

After the reporting date, the Directors proposed a final dividend of 10 cents per share, tax exempt one-tier, amounting to \$44,582,000 (2017: 9 cents per share, tax exempt one-tier, amounting to \$40,110,000) 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 5 cents per share, tax exempt one-tier, amounting to \$22,289,000 (2017: 4 cents per share, tax exempt one-tier, amounting to \$17,791,000) paid on 12 September 2018 (2017: 12 September 2017).

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 2018:–

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

Information regarding the Share Option Scheme is as follows:–

- (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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

5. Employee Share Options (continued)

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

	Weighted average exercise price 2018	Number of options 2018	Weighted average exercise price 2017	Number of options 2017
	\$	'000	\$	'000
At 1 January	2.68	17,904	2.78	21,556
Granted	2.58	2,513	2.61	1,544
Not accepted	2.58	(106)	2.61	(40)
Lapsed	2.96	(3,478)	3.34	(3,767)
Exercised	2.31	(646)	2.35	(1,389)
At 31 December	2.62	16,187	2.68	17,904
Exercisable at 31 December	2.63	13,458	2.70	15,963

The options outstanding at 31 December 2018 have an exercise price in the range of \$2.23 to \$3.10 (2017: \$2.23 to \$3.10) and a weighted average remaining contractual life of 5.0 years (2017: 4.6 years).

The weighted average share price at the date of exercise for share options exercised in 2018 was \$2.31 (2017: \$2.35).

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

5. Employee Share Options (continued)

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	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	25.9.2018
Fair value at grant date	\$0.26	\$0.53	\$0.49	\$0.28	\$0.31	\$0.36	\$0.29	\$0.17	\$0.13	\$0.20	\$0.11
Share price	\$2.95	\$2.76	\$3.09	\$2.29	\$2.45	\$2.60	\$2.67	\$2.30	\$2.22	\$2.60	\$2.58
Exercise price	\$3.06	\$2.74	\$3.10	\$2.28	\$2.45	\$2.56	\$2.66	\$2.34	\$2.23	\$2.61	\$2.58
Expected volatility	21.3%	28.3%	28.1%	27.2%	26.7%	25.7%	20.5%	15.0%	14.8%	14.8%	13.1%
Expected option life	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	5.9 to 10 years
Expected dividend yield	5.1%	2.9%	3.9%	5.2%	4.9%	4.6%	4.5%	4.4%	4.5%	3.9%	5.4%
Risk-free interest rate (based on government bonds)	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%	2.4 to 2.6%

Employee expenses:–

	2018	2017
	\$'000	\$'000
Share options granted in		
2014	–	15
2015	11	28
2016	17	146
2017	191	72
2018	67	–
Total expense recognised as employee costs	286	261

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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	30.9.2008	29.9.2009	28.9.2010	29.9.2011	14.9.2012	25.9.2013
Expiry date	29.9.2018	28.9.2019	27.9.2020	28.9.2021	13.9.2022	24.9.2023
Exercise price	\$3.06	\$2.74	\$3.10	\$2.28	\$2.45	\$2.56
Number of options outstanding at 1.1.2018	2,547,500	2,215,000	2,769,000	1,298,360	1,688,500	1,515,000
Options lapsed	2,547,500	138,500	203,600	12,470	88,000	80,000
Options exercised (1.1.2018 to 31.12.2018)	–	–	–	141,400	58,000	34,500
Number of options outstanding at 31.12.2018	–	2,076,500	2,565,400	1,144,490	1,542,500	1,400,500
Number of options exercisable at 1.1.2018	2,547,500	2,215,000	2,769,000	1,298,360	1,688,500	1,515,000
Number of options exercisable at 31.12.2018	–	2,076,500	2,565,400	1,144,490	1,542,500	1,400,500
Option exercise period of options outstanding at 31.12.2018						
29.9.2010 to 28.9.2019	vested on 29.9.2010	1,485,560				
	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		1,915,433			
	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			727,080		
	vested on 29.9.2013			205,590		
	vested on 29.9.2014			211,820		
14.9.2013 to 13.9.2022	vested on 14.9.2013				1,159,260	
	vested on 14.9.2014				188,760	
	vested on 14.9.2015				194,480	
25.9.2014 to 24.9.2023	vested on 25.9.2014					1,118,430
	vested on 25.9.2015					138,930
	vested on 25.9.2016					143,140
	(7)	(8)	(9)	(10)	(11)	
Date of grant of options	25.9.2014	23.9.2015	23.9.2016	21.9.2017	25.9.2018	
Expiry date	24.9.2024	22.9.2025	22.9.2026	20.9.2027	24.9.2028	
Exercise price	\$2.66	\$2.34	\$2.23	\$2.61	\$2.58	
Number of options outstanding at 1.1.2018	1,720,040	1,224,100	1,426,100	1,500,000	–	
Options granted	–	–	–	–	2,513,000	
Options not accepted	–	–	–	–	105,500	
Options lapsed	123,040	37,590	79,545	158,000	10,000	
Options exercised (1.1.2018 to 31.12.2018)	10,500	134,000	267,000	–	–	
Number of options outstanding at 31.12.2018	1,586,500	1,052,510	1,079,555	1,342,000	2,397,500	
Number of options exercisable at 1.1.2018	1,720,040	1,075,860	1,133,980	–	–	
Number of options exercisable at 31.12.2018	1,586,500	1,052,510	952,905	1,136,980	–	
Option exercise period of options outstanding at 31.12.2018						
25.9.2015 to 24.9.2024	vested on 25.9.2015	1,281,650				
	vested on 25.9.2016	150,150				
	vested on 25.9.2017	154,700				
23.9.2016 to 22.9.2025	vested on 23.9.2016	802,925				
	vested on 23.9.2017	122,935				
	vested on 23.9.2018	126,650				
23.9.2017 to 22.9.2026	vested on 23.9.2017		829,980			
	vested on 23.9.2018		122,925			
	vesting on 23.9.2019		126,650			
21.9.2018 to 20.9.2027	vested on 21.9.2018			1,136,980		
	vesting on 21.9.2019			100,980		
	vesting on 21.9.2020			104,040		
25.9.2019 to 24.9.2028	vesting on 25.9.2019				2,084,945	
	vesting on 25.9.2020				153,945	
	vesting on 25.9.2021				158,610	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

6. Deposits and Balances of Customers

	Group		Company	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Fixed deposits	11,101,716	10,277,802	11,105,882	10,281,917
Savings deposits and other balances of customers	217,278	370,117	217,278	370,117
Current accounts and other deposits	18,826	10,931	18,826	10,931
Total deposits and balances of customers	11,337,820	10,658,850	11,341,986	10,662,965

7. Trade and Other Payables

	Group		Company	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Due after 12 months				
Amount due to Enterprise Singapore	3,619	5,023	3,619	5,023
Due within 12 months				
Amount due to Enterprise Singapore	2,711	2,781	2,711	2,781
Interest payable	87,056	74,051	87,077	74,067
Other trade payables and accrued operating expenses	34,793	40,404	33,554	39,171
Other payables	1,643	1,603	1,546	1,506
	126,203	118,839	124,888	117,525
Total trade and other payables	129,822	123,862	128,507	122,548

