



HONG LEONG FINANCE

Full Year Financial Statements And Related Announcement

Full year financial statements on consolidated results for the year ended 31 December 2018. These figures have been audited in accordance with Singapore Standards on Auditing.

1(a). Audited Group Statement of Comprehensive Income For The Year Ended 31 December 2018

	2018	2017	+ / (-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	259,537	223,932	15.9
Hiring charges	53,247	48,423	10.0
Other interest income	37,158	29,431	26.3
Interest income/hiring charges	349,942	301,786	16.0
Less: Interest expense	137,823	126,384	9.1
Net interest income/hiring charges	212,119	175,402	20.9
Fee and commission income	15,337	13,681	12.1
Other operating income	614	490	25.3
Income before operating expenses	228,070	189,573	20.3
Less: Staff costs	66,933	59,258	13.0
Depreciation of property, plant and equipment	1,955	3,720	(47.4)
Other operating expenses	19,321	19,836	(2.6)
Profit from operations before allowances/provision	139,861	106,759	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	2,276	(3,819)	(159.6)
Profit before tax	142,137	102,940	38.1
Less: Income tax expense	23,794	17,255	37.9
Profit for the year/Comprehensive income attributable to owners of the Company	118,343	85,685	38.1
Earnings per share (cents):			
- Basic	26.56	19.27	
- Diluted	26.52	19.24	

1(b). Other Information

	2018	2017	+ / (-)
	\$'000	\$'000	%
(i) Profit after tax			
- first half year	55,416	37,331	48.4
- second half year	62,927	48,354	30.1

The increase in the profit after tax for the second half of 2018 when compared to the same period in 2017 was principally attributable to an increase in net interest income, and net recoveries of doubtful debts of \$3,897,000 compared to additional net allowances for doubtful debts of \$4,061,000 in the second half of 2017.

- (ii) Other operating income includes:
- (a) gain on disposal of plant and equipment amounting to \$296,000 (2017: loss on disposal of plant and equipment of \$2,000);
 - (b) loss on disposal of Singapore Government securities close to their maturity amounting to \$Nil (2017: \$7,000); and
 - (c) gain on liquidation of investments (long-term) amounting to \$106,000 (2017: \$258,000).
- (iii) The Group operates in only one segment. Its activities relate to financing business augmented by secondary non-lending activities. All activities are carried out in the Republic of Singapore. Fee and commission income in paragraph 1(a) above includes fee and commission income from non-lending activities amounting to \$1,729,000 (2017: \$1,788,000).

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Number of shares in issue	445,818,433	445,173,033	445,818,433	445,173,033
	\$'000	\$'000	\$'000	\$'000
Share capital	884,440	882,829	884,440	882,829
Reserves	726,600	662,574	726,600	662,574
Accumulated profits	263,311	196,449	260,020	193,235
Equity attributable to owners of the Company	1,874,351	1,741,852	1,871,060	1,738,638
Liabilities				
Deposits and balances of customers	11,337,820	10,658,850	11,341,986	10,662,965
Trade and other payables	129,822	123,862	128,507	122,548
Current tax payable	37,112	18,322	37,108	18,317
Deferred tax liabilities	2,150	-	2,150	-
Total liabilities	11,506,904	10,801,034	11,509,751	10,803,830
Total equity and liabilities	13,381,255	12,542,886	13,380,811	12,542,468
Assets				
Cash at banks and in hand	1,442,327	1,088,908	1,441,349	1,087,956
Statutory deposit with the Monetary Authority of Singapore	297,645	285,467	297,645	285,467
Singapore Government securities	1,322,326	1,248,850	1,322,326	1,248,850
Hire purchase receivables	1,680,916	1,626,849	1,680,916	1,626,849
Loans, advances and factoring receivables	8,615,791	8,362,366	8,615,791	8,362,366
	10,296,707	9,989,215	10,296,707	9,989,215
Allowances for doubtful debts	(19,044)	(112,636)	(19,044)	(112,636)
	10,277,663	9,876,579	10,277,663	9,876,579
Other receivables, deposits and prepayments	21,218	21,230	21,217	21,229
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	20,076	21,324	20,076	21,324
Deferred tax assets	-	528	-	528
Total assets	13,381,255	12,542,886	13,380,811	12,542,468
Acceptances, guarantees and other obligations on behalf of customers	5,526	16,531	5,526	16,531

2(b). Net Asset Value

Net asset value per share (\$)	4.20	3.91	4.20	3.91
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2(c). There are no outstanding borrowings and debt securities as at 31 December 2018 (31 December 2017: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2018	2017
	\$'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	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)	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	1,739,972	1,374,375

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	31 December	31 December
	2018	2017
	\$'000	\$'000
Cash at banks and in hand	1,442,327	1,088,908
Statutory deposit with the Monetary Authority of Singapore	297,645	285,467
Cash and cash equivalents	1,739,972	1,374,375

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,322,326,000 (31 December 2017: \$1,248,850,000) for the Group.

