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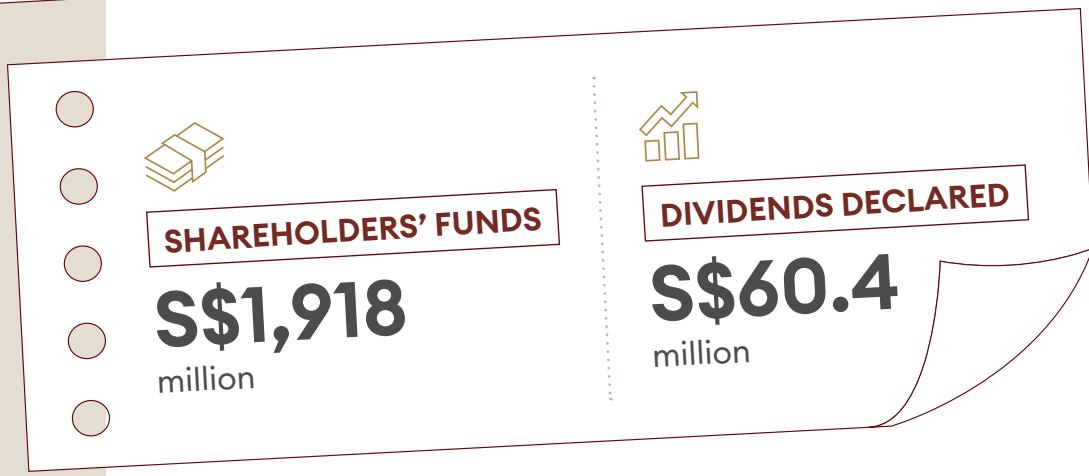
**RESILIENCE
IN THE MIDST
OF CHANGE**

This year's annual report features a Word Search puzzle symbolising our aim to be creative forward thinkers with effective problem-solving skills. Even as the world continues to grapple with the impact of the Covid-19 pandemic, Hong Leong Finance stays focused on the future and seeks to enhance resilience in the midst of change. Building on our experience and expertise, we remain steadfast in identifying opportunities and delivering innovative solutions for our customers. As an SME specialist, we understand what it takes to empower businesses and individuals, to help them overcome challenges and keep up with evolving times.

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 for our business and individual customers. As an 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.



AWARDS AND ACCOLADES

ASEAN FINANCE COMPANY OF THE YEAR

HLF continued to be recognised at the Asian Banking & Finance Retail Banking Awards, with its seventh consecutive win as ASEAN Finance Company of the Year. The title honours outstanding Asian financial institutions that have responded well to challenges and introduced meaningful and innovative initiatives to the ever-transforming industry.

TOP 1000 WORLD BANKS & TOP 100 ASEAN BANKS



HLF was ranked among the Top 1000 World Banks and Top 100 ASEAN Banks by *The Banker* for the third consecutive year for its robust Tier 1 capital, a recognition of the company's financial strength.

TOP 100 SINGAPOREAN BRANDS

HLF was once again listed among the Top 100 Singaporean Brands for the third year running, with its brand value quadrupling from US\$14 million to US\$64 million.



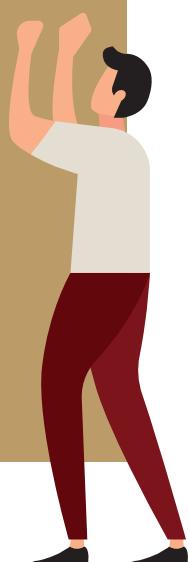
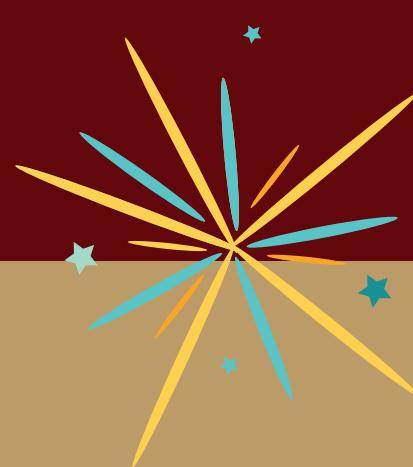
2019 – 2020 AWARDS