Amount due to Enterprise Singapore represents unsecured advances from Enterprise Singapore 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 Enterprise 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 \$Nil (2017: \$0.2 million).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

8. Deferred Tax

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

	Group and Company						
	At 1 January 2017 \$'000	Recognised in profit or loss (Note 22) \$'000	At 31 December 2017 \$'000	SFRS(I) 9 (Note 28) \$'000	At 1 January 2018 \$'000	Recognised in profit or loss (Note 22) \$'000	At 31 December 2018 \$'000
Deferred tax assets							
Trade and other payables	(208)	1	(207)	–	(207)	17	(190)
Loans, advances and receivables	(735)	114	(621)	2,879	2,258	(66)	2,192
	(943)	115	(828)	2,879	2,051	(49)	2,002
Deferred tax liabilities							
Property, plant and equipment	570	(298)	272	–	272	(141)	131
Other items	47	(19)	28	–	28	(11)	17
	617	(317)	300	–	300	(152)	148
Net deferred tax liabilities/(assets)	(326)	(202)	(528)	2,879	2,351	(201)	2,150

Deferred tax assets relate primarily to timing differences in respect of provisions and loss 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	
	2018 \$'000	2017 \$'000
Cash at banks and in hand	1,442,353	1,088,908
Less: Loss allowances at 1 January (effect of adopting SFRS(I) 9) and 31 December	(26)	–
Cash at banks and in hand, net	1,442,327	1,088,908
Statutory deposit with the Monetary Authority of Singapore	297,645	285,467
Cash and cash equivalents in the consolidated statement of cash flows	1,739,972	1,374,375

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

10. Singapore Government Securities

	Group and Company	
	2018	2017
	\$'000	\$'000
Singapore Government securities		
– Within 12 months	271,001	172,965
– After 12 months	1,051,325	1,075,885
	1,322,326	1,248,850
Market value	1,320,898	1,248,017

Singapore Government securities are classified at amortised cost (2017: held to maturity).

11. Loans, Advances and Receivables

	Group and Company	
	2018	2017
	\$'000	\$'000
(a) Loans, advances and receivables at amortised cost		
Due after 12 months		
Loans, advances and hire purchase receivables	8,087,884	7,666,705
Less: Unearned charges and interest	70,319	64,781
	8,017,565	7,601,924
Less: Allowances for doubtful debts		
– Loans and advances	11,773	69,364
– Hire purchase receivables	2,938	15,892
	14,711	85,256
	8,002,854	7,516,668
Due within 12 months		
Loans, advances, factoring receivables and hire purchase receivables	2,327,385	2,432,724
Less: Unearned charges and interest	48,243	45,433
	2,279,142	2,387,291
Less: Allowances for doubtful debts		
– Loans, advances and factoring receivables	3,026	19,992
– Hire purchase receivables	1,307	7,388
	4,333	27,380
	2,274,809	2,359,911
Total loans, advances and receivables	10,277,663	9,876,579

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

11. Loans, Advances and Receivables (continued)

		Group and Company	
		2018	2017
		\$'000	\$'000
(b)	Allowances for doubtful debts		
	Stage 3 loss allowances (2017: Specific allowances)		
	At 1 January	12,862	14,736
	Net allowances made during the year	5,864	1,298
	Receivables written off against allowances	(11,009)	(3,172)
	At 31 December	7,717	12,862
	Stages 1 & 2 loss allowances (2017: Collective allowances)		
	At 1 January, as previously reported	99,774	96,127
	Effect of adopting SFRS(I) 9	(89,956)	–
	At 1 January, as restated	9,818	96,127
	Net allowances made during the year	1,509	3,647
	At 31 December	11,327	99,774
	Total allowances for doubtful debts	19,044	112,636

Also included in (allowances for)/reversal or recovery of doubtful debts, other financial assets and provision for settlements and costs relating to distribution of wealth management products are net recoveries of bad debts amounting to \$9,649,000 (2017: \$906,000).

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

	Group and Company					
	2018			2017		
	Receivables	Interest	Principal	Receivables	Interest	Principal
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Due within 1 year	563,851	46,537	517,314	559,836	43,564	516,272
Due after 1 year						
but within 5 years	1,137,292	67,748	1,069,544	1,083,070	61,827	1,021,243
Due after 5 years	96,168	2,110	94,058	91,554	2,220	89,334
Total	1,797,311	116,395	1,680,916	1,734,460	107,611	1,626,849

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

12. Other Receivables, Deposits and Prepayments

	Group		Company	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Interest receivables	10,558	10,092	10,558	10,092
Deposits	1,807	1,924	1,807	1,924
Prepayments	1,273	1,562	1,272	1,561
Other receivables	7,580	7,652	7,580	7,652
Total	21,218	21,230	21,217	21,229

13. Subsidiaries

	Company	
	2018	2017
	\$'000	\$'000

Unquoted equity investments, at cost	535	535
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Details of the subsidiaries are as follows:-

Name of Subsidiary	Principal place of business / Country of incorporation	Effective equity held by the Group	
		2018	2017
		%	%
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	
	2018	2017
	\$'000	\$'000
Unquoted equity securities	12	12
Less: Impairment losses at 1 January and 31 December	12	12
Net investments	-	-

Unquoted equity securities are classified as FVOCI (2017: Available for sale at cost).

During the financial year, the second and final return of surplus assets of \$106,000 (2017: first interim return of \$804,000) was received for the investment in Asfinco Singapore Limited (in members' voluntary liquidation).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

15. Property, Plant and Equipment

	Group and Company						
	Freehold land	Freehold buildings	Leasehold buildings	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost							
At 1 January 2017	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
Additions	–	–	–	195	10	537	742
Disposals	–	–	–	(230)	(5,290)	(716)	(6,236)
At 31 December 2018	50	2,938	27,196	13,866	9,485	780	54,315
Accumulated depreciation and impairment losses							
At 1 January 2017	–	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
Depreciation charge for the year	–	60	616	565	586	128	1,955
Disposals	–	–	–	(227)	(5,290)	(684)	(6,201)
At 31 December 2018	–	1,659	10,006	12,998	9,253	323	34,239
Carrying amount							
At 1 January 2017	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
At 31 December 2018	50	1,279	17,190	868	232	457	20,076

The carrying amount of property, plant and equipment of the Group and the Company includes amounts totalling \$17,190,000 (2017: \$17,806,000) in respect of leasehold buildings held under finance leases.

15. Property, Plant and Equipment (continued)

Properties held at 31 December are as follows:–

	Group and Company	
	2018	2017
	\$'000	\$'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.	919	946
(2)	Properties with carrying amounts up to \$500,000 each comprise 2 shop units held as branch premises.	410	443
	Total	1,329	1,389

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.	1,211	1,263
(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.	1,512	1,570
(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.	1,384	1,426
(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.	7,500	7,677
(2)	Properties with carrying amounts more than \$500,000 to \$1,000,000 each comprise 4 shop units held as branch premises.	2,947	3,055
(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.	2,636	2,815
	Total	17,190	17,806

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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	
	2018	2017
	\$'000	\$'000
Letters of credit	–	1,634
Guarantees	5,526	14,897
Total	5,526	16,531

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

17. Net Interest Income/Hiring Charges

	Group	
	2018	2017
	\$'000	\$'000
<i>Interest income/hiring charges</i>		
Loans, advances and receivables	312,784	272,355
Deposits placed	15,871	10,968
Singapore Government securities and other liquid assets	21,287	18,463
Total interest income/hiring charges	349,942	301,786
<i>Interest expense</i>		
Deposits and balances of customers	137,519	126,170
Others	304	214
Total interest expense	137,823	126,384
Net interest income/hiring charges	212,119	175,402

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.