* Cash and cash equivalents before the 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.

4. Statements of Changes in Equity

Group	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
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	<u>882,829</u>	<u>654,713</u>	<u>2,307</u>	<u>5,554</u>	<u>-</u>	<u>196,449</u>	<u>1,741,852</u>
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	<u>884,440</u>	<u>702,994</u>	<u>2,307</u>	<u>4,755</u>	<u>16,544</u>	<u>263,311</u>	<u>1,874,351</u>

4. Statements of Changes in Equity (continued)

Company	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
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	<u>882,829</u>	<u>654,713</u>	<u>2,307</u>	<u>5,554</u>	<u>-</u>	<u>193,235</u>	<u>1,738,638</u>
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	<u>884,440</u>	<u>702,994</u>	<u>2,307</u>	<u>4,755</u>	<u>16,544</u>	<u>260,020</u>	<u>1,871,060</u>

5. Review of the Performance of the Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$10,278 million at the end of the year. This was an increase of 4.1% or \$401 million over the previous year's base of \$9,877 million as at 31 December 2017.

In line with higher funding requirements, deposits and balances of customers closed at \$11,338 million as at 31 December 2018. This was an increase of 6.4% or \$679 million over the previous year's base of \$10,659 million as at 31 December 2017. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$3,062 million as at 31 December 2018 (31 December 2017: \$2,623 million).

The Group recorded profit from operations before allowances/provision of \$139.9 million for the year ended 31 December 2018, an increase of 31.0% from \$106.8 million for the previous year, due mainly to increase in interest income. Group profit before tax for the year ended 31 December 2018 was arrived at after net recoveries of doubtful debts amounting to \$2.2 million (31 December 2017: additional net allowance of \$3.8 million). Accordingly, Group profit after tax for the year amounted to \$118.3 million, an increase of \$32.6 million or 38.1% over the previous year. The Group continues to maintain adequate loss allowances in respect of its loan portfolio.

Net interest income rose 20.9% to \$212.1 million for the year ended 31 December 2018 as compared to \$175.4 million for the previous year. This was driven by an uplift of net interest margin by 21 basis points on the back of a rise in average loan yield with higher loan growth outpacing a rise in average funding costs as compared to last year.

Fee and commission income increased by 12.1% to \$15.3 million mainly attributed to higher fee income from lending products. 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.

Group shareholders' funds as at 31 December 2018 totalled \$1,874 million (31 December 2017: \$1,742 million) amounting to \$4.20 per share (31 December 2017: \$3.91 per share).

There has been no forecast or prospect statement previously disclosed to shareholders in respect of the year ended 31 December 2018.

6. Commentary on Significant Trends and Competitive Conditions in the Industry

Based on Statistics from the Ministry of Trade and Industry, the Singapore economy grew by 1.9% on a year-on-year basis in the last quarter of 2018, easing from the 2.4% growth in the preceding quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 1.4%, unchanged from the third quarter. For the whole of 2018, the economy registered a growth of 3.2% which is lower than the 3.9% growth in 2017.

The manufacturing sector expanded by 5.1% on a year-on-year basis in the fourth quarter. This is faster than the 3.5% growth in the previous quarter. This sector's growth was mainly driven by the biomedical manufacturing, transport engineering and electronics clusters. However on a quarter-on-quarter seasonally-adjusted annualised basis, the manufacturing sector shrank by 2.7%, compared to a 0.7% growth in the third quarter. The construction sector continued to decline, contracting by 1.0% on a year-on-year basis in the fourth quarter. The decline in the previous quarter was 2.3%. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew at 5.1% compared to the 0.7% growth in the preceding quarter. The services producing industries expanded by 1.8% on a year-on-year basis in the fourth quarter, moderating from the 2.7% growth in the previous quarter. This growth was mainly supported by the finance and insurance, business services and information and communications sectors. On a quarter-on-quarter basis, the services producing industries grew at a seasonally-adjusted annualised rate of 2.8% compared to the 2.6% growth in the third quarter.

On the external front, the World Bank in its semi-annual Global Economic Prospects report cautioned that the global economy is going through a difficult period with risks rising and the growth of the world economy expected to slow to 2.9%. With the trade conflict between the world's two largest economic powers not resolved; rising interest rates; escalating Middle East conflicts and the uncertainties arising from the UK Prime Minister's Brexit deal, the Singapore economy is likely to face a challenging period with growth momentum in the external oriented industries easing and the recovery in the domestic sector losing steam.

Against this backdrop of volatility and uncertainty, Hong Leong Finance will continue with its approach of focusing on risks management and knowing our customers well. To satisfy our customers' needs, we rolled out competitive and attractive deposit campaigns. Innovative financing packages help the SMEs cash flows and their operating costs. To assist the HDB buyers we also launched attractive and affordable packages. We partner Enterprise Singapore in some of our SME packages. We are also working closely with the car dealers to help them to simplify the car buying application process. A tie-up with Porsche Financial Services and Stuttgart Automobile has yielded mutually very positive results and benefits with Porsche Singapore receiving the best penetration award worldwide.