2020 Awards

- **Top 1000 World Banks 2020**
The Banker
- **Top 100 ASEAN Banks 2020**
The Banker
- **ASEAN Finance Company 2020**
Asian Banking &
Finance Retail Banking Awards
- **Singapore Exchange Regulation
Fast Track 2019 – 2020**
Singapore Exchange Fast Track
- **Top 100 Singaporean Brands 2020**
Brand Finance
- **Excellence in Programmatic Marketing –
Silver 2020**
Marketing Excellence Awards
- **Global Top Contributor Award 2019**
Porsche Financial Services

2019 Awards

- **Top 1000 World Banks 2019**
The Banker
- **Top 100 ASEAN Banks 2019**
The Banker
- **ASEAN Finance Company & Best
Mortgage Loan Singapore 2019**
Asian Banking &
Finance Retail Banking Awards
- **Most Transparent Company
(Finance – Runner-Up) 2019**
SIAS Investors' Choice Awards
- **Top 100 Most Valuable Brands
in Singapore 2019**
Brand Finance
- **Excellent Service Award 2019**
The Association of Banks
in Singapore
- **Global Top Contributor Award 2018**
Porsche Financial Services



FIVE-YEAR FINANCIAL SUMMARY

		FY2020	FY2019	FY2018	FY2017	FY2016
Capital Employed						
Total assets	\$ million	13,365	14,461	13,381	12,543	12,313
Net equity	\$ million	1,918	1,914	1,874	1,742	1,697
Net assets per share	\$	4.29	4.28	4.20	3.91	3.82
Share Capital						
Number of shares in issue	million	447.6	447.5	445.8	445.2	443.8
Loans and Deposits						
Loans net of allowances	\$ million	10,948	11,554	10,278	9,877	9,515
Deposits	\$ million	11,194	12,307	11,338	10,659	10,442
Profit and Retained Earnings						
Profit before tax	\$ million	74.7	123.9	142.1	103.0	64.0
Profit after tax	\$ million	63.9	103.1	118.3	85.7	53.1
Interim/final dividend(s) declared in the year	\$ million	60.4	67.0	62.4	44.5	44.4
Earnings retained for the year	\$ million	3.5	36.1	55.9	41.2	8.7
Earnings Per Share and Dividends						
Earnings per share	cents	14.3	23.1	26.6	19.3	12.0
Dividend – tax exempt one-tier*	cents	9.0	15.0	15.0	13.0	9.0
Times covered*		1.6	1.5	1.8	1.5	1.3
Number of Employees						
		617	640	634	628	624

* 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.

FINANCIAL HIGHLIGHTS



Total Assets
(\$ mil)

FY 2020	13,365
FY 2019	14,461

Loans Net Of Allowances
(\$ mil)

FY 2020	10,948
FY 2019	11,554

Deposits
(\$ mil)

FY 2020	11,194
FY 2019	12,307

Profit Before Tax
(\$ mil)

FY 2020	74.7
FY 2019	123.9

Profit After Tax
(\$ mil)

FY 2020	63.9
FY 2019	103.1

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

FY 2020	60.4
FY 2019	67.0

Earnings Per Share And Dividends
(cents)

FY 2020	14.3
FY 2019	23.1



CHAIRMAN'S STATEMENT



KWEK LENG BENG
Chairman

O PERATING PERFORMANCE

2020 was an unprecedented year with the global Covid-19 pandemic creating upheavals in everyone's daily life. Businesses and individuals were deeply affected as countries impose stringent controls including economy lockdown and border restrictions to curb the spread of coronavirus. Many companies' operations were disrupted and the impact was extended to staff and their families.

Making Your Well-Being Our Top Priority

At Hong Leong Finance (HLF), we put the well-being of our customers and staff as our top priority in the pandemic environment. In line with the Singapore government's efforts to promote social distancing, we temporarily closed some branches and SME Centres to enable a part of our staff force to work from home.

Our open branches observed the mandatory safe management measures. We also dedicated priority branch hours to serve the vulnerable customers, including those who are pregnant and aged.

Opening New Convenient Transaction Channels

Amidst a time of rapid change and disruption, HLF remains adaptable. We worked hard to roll out new transaction channels to continue serving our customers to meet their financial needs while encouraging them to stay at home and reduce branch visits.