18. Fee and Commission Income

	Group	
	2018	2017
	\$'000	\$'000
Fee and commission income arising from:–		
Loans and advances	13,578	11,855
Non-lending activities	1,729	1,788
Others	30	38
Total	15,337	13,681

There is no fee and commission income relating to financial assets or liabilities carried at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

19. Other Operating Income

	Group	
	2018	2017
	\$'000	\$'000
Gain/(loss) on disposal of plant and equipment	296	(2)
Loss on disposal of Singapore Government securities close to their maturity	–	(7)
Gain on liquidation of investments (long-term)	106	258
Other operating income	212	241
Total	<u>614</u>	<u>490</u>

20. Staff Costs

	Group	
	2018	2017
	\$'000	\$'000
Short-term employee benefits	59,756	52,976
CPF contributions to defined contribution plans	6,891	6,021
Share-based payments	286	261
Total	<u>66,933</u>	<u>59,258</u>

21. Other Operating Expenses

	Group	
	2018	2017
	\$'000	\$'000
Audit fees to auditors	404	432
Non-audit fees to auditors	96	76
Operating lease expenses	6,956	7,452
IT-related expenses	2,224	1,741
Other expenses	9,641	10,135
Total	<u>19,321</u>	<u>19,836</u>

Included in other expenses are fee and commission expenses arising from loans, advances and receivables amounting to \$562,000 (2017: \$580,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

22. Income Tax Expense

	Group	
	2018	2017
Note	\$'000	\$'000
Current tax expense		
Current year	23,995	18,317
Adjustment for prior years	–	(860)
	23,995	17,457
Deferred tax expense		
Origination and reversal of temporary differences	(201)	(937)
Adjustment for prior years	–	735
8	(201)	(202)
Income tax expense	23,794	17,255
Current year	23,794	17,380
Adjustment for prior years	–	(125)
Income tax expense	23,794	17,255

Reconciliation of income tax expense

	Group	
	2018	2017
	\$'000	\$'000
Profit after tax for the year	118,343	85,685
Income tax expense	23,794	17,255
Profit before income tax	142,137	102,940
Tax calculated using Singapore tax rate of 17% (2017: 17%)	24,163	17,500
Tax effect of:–		
Exempt income not taxable for tax purposes	(33)	(34)
Enhanced tax deductions	(2)	(28)
Bad debts recovered not subject to tax	(2)	(2)
Income taxed at a 10% concessionary tax rate	(576)	(452)
Expenses not deductible for tax purposes	223	365
Others	21	31
	23,794	17,380
Adjustment for prior years	–	(125)
Income tax expense	23,794	17,255

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

23. Earnings Per Share

(a) Basic earnings per share

	Group	
	2018	2017
	\$'000	\$'000

Basic earnings per share is based on:–

Profit after tax for the year attributable to owners of the Company	118,343	85,685
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	2018	2017
	Number of	Number of
	shares	shares
	'000	'000

Issued shares at 1 January	445,173	443,784
Effect of share options exercised	467	786
Weighted average number of shares during the year	445,640	444,570

(b) Diluted earnings per share

	Group	
	2018	2017
	\$'000	\$'000

Diluted earnings per share is based on:–

Profit after tax for the year attributable to owners of the Company	118,343	85,685
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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	
	2018	2017
	Number of	Number of
	shares	shares
	'000	'000

Weighted average number of:–

shares used in the calculation of basic earnings per share	445,640	444,570
potential shares issuable under share options	669	732
Weighted average number of issued and potential shares assuming full conversion	446,309	445,302

Outstanding share options that were not included in the computation of diluted earnings per share because the share options were anti-dilutive amounted to 8,830,920 at \$2.58 to \$3.10 as at 31 December 2018 (2017: 10,751,540 at \$2.66 to \$3.10).

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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 Board Risk Committee ("BRC"), a dedicated risk committee at board level oversees and reports to the Board on matters relating to the risk function of the Group. The BRC 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 BRC and Board for ensuring the effectiveness of the risk management framework. A risk management team is accountable to the BRC 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.

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 BRC 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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		
	12-month ECL	Lifetime expected credit loss	Lifetime expected credit loss	
	Not credit-impaired	Not credit-impaired	Credit-impaired	Total
2018	\$'000	\$'000	\$'000	\$'000

Performing accounts

– neither past due nor impaired	9,994,526	30,979	–	10,025,505
– past due but not impaired	119,272	64,735	–	184,007
Substandard	–	–	79,478	79,478
Loss	–	–	7,717	7,717
Gross amount	10,113,798	95,714	87,195	10,296,707
Stage 1 & 2 loss allowances	(10,886)	(441)	–	(11,327)
Stage 3 loss allowances	–	–	(7,717)	(7,717)
Carrying amount	10,102,912	95,273	79,478	10,277,663

	Group and Company	
	2017	
	\$'000	

Performing accounts that are

– neither past due nor impaired	9,588,456
– past due but not impaired	314,979
Gross amount	9,903,435
Collective allowances	(99,774)
Carrying amount	9,803,661

Individually impaired

– Substandard (payment not kept current for 90 days but fully secured)	72,918
– Loss (fully provided for)	12,862
Gross amount	85,780
Specific allowances	(12,862)
Carrying amount	72,918

Total carrying amount	9,876,579
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There are no loans and advances graded as doubtful as at 31 December 2018 and 2017.

24. Financial Risk Management (continued)**(b) Credit risk (continued)**

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.

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 2018		
Substandard	79,478	79,478
Loss	7,717	–
Total	87,195	79,478
31 December 2017		
Substandard	72,918	72,918
Loss	12,862	–
Total	85,780	72,918

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 \$10,213,229,000 (2017: \$9,887,612,000). The Group's claim against such collateral has been limited to the obligations of the respective obligors.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

24. Financial Risk Management (continued)

(b) Credit risk (continued)

	Group and Company	
	2018	2017
	\$'000	\$'000
Motor vehicles	42	276
Properties	744	1,351
Total	<u>786</u>	<u>1,627</u>

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	
	2018	2017
	\$'000	\$'000
Gross carrying amount	<u>10,296,707</u>	<u>9,989,215</u>
Concentration by sector		
Hire purchase/block discounting	1,680,916	1,626,849
Housing loans secured by property under finance	1,053,602	1,134,480
Other loans and advances:–		
Agriculture, mining and quarrying	1,110	1,022
Manufacturing	80,342	91,167
Building and construction	4,020,807	3,622,307
General commerce	76,226	97,610
Transport, storage and communication	186,869	216,623
Investment and holding companies	748,236	897,661
Professional and private individuals	295,177	322,941
Others (including hotels, associations and charitable organisations)	2,153,422	1,978,555
Total	<u>10,296,707</u>	<u>9,989,215</u>

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 \$5,526,000 as at 31 December 2018 (2017: \$14,897,000). At the reporting date, the Company does not consider it probable that claims will be made against the Company under the guarantees.