We are now embarking on our digital transformation journey. We are proceeding very carefully in this journey and want to ensure whatever we do will benefit the SMEs we serve; the individual customers that trust us with their deposits; and that we add value to all our customers in both their financial and operating needs.

7. Dividends

A Final Dividend of 10 cents per share (tax exempt one-tier) is recommended by the directors for approval by shareholders in respect of the year ended 31 December 2018. Subject to shareholders' approval at the Annual General Meeting to be held on 25 April 2019, the dividend will be payable on 22 May 2019.

Latest Year

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	10 cents per share
	Total Dividend	\$44,582,000*
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 12 September 2018)
	Dividend Type	Cash
	Dividend Rate	5 cents per share
	Total Dividend	\$22,289,000
	Tax Rate	Tax exempt one-tier

Previous Year

(i)	Name of Dividend	Final (Paid on 23 May 2018)
	Dividend Type	Cash
	Dividend Rate	9 cents per share
	Total Dividend	\$40,110,000
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 12 September 2017)
	Dividend Type	Cash
	Dividend Rate	4 cents per share
	Total Dividend	\$17,791,000
	Tax Rate	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at 31 December 2018. This amount is subject to change arising from the issue of shares upon exercise of options, if any, under the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme") between 31 December 2018 and the last day for exercise of options to determine shareholders' entitlement to the dividend.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) the Company issued the following 19,500 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.28	9,000
\$2.34	5,500
\$2.23	5,000
Total	<u>19,500</u>

- (ii) options to 216,400 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (iii) options to 105,500 shares under the Share Option Scheme to subscribe for shares granted on 25 September 2018 were not accepted.

As at the end of the year, unissued shares of the Company under option amounted to 16,187,455 shares (31 December 2017: 17,903,600 shares).

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 31 December 2018 and 31 December 2017. There were also no shares held as subsidiary holdings as at 31 December 2018 and 31 December 2017.

9. Accounting Policies

The Group adopted a new financial reporting framework, Singapore Financial Reporting Standards (International) (“SFRS(I)”) with effect from 1 January 2018. The financial statements have been prepared in accordance with SFRS(I). The initial application of the SFRS(I) did not have a significant impact on the Group’s financial statements, except for SFRS(I) 9 Financial Instruments.

SFRS(I) 9 came into effect on 1 January 2018. Two main areas applicable to the Group under this standard relate to classification and measurement of financial assets and liabilities, and impairment allowances of financial assets. Regulatory requirements in relation to credit loss provisioning have also been revised effective from the same date. Under SFRS(I) 9, there is no material impact in the area of classification and measurement. There is a reversal of collective allowance for doubtful debts and at the same time, the Group, as required under Revised MAS Notice 811, has set up a non-distributable regulatory loss allowance reserve account, as allowances under SFRS(I) 9 falls below the minimum regulatory loss allowance. At initial adoption on 1 January 2018, the Group accounted \$16.9 million as its regulatory loss allowance reserve account and booked a credit to accumulated profits amounting to \$39.2 million and to Statutory Reserve amounting to \$18.7 million.

Except as described above, the accounting policies and computation methods adopted in the audited financial statements for the year ended 31 December 2018 are consistent with those applied in the audited financial statements for the year ended 31 December 2017.

There are new standards, amendments to or interpretations of standards which are effective for annual periods beginning after 1 January 2018 with early application permitted. 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 and application of these new or amended 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.

The Group plans to apply SFRS(I) 16 initially on 1 January 2019, using the modified retrospective approach. The cumulative effect of adopting SFRS(I) 16 will be recognised as an adjustment to the opening balance of accumulated profits at 1 January 2019, with no restatement of comparative information. As at 1 January 2019, the Group estimates 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.

10. Closure of Books

Notice is hereby given that, subject to shareholders' approval of the payment of a final dividend of 10 cents per share in respect of the year ended 31 December 2018 at the Annual General Meeting to be held on 25 April 2019, 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 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 dividend. In respect of shares in the securities accounts with The Central Depository (Pte) Limited ("CDP"), the said dividend will be paid by the Company to CDP which will distribute the said dividend to holders of the securities accounts.

11. Shareholders' Mandate for Interested Person Transactions

The Company has not sought any shareholders' mandate for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("Listing Rules").

12. Disclosure of person occupying a managerial position in the Company or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company pursuant to Rule 704(13) of the Listing Rules

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Kwek Leng Beng	78	Cousin of Mr Kwek Leng Peck and Mr Kwek Leng Kee; and uncle of Mr Kevin Hangchi.	Chairman/Managing Director Full responsibilities as Chief Executive Officer. Managing Director of the Company since March 1979. Chairman of the Company since 1984.	-

BY ORDER OF THE BOARD
YEO SWEE GIM, JOANNE
COMPANY SECRETARY

Dated this 27th day of 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 14 to 73.

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.

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.

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.
- 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