We introduced online application for customers seeking for loan relief during this challenging time, accepted online instructions for deposit transactions including Fixed Deposit renewal, took in funds transfer via PayNow for deposit placement and made e-payments for funds withdrawals. These convenient contactless transaction channels have proven popular with our customers and many have become the new "normal" channels.

Staying True as a Financier

The impact of Covid-19 pandemic had caused many companies to suffer a dip in earnings and individuals to lose jobs and take pay cut. As a committed and prudent financier with robust risk management controls in place, HLF acted swiftly and responsibly by implementing loan relief schemes, such as mortgage loan moratoriums and loan period extensions, to tide our customers

through the economic difficulties. We continue to provide assistance to some who needed further help to restart their loan repayments in 2021 under Extended Support Scheme.

Collateral-free loans at competitive interest rates with processing fee waived were also offered to small and medium-sized enterprises (SMEs) with viable business models and potential to grow. We ran a digital outreach campaign to create awareness of the support we provide. We believe that rendering support to SMEs and individuals to weather the pandemic shock is crucial to our core business.

Embracing Resilience through Collaboration

To address the increasingly complex challenges and opportunities that constitute a new “climate for business”, our resilience planning involved multiple parties with varying interests, issues and goals.

We collaborated with business, government agencies and the community to be more resilient against systemic risks. Having strong networks of partners and agreed action plans are crucial. With the escalated growth of digital adoption partly driven by Covid-19 pandemic, together with our strategic partners like Inchcape and Porsche Financial Services Group (PFS), we launched a hassle-free car loan end-to-end digitalised secured platform that leveraged on SingPass authentication for loan application, approval and agreement delivery.

Govtech's MyInfo for efficient retrieval of consented applicant's personal data and automated rules engine for expedient underwriting were tapped on. The new loan platform was well-adopted by customers and we are looking forward to on-boarding more new partnerships onto it while we continue to fortify our relationships with the existing partners like PFS, which we won Porsche Financial Services' Global Top Contributor Award for three years running.

Retaining Personal Touch in Digital Transformation

We differentiate on service with our personal touch and it is important that we retain our brand's competitive edge. While we believe the acceleration in the adoption of digital services will become



**AMIDST A TIME OF RAPID
CHANGE AND DISRUPTION,
HLF REMAINS ADAPTABLE.
WE WORKED HARD TO ROLL
OUT NEW TRANSACTION
CHANNELS TO CONTINUE
SERVING OUR CUSTOMERS
TO MEET THEIR
FINANCIAL NEEDS.**



CHAIRMAN'S STATEMENT

a long-term shift in customer behavior, resulting in more of them turning to digital solutions and services, we are purposeful in our digital transformation about how we interact with customers in order to make the most of every interaction meaningful.

Customers value personal touch and want to be served as individuals especially when they are making important financial decisions, such as taking up their first loan for a house or factory or opening a first deposit account. They want to do it right the first time and so finding a trusted service is crucial. To this end, we believe that our staff are the ones who make the difference for us and digitalisation is an essential complementary service.

Innovating to Stay Relevant

Serving the current moment by adapting and innovating is paramount to stay relevant and ahead of the curve. Hence we keep an eye on the emerging market trends and anticipate customer needs so that we can serve them effectively.

Given the uncertainty in economic recovery, we reckon that keeping cash at hand matters more to customers than before. Many prefer to leave their aspirations, such as business expansion and asset acquisitions, unspoken. To address their concerns sustainably, we created innovative financing solutions based on the market dynamics. New flexible first-year-interest-payment-only Hire Purchase schemes for medical equipment and selected car makes were introduced. Customers were appreciative of the cash they could retain for not having to make principal repayment in the loan's first year. It is relevant schemes like these that have further boosted our base of connected customers.

In recognition of our outstanding performance, responsiveness to challenges and success in introducing meaningful and innovative initiatives to the fast-transforming financial industry, HLF was honoured ASEAN Best Finance Company Award for the seventh consecutive year by Asian Banking & Retail Banking. We are also humbled to be bestowed Top 100 Singaporean Brand Award for a third year by Brand Finance for being a strong and trustworthy brand.

Managing Risk and Compliance

While we drive towards success, continual assessment of our business and processes is vital to properly safeguard the interests of the Company and our customers and to comply with the stringent regulatory requirements.