24. Financial Risk Management (continued)

(b) Credit risk (continued)

Reconciliation of Loss Allowance

Reconciliation of impairment provision

2018	12-month ECL Not credit- impaired \$'000	Lifetime ECL Not credit- impaired \$'000	Lifetime ECL Credit- impaired \$'000	Total \$'000
Balance as at 1 January per FRS 39				112,636
Adjustment on initial application of SFRS(I) 9				(89,956)
Balance as at 1 January per SFRS(I) 9	9,374	444	12,862	22,680
New financial assets originated or purchased	3,652	83	45	3,780
Financial assets repaid	(2,633)	(82)	(744)	(3,459)
Financial assets written off	–	–	(11,009)	(11,009)
Transfer to 12-month ECL – not credit-impaired	8	(8)	–	–
Transfer to Lifetime ECL – not credit-impaired	(176)	176	–	–
Transfer to Lifetime ECL – credit-impaired	(91)	(100)	191	–
Changes in models/risk parameters	441	(82)	–	359
Impairment loss recognised	311	10	6,372	6,693
Balance as at 31 December	10,886	441	7,717	19,044

Write-off still under enforcement activity

The contractual amount of outstanding on loans and advances to customers that were written off during the reporting period, and are still subject to enforcement activity was \$11.0 million (2017: \$3.2 million).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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 deposits. Liquidity risk arises from the management of the net funding position after accounting for the ongoing cash flows from assets and 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 BRC. 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 diversification of the Company's loans and deposits products and the close monitoring of exposure to minimise concentration risk.

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 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	
	2018	2017
At 31 December	16.49%	16.32%
Average for the period	16.39%	16.57%
Maximum for the period	17.90%	17.01%
Minimum for the period	16.20%	16.32%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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	Gross nominal outflow	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Group							
31 December 2018							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	11,337,820	(11,515,771)	(1,391,233)	(2,803,936)	(5,576,726)	(1,743,876)	–
Amount due to Enterprise Singapore	6,330	(6,376)	(512)	(408)	(1,811)	(3,645)	–
Other liabilities	34,576	(34,576)	(17,913)	(584)	(15,528)	–	(551)
	11,378,726	(11,556,723)	(1,409,658)	(2,804,928)	(5,594,065)	(1,747,521)	(551)
Financial guarantees	–	(5,526)	(5,526)	–	–	–	–
	11,378,726	(11,562,249)	(1,415,184)	(2,804,928)	(5,594,065)	(1,747,521)	(551)
Undrawn loan commitments	–	(1,619,519)	(1,278,915)	(340,604)	–	–	–
	11,378,726	(13,181,768)	(2,694,099)	(3,145,532)	(5,594,065)	(1,747,521)	(551)
31 December 2017							
<i>Non-derivative financial liabilities</i>							
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 Enterprise 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)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

24. Financial Risk Management (continued)

(c) Liquidity risk (continued)

	Carrying amount	Gross nominal outflow	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Company							
31 December 2018							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	11,341,986	(11,520,005)	(1,391,566)	(2,803,936)	(5,580,627)	(1,743,876)	–
Amount due to Enterprise Singapore	6,330	(6,376)	(512)	(408)	(1,811)	(3,645)	–
Other liabilities	33,241	(33,241)	(16,602)	(575)	(15,513)	–	(551)
	11,381,557	(11,559,622)	(1,408,680)	(2,804,919)	(5,597,951)	(1,747,521)	(551)
Financial guarantees	–	(5,526)	(5,526)	–	–	–	–
	11,381,557	(11,565,148)	(1,414,206)	(2,804,919)	(5,597,951)	(1,747,521)	(551)
Undrawn loan commitments	–	(1,619,519)	(1,278,915)	(340,604)	–	–	–
	11,381,557	(13,184,667)	(2,693,121)	(3,145,523)	(5,597,951)	(1,747,521)	(551)
31 December 2017							
<i>Non-derivative financial liabilities</i>							
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 Enterprise 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)

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 and income simulation modeling. The BRC 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, deposits and any interest-bearing borrowings. Interest rate risk arises 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

		Carrying amount	Up to 1 year	Group Over 1 to 5 years	After 5 years	Non- interest bearing
	Note	\$'000	\$'000	\$'000	\$'000	\$'000

31 December 2018

Financial assets

Loans, advances and receivables	11	10,277,663	8,810,790	1,363,226	103,647	–
Singapore Government securities	10	1,322,326	271,001	989,532	61,793	–
Cash at banks and in hand	9	1,442,327	1,429,691	–	–	12,636
Statutory deposit with the Monetary Authority of Singapore	9	297,645	–	–	–	297,645
Other assets		19,945	–	–	–	19,945

Financial liabilities

Deposits and balances of customers	6	11,337,820	9,582,729	1,697,950	–	57,141
Amount due to Enterprise Singapore	7	6,330	2,711	3,619	–	–
Other liabilities	7	123,492	–	–	–	123,492

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 Enterprise Singapore	7	7,804	2,781	5,023	–	–
Other liabilities	7	116,058	–	–	–	116,058

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

		Carrying amount	Up to 1 year	Company Over 1 to 5 years	After 5 years	Non- interest bearing
	Note	\$'000	\$'000	\$'000	\$'000	\$'000

31 December 2018

Financial assets

Loans, advances and receivables	11	10,277,663	8,810,790	1,363,226	103,647	–
Singapore Government securities	10	1,322,326	271,001	989,532	61,793	–
Cash at banks and in hand		1,441,349	1,428,713	–	–	12,636
Statutory deposit with the Monetary Authority of Singapore		297,645	–	–	–	297,645
Other assets		19,945	–	–	–	19,945

Financial liabilities

Deposits and balances of customers	6	11,341,986	9,586,895	1,697,950	–	57,141
Amount due to Enterprise Singapore	7	6,330	2,711	3,619	–	–
Other liabilities	7	122,177	–	–	–	122,177

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 Enterprise Singapore	7	7,804	2,781	5,023	–	–
Other liabilities	7	114,744	–	–	–	114,744

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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	
	2018	2017
	\$'000	\$'000
+ 100 basis points parallel shift in yield curves	31,081	31,783
– 100 basis points parallel shift in yield curves	(31,537)	(34,123)

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.