To deal with heightened risks from contactless transactions and rising sophistication in cyberattacks, confidentiality issues, frauds and scams, we strengthened our risk management and control environment as well as our operational resilience. The scope included enhancement in non-face-to-face verifications, anti-money laundering and countering financing of terrorism transaction monitoring, enterprise-wide risk assessment and continuous staff education and awareness reinforcement of best practices and guidelines relating to data management.

We also maintained robust capital and healthy liquidity positions at all times to overcome potential stress arising from volatility, uncertainty, complexity and ambiguity attributable to changes in the operating environment such as the pandemic situation. HLF was named Top 1000 World Bank and Top 100 ASEAN Bank for three successive years by The Banker, a testament of our strong Tier 1 Capital.

OUTLOOK

2020 had been an extremely eventful and challenging year. We are cautiously optimistic that the operating environment for 2021 will improve with the containment of the pandemic both globally and domestically, mainly because of promising vaccine developments.

As we all try to respond to the pandemic, it is more apparent than ever that we are all responsible for one another. We will reach out wide and deep to build a more resilient organisation, supported by customers, partners, staff and communities, to create new value by fostering development and innovation and promoting financial inclusion.

The financial industry's operating environment is undergoing drastic changes, driven by the rapid digital transformation and the pandemic. We are paying close attention to the commercial risks and are positioned for growth when the economic rebound and consumers and business regain confidence for post-Covid-19 recovery.

APPRECIATION

I am sincerely grateful 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 2020.

On behalf of the Board of Directors, I wish to extend once again a warm welcome to Mr Christian Gautier de Charnace, who joined the Board on 5 August 2020 as Independent Non-Executive

Director. I am sure the Company will benefit from his contributions from his management and professional experience and am confident that he will provide further diversity to the core competencies of the Board and allow for fresh perspectives on the Company's strategies and business. I would also like to express our heartfelt gratitude to Mr Chng Beng Hua, Mr Cheng Shao Shiong @ Bertie Cheng, Mr Po'ad bin Shaik Abu Bakar Mattar and Mr Raymond Lim Kiang Keat for their invaluable contributions to HLF since their appointment to the Board in July 2000, April 2004, April 2009 and March 2012 respectively. They will be stepping down from the Board upon the conclusion of the Company's annual general meeting to be held in April 2021.

KWEK LENG BENG
Chairman
25 February 2021



B U I L D I N G
O N R E S I L I E N T
P A R T N E R S H I P S



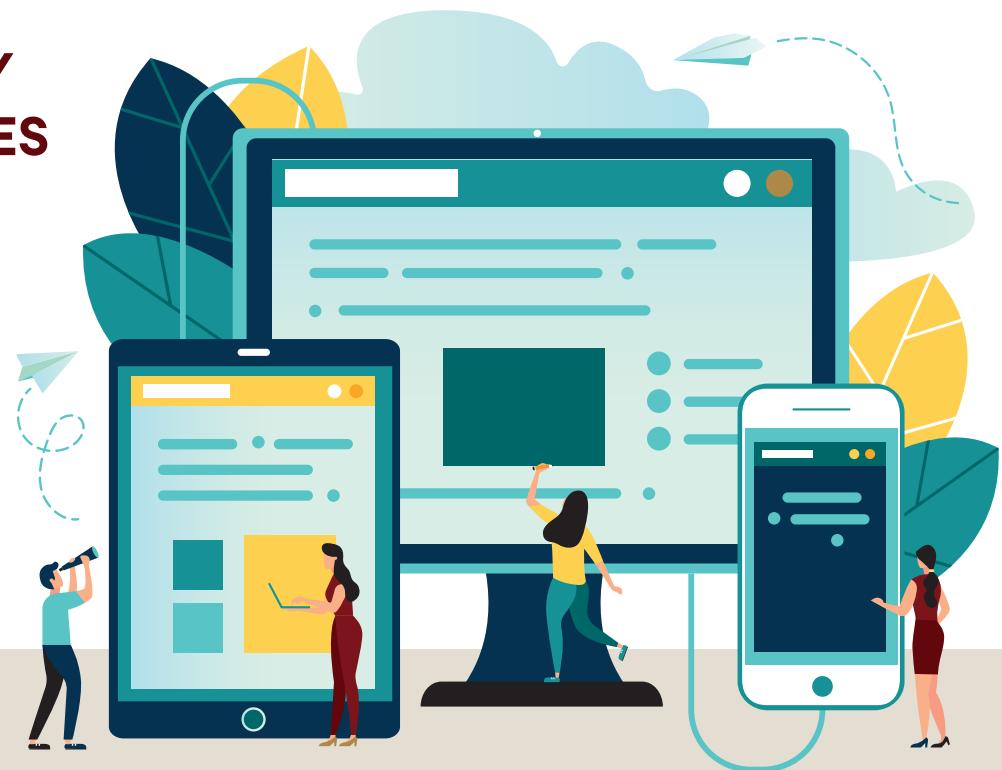
Developing stronger customer connections with personalised and holistic financial services