24. Financial Risk Management (continued)

(e) Capital management (continued)

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

	2018	2017
	\$'000	\$'000
Share capital	884,440	882,829
Accumulated profits	134,050	130,739
Statutory reserve	654,713	633,291
Capital reserve	2,307	2,307
Share option reserve	5,554	7,024
Eligible total capital	1,681,064	1,656,190
Risk-weighted assets	10,733,651	10,454,386
Capital adequacy ratio	15.7%	15.8%

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 were no financial assets and financial liabilities classified as held for trading in 2017.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

25. Financial Instruments (continued)

In accordance with the accounting policy on Financial Instruments, 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:–

	Note	Group			
		Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
		\$'000	\$'000	\$'000	\$'000

Financial assets

Loans, advances and receivables	11	10,277,663	10,284,118	9,876,579	9,871,832
Singapore Government securities	10	1,322,326	1,320,898	1,248,850	1,248,017
		11,599,989	11,605,016	11,125,429	11,119,849

Financial liabilities

Deposits and balances of customers	6	(11,337,820)	(11,382,330)	(10,658,850)	(10,681,551)
		262,169	222,686	466,579	438,298

	Note	Company			
		Carrying amount 2018	Fair Value 2018	Carrying amount 2017	Fair value 2017
		\$'000	\$'000	\$'000	\$'000

Financial assets

Loans, advances and receivables	11	10,277,663	10,284,118	9,876,579	9,871,832
Singapore Government securities	10	1,322,326	1,320,898	1,248,850	1,248,017
		11,599,989	11,605,016	11,125,429	11,119,849

Financial liabilities

Deposits and balances of customers	6	(11,341,986)	(11,386,517)	(10,662,965)	(10,685,675)
		258,003	218,499	462,464	434,174

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/Company 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 \$2.30 billion (2017: \$2.22 billion) against a carrying value of \$2.297 billion (2017: \$2.223 billion). Singapore Government securities are Level 1 instruments with fair value of \$1.32 billion (2017: \$1.25 billion). The portion of deposits and balances of customers being Level 2 instruments have a fair value of \$9.79 billion (2017: \$9.13 billion) against a carrying value of \$9.74 billion (2017: \$9.11 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	
	2018	2017
	\$'000	\$'000
Within 1 year	6,226	6,773
After 1 year but within 5 years	12,943	17,164
After 5 years	–	891
	19,169	24,828

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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 \$3,448,000 (2017: \$7,000).

(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 \$1,619,519,000 (2017: \$1,854,220,000).

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	
	2018	2017
	\$'000	\$'000
Short-term employee benefits	3,505	2,932
CPF contributions to defined contribution plans	15	15
Depreciation of motor vehicles	30	25
Other operating expenses including principally directors' fees	1,441	1,289
Share-based payments	39	52
	5,030	4,313

Directors' remuneration (inclusive of fees) included in key management personnel compensation amounted to \$3,622,000 (2017: \$3,212,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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 252,000 (2017: 171,500) 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:–

	2018	2017
Granted on		
30.9.2008	–	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	171,500
25.9.2018	252,000	–

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

	2018	2017
Granted on		
30.9.2008	–	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	115,000
25.9.2018	156,000	–

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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:–

	Holding Company	Group Fellow Subsidiaries and Associates of Holding Company	Key Management Personnel*
	\$'000	\$'000	\$'000
(a) Secured loans, advances and hire purchase receivables			
Outstanding balances:			
As at 1 January 2017	–	3,953	63,772
Increase	–	26	75
(Decrease)	–	(1,734)	(13,374)
As at 31 December 2017	–	2,245	50,473
Increase	–	403	–
(Decrease)	–	(1,023)	(25,365)
As at 31 December 2018	–	1,625	25,108
Undrawn loan commitments:			
As at 1 January 2017	20,000	–	74,015
Increase	–	600	90
(Decrease)	–	–	(2,651)
As at 31 December 2017	20,000	600	71,454
Increase	–	–	153
(Decrease)	(20,000)	(600)	(1,316)
As at 31 December 2018	–	–	70,291
(b) Specific allowances for doubtful debts			
As at 31 December 2017	–	–	–
As at 31 December 2018	–	–	–
(c) Other receivables, deposits and prepayment			
Outstanding balances:			
As at 1 January 2017	–	1,594	–
Increase	–	–	–
(Decrease)	–	–	–
As at 31 December 2017	–	1,594	–
Increase	–	5	–
(Decrease)	–	(172)	–
As at 31 December 2018	–	1,427	–

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

27. Related Party Transactions (continued)

	Holding Company	Group Fellow Subsidiaries and Associates of Holding Company	Key Management Personnel*
	\$'000	\$'000	\$'000
(d) Deposits and balances of customers			
Outstanding balances:			
As at 1 January 2017	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
Increase	29,422	54,238	2,279
(Decrease)	–	(83,376)	(6,863)
As at 31 December 2018	40,000	274,639	25,204
(e) Trade and other payables			
Outstanding balances:			
As at 1 January 2017	213	1,671	132
Increase	–	125	4
(Decrease)	(175)	(492)	(33)
As at 31 December 2017	38	1,304	103
Increase	86	137	13
(Decrease)	–	(241)	(9)
As at 31 December 2018	124	1,200	107
(f) Lease commitments			
Operating lease commitments			
As at 31 December 2017	–	22,387	–
As at 31 December 2018	–	17,588	–
(g) Profit and loss transactions			
Year ended 31 December 2018			
– Interest income on loans and advances and hiring charges in respect of hire purchase receivables	–	53	1,251
– Interest expense on deposits	(235)	(4,043)	(295)
– Fee, commission and other income	–	–	11
– Other operating expenses	–	(6,638)	–
– Specific allowances for bad and doubtful debts	–	–	–
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	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

27. Related Party Transactions (continued)

		Company		
		Fellow Subsidiaries and Associates of Holding Company	Key Management Personnel*	Subsidiaries
	Holding Company	\$'000	\$'000	\$'000
(a)	Secured loans, advances and hire purchase receivables			
	Outstanding balances:			
	As at 1 January 2017	–	3,953	63,772
	Increase	–	26	75
	(Decrease)	–	(1,734)	(13,374)
	As at 31 December 2017	–	2,245	50,473
	Increase	–	403	–
	(Decrease)	–	(1,023)	(25,365)
	As at 31 December 2018	–	1,625	25,108
	Undrawn loan commitments:			
	As at 1 January 2017	20,000	–	74,015
	Increase	–	600	90
	(Decrease)	–	–	(2,651)
	As at 31 December 2017	20,000	600	71,454
	Increase	–	–	153
	(Decrease)	(20,000)	(600)	(1,316)
	As at 31 December 2018	–	–	70,291
(b)	Specific allowances for doubtful debts			
	As at 31 December 2017	–	–	–
	As at 31 December 2018	–	–	–
(c)	Other receivables, deposits and prepayment			
	Outstanding balances:			
	As at 1 January 2017	–	1,594	–
	Increase	–	–	–
	(Decrease)	–	–	–
	As at 31 December 2017	–	1,594	–
	Increase	–	5	–
	(Decrease)	–	(172)	–
	As at 31 December 2018	–	1,427	–

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

27. Related Party Transactions (continued)

	Holding Company	Company Fellow Subsidiaries and Associates of Holding Company	Key Management Personnel*	Subsidiaries
	\$'000	\$'000	\$'000	\$'000
(d) Deposits and balances of customers				
Outstanding balances:				
As at 1 January 2017	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
Increase	29,422	54,238	2,279	51
(Decrease)	–	(83,376)	(6,863)	–
As at 31 December 2018	40,000	274,639	25,204	4,166
(e) Trade and other payables				
Outstanding balances:				
As at 1 January 2017	213	1,665	132	30
Increase	–	123	4	–
(Decrease)	(175)	(492)	(33)	(4)
As at 31 December 2017	38	1,296	103	26
Increase	86	135	13	5
(Decrease)	–	(240)	(9)	(2)
As at 31 December 2018	124	1,191	107	29
(f) Lease commitments				
Operating lease commitments				
As at 31 December 2017	–	22,387	–	–
As at 31 December 2018	–	17,588	–	–

* 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 2018

28. Explanation of transition to SFRS(I) and adoption of new standards

In December 2017, the Accounting Standards Council ("ASC") issued the Singapore Financial Reporting Standards (International) ("SFRS(I)"). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

As stated in Note 2(a), these are the first financial statements of the Group and of the Company prepared in accordance with SFRS(I).