There is no better way to strengthen ties than overcoming obstacles together.

In light of the effects of the global pandemic, HLF sought to help our customers by introducing new initiatives as well as developing Covid-19 loan relief measures such as collateral-free loans and loan deferments to help individuals and SMEs navigate new challenges.



DIRECTORY OF SERVICES



SME LOANS

- Accounts Receivable Financing
- Enterprise Finance Scheme (EFS)
 - SME Fixed Assets
 - SME Working Capital
 - Temporary Bridging Loan (available till 30 Sep 2021)
 - Trade
- Equipment Loan
- HDB SME Loan
- Hire Purchase
- Medical Asset Financing
- Property Development Loan
- SME CARE Programme
- SME Property Loan
- Suppliers' Invoice Financing / Letters of Credit
- Term Loan / Credit Line

CORPORATE FINANCE

- Mainboard Issue Manager for SGX listing
- 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

Independent

Non-Executive Directors

Chng Beng Hua
Cheng Shao Shiong @ Bertie Cheng

Ter Kim Cheu

Raymond Lim Siang Keat

Peter Chay Fook Yuen

Tan Tee How

Tan Siew San

Christian Gautier de Charnace

Non-Independent

Non-Executive Directors

Kwek Leng Peck

Kwek Leng Kee

Kevin Hangchi

EXECUTIVE COMMITTEE

Kwek Leng Beng
Chairman

Kwek Leng Peck
also as alternate to Chairman

Cheng Shao Shiong @ Bertie Cheng
Independent

Ter Kim Cheu
Independent

Raymond Lim Siang Keat
Independent

AUDIT COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar
Independent, Chairman

Ter Kim Cheu
Independent

Tan Tee How
Independent

BOARD RISK COMMITTEE

Cheng Shao Shiong @ Bertie Cheng
Independent, Chairman

Kwek Leng Beng

Kwek Leng Peck

Kevin Hangchi

Raymond Lim Siang Keat
Independent

Peter Chay Fook Yuen
Independent

Tan Tee How
Independent

NOMINATING COMMITTEE

Cheng Shao Shiong @ Bertie Cheng
Independent, Chairman

Kwek Leng Beng

Po'ad bin Shaik Abu Bakar Mattar
Independent

REMUNERATION COMMITTEE

Peter Chay Fook Yuen
Independent, Chairman

Cheng Shao Shiong @ Bertie Cheng
Independent

Ter Kim Cheu
Independent

HONG LEONG FINANCE SHARE OPTION SCHEME 2001 COMMITTEE

Peter Chay Fook Yuen
Independent, Chairman

Kwek Leng Peck

Cheng Shao Shiong @ Bertie Cheng
Independent

Ter Kim Cheu
Independent

BOARD SUSTAINABILITY COMMITTEE

Ter Kim Cheu
Independent, Chairman

Kevin Hangchi

Tan Siew San
Independent

PRESIDENT

Ang Tang Chor
(Please refer to page 39 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
BNP Paribas
CIMB Bank Berhad
DBS Bank Ltd
HL Bank
Industrial and Commercial Bank
of China
Malayan Banking Berhad
Mizuho Bank, Limited
Oversea-Chinese Banking
Corporation Limited
Sumitomo Mitsui Banking
Corporation
Sumitomo Mitsui Trust Bank
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. The Company is ranked among the Top 1000 World Banks and Top 100 ASEAN Banks by The Banker. 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.

HLF’s core business involves taking deposits and savings from the public and providing financing solutions and services that include corporate and consumer loans, government assistance for SMEs, corporate finance and advisory services.

THE SME SPECIALIST

As an SME Specialist with close to six decades of experience in serving the SME community, HLF has supported many local business enterprises

with customised financial solutions that enabled them to operate successfully and expand swiftly.

To help them achieve greater efficiency and scale greater heights, the Company was the first to launch a Business Current Account in 2007 and is the only one among the finance companies with full sponsorship status for the SGX Catalyst Board. We provide financial advisory and fundraising services to SMEs aiming to list on Catalyst, support companies in their mergers and acquisitions and underwrite the sale of shares by listed companies.

In our quest to maintain market leadership and deliver services effectively to our SME customers, HLF maintains a strong network of 12 SME Centres within our branch network 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.





THE FRIENDLY NEIGHBOURHOOD BRANCH

Our 28 branches are strategically situated in Singapore and 27 of them are located in residential estates where our customers live and play. Over the years, we have earned their trust and pride ourselves in offering personalised services to them and meeting their daily needs. The HLF brand has become a household name and is recognised among the Top 100 Singaporean Brands by Brand Finance.

A SUSTAINABLE BUSINESS OPERATION

We are a customer-centric organisation, committed to delivering purposeful value propositions and innovative financial solutions to stay relevant. We embrace a high service culture by regularly upskilling our staff, proactively digitalising our processes and constantly upgrading our systems to create the best customer experience.

We believe in conducting our business profitably, responsibly and sustainably by considering the environment, social and governance factors as we actively seek growth opportunities and robustly identify risks.

**AT HLF, WE ARE COMMITTED
TO PROVIDING COMPLETE
FINANCIAL SOLUTIONS TO
BOTH BUSINESS AND
RETAIL CUSTOMERS.**



BOARD OF DIRECTORS



KWEK LENG BENG



KWEK LENG PECK



KWEK LENG KEE



KEVIN HANGCHI



CHNG BENG HUA



CHEN SHAO SHIONG @ BERTIE CHENG



PO'AD BIN SHAIK ABU BAKAR MATTAR



TER KIM CHEU



RAYMOND LIM SIANG KEAT



PETER CHAY FOOK YUEN



TAN TEE HOW



TAN SIEW SAN



CHRISTIAN GAUTIER DE CHARNACE



BOARD OF DIRECTORS

KWEK LENG BENG / 80

CHAIRMAN
EXECUTIVE DIRECTOR

First appointment as Director

1 March 1979

Appointment as Executive Chairman

28 November 1984

Last re-election as Director

26 April 2018

Will be seeking re-election at the
2021 Annual General Meeting

Board committees

- Executive Committee (Chairman)
- Board Risk Committee (Member)
- Nominating Committee (Member)

Present directorships in other listed companies and principal commitments

- City Developments Limited* (“CDL”) (Chairman/Executive Director)
- Hong Leong Investment Holdings Pte. Ltd (Executive Chairman)
- Millennium & Copthorne Hotels Limited (Executive Chairman)

Other appointments

- Singapore Hotel Association (Member)
- Singapore Institute of Directors (Fellow)

Past directorships in other listed companies and principal commitments held in the preceding three years

- Millennium & Copthorne Hotels plc (Non-Executive Chairman) (*delisted and privatized in 2019 and now known as Millennium & Copthorne Hotels Limited*)

Mr Kwek 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 Hong Leong Finance Limited). He also has vast experience in real estate business, having joined CDL in the late 1960s and since then has contributed significantly to building CDL's more than five decades of track record, growing the CDL group's hospitality arm and has been actively involved in its development into Singapore's largest international hotel group and one of the largest hotel owners and operators in the world. Mr Kwek is also experienced in the trading and manufacturing sectors.

Mr Kwek has received numerous accolades. In 1997, 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 as rated by shareholders. In 2014, he received the inaugural Real Estate Developers' Association of Singapore (REDA) 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 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. 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.

In 2020, Mr Kwek received on behalf of Hong Leong Group, the EY Family Business Award of Excellence. It celebrated the Group's successful, sustainable and long-term oriented strategy, effective and transparent corporate governance approach, and significant socio-economic contributions.

Mr Kwek holds a law degree, LL.B. (London) and is also a fellow of The Institute of Chartered Secretaries and Administrators. 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).