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information presented in these financial statements for the year ended 31 December 2017 and in the preparation of the opening SFRS(I) statement of financial position at 1 January 2017 (the Group's date of transition), subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

In addition to the adoption of the new framework, the Group also concurrently applied the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers* which includes clarifications to IFRS 15 *Revenue from Contracts with Customers* issued by the IASB in April 2016;
- SFRS(I) 9 *Financial Instruments* which includes amendments arising from IFRS 4 *Insurance Contracts* issued by the IASB in September 2016;
- Requirements in SFRS(I) 2 *Share-based Payment* arising from the amendments to IFRS 2 – *Classification and measurement of share-based payment transactions* issued by the IASB in June 2016;
- Requirements in SFRS(I) 1 arising from the amendments to IFRS 1 – *Deletion of short-term exemptions for first-time adopters* issued by the IASB in December 2016; and
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration*.

The application of the new framework and the above standards and interpretations do not have a material effect on the financial statements, except for SFRS(I) 9.

An explanation of how the adoption of SFRS(I) 9 have affected the Group's financial position, financial performance and cash flows, and the Company's financial position is set out under the summary of quantitative impact and the accompanying notes.

SFRS(I) 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The Group initially applied SFRS(I) 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of SFRS(I) 15.

Summary of quantitative impact

The following reconciliations summarise the impacts on initial application of SFRS(I) 9 on the Group's and the Company's financial position as at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

28. Explanation of transition to SFRS(I) and adoption of new standards (continued)

Reconciliation of the Group's and Company's equity

Statements of Financial Position

	Group			Company		
	31 Dec 2017 FRS framework	SFRS(I) 9	1 Jan 2018 SFRS(I) framework	31 Dec 2017 FRS framework	SFRS(I) 9	1 Jan 2018 SFRS(I) framework
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Share capital	882,829	–	882,829	882,829	–	882,829
Reserves	662,574	35,627	698,201	662,574	35,627	698,201
Accumulated profits	196,449	39,152	235,601	193,235	39,152	232,387
Equity attributable to owners of the Company	1,741,852	74,779	1,816,631	1,738,638	74,779	1,813,417
Liabilities						
Deposits and balances of customers	10,658,850	–	10,658,850	10,662,965	–	10,662,965
Trade and other payables	123,862	(166)	123,696	122,548	(166)	122,382
Current tax payable	18,322	12,438	30,760	18,317	12,438	30,755
Deferred tax liabilities	–	2,351	2,351	–	2,351	2,351
Total liabilities	10,801,034	14,623	10,815,657	10,803,830	14,623	10,818,453
Total equity and liabilities	12,542,886	89,402	12,632,288	12,542,468	89,402	12,631,870
Assets						
Cash at banks and in hand	1,088,908	(26)	1,088,882	1,087,956	(26)	1,087,930
Statutory deposit with the Monetary Authority of Singapore	285,467	–	285,467	285,467	–	285,467
Singapore Government securities	1,248,850	–	1,248,850	1,248,850	–	1,248,850
Loans, advances and receivables	9,876,579	89,956	9,966,535	9,876,579	89,956	9,966,535
Other receivables, deposits and prepayments	21,230	–	21,230	21,229	–	21,229
Subsidiaries	–	–	–	535	–	535
Investments (long-term)	–	–	–	–	–	–
Property, plant and equipment	21,324	–	21,324	21,324	–	21,324
Deferred tax assets	528	(528)	–	528	(528)	–
Total assets	12,542,886	89,402	12,632,288	12,542,468	89,402	12,631,870
Acceptances, guarantees and other obligations on behalf of customers	16,531	–	16,531	16,531	–	16,531

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

29. New standards and interpretations not yet adopted

A number of new standards and interpretations and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations 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) 16 *Leases*.

SFRS(I) 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. SFRS(I) 16 replaces existing lease accounting guidance, including SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 1-15 *Operating Leases – Incentives* and SFRS(I) INT 1-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group and the Company plan to apply SFRS(I) 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting SFRS(I) 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group and the Company plan to apply the practical expedient to grandfather the definition of a lease on transition, which means that SFRS(I) 16 will be applied to all contracts entered into before 1 January 2019 and identified as leases in accordance with SFRS(I) 1-17 and SFRS(I) INT 4.

The Group and the Company as lessee

The Group and the Company expect to measure lease liabilities by applying applicable discount rates to the portfolio of office premises leases. Furthermore, the Group and the Company are likely to apply the practical expedient to recognise amounts of ROU assets equal to their lease liabilities at 1 January 2019. For lease contracts that contain the option to renew, the Group and the Company are expected to use hindsight in determining the lease term.

The Group and the Company expect their existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. Lease payments that are increased over the years to reflect market rentals are included in the measurement of lease liabilities as at date of initial application.

As at 1 January 2019, the Group and the Company estimate an increase in ROU assets of \$39.9 million, an increase in lease liabilities of \$40.7 million, an increase in deferred tax asset of \$0.1 million and a decrease in accumulated profits of \$0.7 million.

The nature of expenses related to those leases will change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge for ROU assets and interest expense on lease liabilities.

ANALYSIS OF SHAREHOLDINGS

As at 1 March 2019

Number of Shares in Issue	: 445,832,433
Class of Shares	: Ordinary shares ("Shares")
Number of Shareholders	: 11,586
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 2019. As at 1 March 2019, 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	340	2.94	14,092	0.00
100 – 1,000	1,759	15.18	1,184,376	0.27
1,001 – 10,000	7,172	61.90	32,110,375	7.20
10,001 – 1,000,000	2,285	19.72	112,872,118	25.32
1,000,001 and above	30	0.26	299,651,472	67.21
	11,586	100.00	445,832,433	100.00

Based on the information available to the Company as at 1 March 2019, approximately 45.54% 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 2019

No.	Name	No. of Shares Held	% *
1.	Hong Leong Investment Holdings Pte. Ltd.	99,608,176	22.34
2.	DBS Nominees Pte Ltd	26,048,842	5.84
3.	Hong Realty (Private) Limited	23,271,370	5.22
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	10,890,629	2.44
9.	City Developments Limited	9,149,817	2.05
10.	Citibank Nominees Singapore Pte Ltd	8,379,662	1.88
11.	HSBC (Singapore) Nominees Pte Ltd	7,194,348	1.61
12.	Tudor Court Gallery Pte Ltd	6,517,000	1.46
13.	Chng Gim Huat	5,614,000	1.26
14.	Hong Leong Holdings Limited	5,460,422	1.23
15.	Raffles Nominees (Pte) Ltd	4,511,042	1.01
16.	Hong Leong Enterprises Pte. Ltd.	4,485,047	1.01
17.	OCBC Nominees Singapore Private Limited	2,347,658	0.53
18.	Morph Investments Ltd	2,060,000	0.46
19.	Phillip Securities Pte Ltd	2,024,555	0.45
20.	BPSS Nominees Singapore (Pte.) Ltd.	1,994,600	0.45
		286,707,660	64.31

* The percentage of shares held is based on the total number of issued shares of the Company as at 1 March 2019.

ANALYSIS OF SHAREHOLDINGS

As at 1 March 2019

Substantial Shareholders

(As shown in the Register of Substantial Shareholders as at 1 March 2019)

	No. of Shares			
	Direct Interest	Deemed Interest	Total Interest	% *
Hong Realty (Private) Limited	23,271,370	23,678,335 ⁽¹⁾	46,949,705	10.53
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	46.17
Davos Investment Holdings Private Limited	-	205,860,758 ⁽⁴⁾	205,860,758	46.17
Kwek Holdings Pte Ltd	-	205,860,758 ⁽⁴⁾	205,860,758	46.17

* The percentage of shares held is based on the total number of issued shares of the Company as at 1 March 2019.

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-Ninth 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, 25 April 2019 at 2.30 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”) 2018 and the Auditors’ Report thereon.
2. To declare a final one-tier tax exempt dividend of 10 cents per share for FY 2018 (“Final Dividend”).
3. To approve Directors’ Fees of \$1,345,464 for FY 2018 (FY 2017: \$1,197,000).
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 Peck
 - (b) Mr Cheng Shao Shiong @ Bertie Cheng
 - (c) Mr Po’ad bin Shaik Abu Bakar Mattar

Detailed information on the Directors who are proposed to be re-elected can be found under the sections on “Board of Directors” and “Additional Information on Directors Seeking Re-election” of the Annual Report.

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

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.

NOTICE OF ANNUAL GENERAL MEETING

C) To Transact Any Other Ordinary Business

BY ORDER OF THE BOARD

Yeo Swee Gim, Joanne
Company Secretary
Singapore, 27 March 2019

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 8 May 2019. Duly completed registrable transfers received by the Company's Share Registrar, M & C Services Private Limited of 112 Robinson Road #05-01, Singapore 068902 up to 5.00 p.m. on 7 May 2019 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 22 May 2019.

Explanatory Notes:

1. With reference to item 3 of the Ordinary Business above, the Directors' Fees of \$1,345,464 for FY 2018 includes fees payable to the Audit Committee and the Board Risk Committee for FY 2018. The structure of fees payable to Directors for FY 2018 can be found on page 33 of the Annual Report.
2. With reference to item 4(a) above (under the heading "Ordinary Business"), Mr Kwek Leng Peck will, upon re-election as a Director of the Company, remain as a member and also as alternate to the chairman of the Executive Committee ("Exco"), a member of the Board Risk Committee ("BRC") and the Hong Leong Finance Share Option Scheme 2001 Committee ("SOSC"). Detailed information on Mr Kwek Leng Peck is found on pages 17 to 18 and 166 to 169 of the Annual Report.
3. With reference to item 4(b) above (under the heading "Ordinary Business"), Mr Bertie Cheng will, upon re-election as a Director of the Company, remain as chairman of the Nominating Committee ("NC") and BRC, and also as a member of the Exco, Audit Committee ("AC"), Remuneration Committee ("RC") and SOSC. Mr Cheng is considered independent by the Board. Detailed information on Mr Cheng is found on pages 18 and 166 to 169 of the Annual Report.
4. With reference to item 4(c) above (under the heading "Ordinary Business"), Mr Po'ad Mattar will, upon re-election as a Director of the Company, remain as the Lead Independent Director, the chairman of the AC, RC and SOSC, and a member of the NC. Mr Mattar is considered independent by the Board. Detailed information on Mr Mattar is found on pages 18 and 166 to 169 of the Annual Report.
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.

NOTICE OF ANNUAL GENERAL MEETING

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.

NOTICE OF ANNUAL GENERAL 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.

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.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION AT THE 59TH ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Peck	Bertie Cheng	Po'ad Mattar
Age	62	81	71
Date of appointment	1 January 1998	23 April 2004	24 April 2009
Job Title	Non-executive and non-independent Director Member and as alternate to the chairman of the Executive Committee (" Exco "), and member of the Board Risk Committee (" BRC ") and the Hong Leong Finance Share Option Scheme 2001 Committee (" SOSC ")	Non-executive and independent Director Chairman of the Nominating Committee (" NC ") and BRC, and member of the Exco, Audit Committee (" AC "), Remuneration Committee (" RC ") and SOSC	Non-executive and Lead Independent Director Chairman of the AC, RC and SOSC, and member of the NC
Date of last re-election as Director (if applicable)	26 April 2017	21 April 2016	21 April 2016
Country of principal residence	Singapore	Singapore	Singapore
Board's comments on the re-election (including rationale)	<p>Factors considered by the Board on the re-election of Mr Kwek Leng Peck, Mr Bertie Cheng and Mr Po'ad Mattar:</p> <ul style="list-style-type: none"> the NC's report to the Board on the evaluation of these three Directors based on their skills set and contribution to the effectiveness of the Board, including their experience, objectivity and candour displayed and attendance records at Board and Board Committee meetings, time commitment for Directors who have multiple listed company board representations and taking into account specific assessment parameters approved by the Board; and the independence of the Directors especially in the case of Mr Bertie Cheng and Mr Po'ad Mattar who have served more than nine years on the Board, in particular their objectivity in the review and evaluation of actions taken by or proposals from Management and their seeking of clarification, as and when necessary, to make informed decisions whilst remaining open to other viewpoints. <p>For more details on the NC's evaluation process, please refer to Principle 4: Board Membership and Principle 5: Board Performance on pages 28 to 30 of the Corporate Governance Report.</p>		
Whether appointment is executive, and if so, the area of responsibility	No	No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION AT THE 59TH ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Peck	Bertie Cheng	Po'ad Mattar
Professional qualification, working experience and occupation(s) during the past 10 years	<p>Executive Director on several Hong Leong group companies and has many years of experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management</p> <p><u>April 2017 to Present</u> Executive Chairman of Hong Leong Asia Ltd ("HLA")</p> <p><u>April 1998 to Present</u> Executive Director of HLA</p> <p><u>December 1982 to Present</u> Executive Director of Hong Leong Investment Holdings Pte. Ltd. ("HLIH")</p> <p><u>October 2001 to Present</u> Executive Director of Hong Leong Corporation Holdings Pte Ltd ("HLCH")</p>	<p>Retired</p> <p>Prior to retirement in July 1997, was the Chief Executive Officer of POSBank</p> <p>Was also the Group Managing Director of Thomson Medical Centre Limited from March 1999 to March 2001</p> <p>Holds a Bachelor of Arts Degree in Economics (Honours) from the then University of Malaya in Singapore</p>	<p>Retired</p> <p>Was the former Senior Partner of Deloitte & Touche until retirement in March 2006</p> <p>Member of the Institute of Singapore Chartered Accountants</p> <p>Holds a Bachelor of Accountancy from the then University of Singapore and a Master in Management from the Asian Institute of Management (Makati, Philippines)</p>
Shareholding interest in the Company and its subsidiaries	Please refer to the Directors' Statement on page 82	Nil	Nil
Relationship (including immediate family relationship) with any existing director, existing executive officer, the Company and/or substantial shareholder of the Company or any of its principal subsidiaries	<p>Cousin of Mr Kwek Leng Beng and Mr Kwek Leng Kee and uncle of Mr Kevin Hangchi.</p> <p>Director and shareholder of Hong Realty (Private) Limited ("HR") and HLIH. HR and HLIH are substantial shareholders and related corporations of the Company.</p> <p>Please refer to the Directors' Statement on pages 82 and 83 on his shareholding interests in HR and HLIH.</p>	Nil	Nil
Conflict of interest (including any competing business)	Nil	Nil	Nil
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to Hong Leong Finance Limited	Yes	Yes	Yes

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION AT THE 59TH ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Peck	Bertie Cheng	Po'ad Mattar
Other Principal Commitments including directorships	Principal Commitments: Please see information under segment "Professional qualification, working experience and occupation(s) during the past 10 years"		Principal Commitments: Member of the Public Service Commission and Council of Presidential Advisers Pro-Chancellor of National University of Singapore
<ul style="list-style-type: none"> Past (for the last 5 years): 	Directorships: <ul style="list-style-type: none"> Henan Xinfei Electric Co., Ltd Henan Xinfei Refrigeration Appliances Co., Ltd Henan Xinfei Household Appliance Co., Ltd. ATOS Holding GmbH CDL Nominees Limited Burlington Square Investment Pte Ltd Burlington Square Properties Pte Ltd Transport Climate Control Systems Pte Ltd Shanghai Rex Packaging Co., Ltd Henderson Industrial Park Investment Pte Ltd CDL Hotels (Singapore) Pte Ltd North Plaza Sdn. Bhd Newbury Investments Pte Ltd Island Holdings Pte. Ltd. United Industrial Paper Products Manufacturing Company (Private) Limited Mandai Estate Pte. Ltd. Baynes Investments Pte Ltd 	Directorships: <ul style="list-style-type: none"> Chewathai Ltd Singapore Technologies Electronics Limited 	Directorships: <ul style="list-style-type: none"> NIE International Private Limited Tiger Airways Holdings Limited*
<ul style="list-style-type: none"> Present: 	Number of directorships in the following companies and their affiliates Directorships: <ul style="list-style-type: none"> Hong Leong Finance Limited* ("HLF") and 2 HLF group subsidiaries China Yuchai International Limited* ("CYI") and a CYI group subsidiary City Developments Limited* ("CDL") and 2 CDL group subsidiaries HLA* and 25 HLA group subsidiaries and associated companies 	Directorships: <ul style="list-style-type: none"> HLF* Hong Leong Finance Nominees Pte Ltd Singapore Nominees Private Limited Pacific Andes Resources Development Limited* Baiduri Bank Bhd 	Directorships: <ul style="list-style-type: none"> HLF* Keppel Offshore & Marine Ltd Rahmatan Lil Alamin Foundation Ltd

* Listed company

ADDITIONAL INFORMATION ON DIRECTORS SEEKING RE-ELECTION AT THE 59TH ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Peck	Bertie Cheng	Po'ad Mattar
<ul style="list-style-type: none"> Present (cont'd): 	<ul style="list-style-type: none"> Hong Leong Company (Malaysia) Berhad HLCH and 10 HLCH group subsidiaries Hong Leong Holdings Limited ("HLH") and 2 HLH group subsidiaries HLIH and 10 HLIH group subsidiaries HR and 3 HR group subsidiaries Millennium & Copthorne Hotels plc* ("M&C") and 12 M&C group subsidiaries and associated companies Tasek Corporation Berhad* ("TCB") and 2 TCB group subsidiaries Hong Leong Foundation Hong Leong Nominees (Private) Limited Kwek Hong Leong Investment Pte. Ltd. 	<ul style="list-style-type: none"> Baiduri Finance Bhd TEE International Limited* TeleChoice International Limited* 	
Date of announcement of first appointment	29 December 1997	23 April 2004	24 April 2009
Responses to questions (a) to (k) under Appendix 7.4.1 of the Listing Manual of Singapore Exchange Securities Trading Limited	Responses to questions (a) to (k) are negative.	<p>Responses to questions (a) to (j) are negative. Response to question (k) is set out below:</p> <p>Whilst he was the independent non-executive chairman of TEE International Limited ("TEE"), Mr Cheng was the subject of an investigation in 2012 by the Commercial Affairs Department ("CAD") on possible contravention of market rigging provision in the Securities and Futures Act (Chapter 289) in relation to TEE shares. Mr Cheng cooperated fully with the CAD in its investigation. There is no closure to date on the matter.</p>	Responses to questions (a) to (k) remain the same as previously announced on 24 April 2009.

* Listed company

Information as at 27 February 2019

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PROXY FORM

for 59th 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 27 March 2019.

*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 59th 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, 25 April 2019 at 2.30 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 Peck		
	(b) Mr Cheng Shao Shiong @ Bertie Cheng		
	(c) Mr Po'ad bin Shaik Abu Bakar Mattar		
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 _____ 2019

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 Kitchen 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
Tel: 6784 7326
Fax: 6784 9057

Toa Payoh Branch

Blk 520 Lorong 6 Toa Payoh
#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
Singapore 588176
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
#01-43
Singapore 730306
Tel: 6368 7928
Fax: 6368 1448

Yishun Branch

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

SME Centre @Hong Leong Finance

Balestier

288 Balestier Road
#01-02 Balestier 288
Singapore 329731
Tel: 6397 4946
Fax: 6254 8801

Bedok

Blk 203 Bedok North Street 1
#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

City Plaza

810 Geylang Road
#01-111/114 City Plaza
Singapore 409286
Tel: 6846 9710
Fax: 6748 2422

City Square

180 Kitchen Road
#B2-41 City Square Mall
Singapore 208539
Tel: 6634 4087
Fax: 6834 3280

Clementi West

Blk 725 Clementi West Street 2
#01-216
Singapore 120725
Tel: 6873 3056
Fax: 6775 2751

Hong Lim

Blk 531 Upper Cross Street
#01-50 Hong Lim Complex
Singapore 050531
Tel: 6534 1909
Fax: 6534 5868

Hougang

Blk 208 Hougang Street 21
#01-211/213
Singapore 530208
Tel: 6383 2807
Fax: 6281 3046

Jurong East

Blk 134 Jurong Gateway Road
#01-313
Singapore 600134
Tel: 6665 1950
Fax: 6564 3787

Upper Bukit Timah

140 Upper Bukit Timah Road
#01-19/21 Beauty World Plaza
Singapore 588176
Tel: 6463 1365
Fax: 6468 4181

Yishun

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

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