Note:

Hong Leong Investment Holdings Pte. Ltd. is the immediate and ultimate holding company of the Company. City Developments Limited (“CDL”) is a related company under the Hong Leong Group of companies. Millennium & Copthorne Hotels Limited is a subsidiary of CDL.

* Listed company

KWEK LENG PECK / 64**NON-EXECUTIVE AND
NON-INDEPENDENT DIRECTOR****First appointment as Director**

1 January 1998

Last re-election as Director

25 April 2019

Will be seeking re-election at the
2021 Annual General Meeting**Board committees**

- Executive Committee (Member, and also as alternate to the Chairman)
- Board Risk Committee (Member)
- Hong Leong Finance Share Option Scheme 2001 Committee (Member)

**Present directorships in other listed companies and
principal commitments**

- Hong Leong Asia Ltd.* (“HLA”) (Executive Chairman)
- Tasek Corporation Berhad (Non-Executive Chairman)
- China Yuchai International Limited* (Non-Executive Director)
- Hong Leong Investment Holdings Pte. Ltd. (Executive Director)
- Hong Leong Corporation Holdings Pte. Ltd. (Executive Director)

Other appointments

Nil

**Past directorships in other listed companies and
principal commitments held in the preceding
three years**

- City Developments Limited* (Non-Executive Director)
- Millennium & Copthorne Hotels plc (Non-Executive Director) (*delisted and privatized in 2019 and now known as Millennium & Copthorne Hotels Limited*)
- Tasek Corporation Berhad (Non-Executive Chairman) (*delisted and privatized in August 2020*)

Mr Kwek has many years of experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management as well as extensive involvement in Hong Leong Group real estate developments, investments and hotel operations.

With his in-depth knowledge of the HLA group business, Mr Kwek has overseen the growth of the HLA group over the last three decades from an integrated building materials group in the 1980s and 1990s to being also a major player in the consumer products and diesel engines industries in China beginning in the 2000s.

Note:

Hong Leong Investment Holdings Pte. Ltd. is the immediate and ultimate holding company of the Company. Hong Leong Asia Ltd., Tasek Corporation Berhad, China Yuchai International Limited, Hong Leong Corporation Holdings Pte. Ltd. are related companies under the Hong Leong Group of companies.

* Listed company

BOARD OF DIRECTORS

KWEK LENG KEE / 66

NON-EXECUTIVE AND
NON-INDEPENDENT DIRECTOR

First appointment as Director

1 September 2001

Last re-election as Director

26 April 2018

Will be seeking re-election at the
2021 Annual General Meeting

Board committees

Nil

Present directorships in other listed companies and principal commitments

- Hong Leong Holdings Limited (“HLH”)
(Assistant Managing Director)
- Tripartite Developers Pte. Limited (Director)

Other appointments

Nil

Past directorships in other listed companies and principal commitments held in the preceding three years

Nil

Mr Kwek has more than 35 years of experience in property investment, property development and the building and construction materials business. As the Assistant Managing Director of HLH, he spearheaded the establishment, and oversees the operation, of its subsidiary in Chengdu, People's Republic of China since 2012. Prior to that, he also had many years of experience in a large Beijing project which was successfully completed in 1996. He continues to be a director of Beijing Hong Gong Garden Villa House Property Development Co., Ltd.

He was also appointed as Justice of the Peace by the Prime Minister's Office in May 2008 and was also awarded the Public Service Medal (PBM) in 1998, Public Service Star (BBM) in 2004 and the Public Service Star (Bar) on National Day 2014 in recognition of his significant contributions in public service and community work and support towards Singapore.

Note:

Hong Leong Investment Holdings Pte. Ltd. is the immediate and ultimate holding company of the Company. Hong Leong Holdings Limited and Tripartite Developers Pte. Limited are related companies under the Hong Leong Group of companies.

KEVIN HANGCHI / 48

NON-EXECUTIVE AND
NON-INDEPENDENT DIRECTOR

First appointment as Director

1 October 2016

Last re-election as Director

25 June 2020

Board committees

- Board Risk Committee (Member)
- Board Sustainability Committee (Member)

Present directorships in other listed companies and principal commitments

- Millennium & Copthorne Hotels New Zealand Limited* (Non-Executive Director)
- Hong Leong Management Services Pte Ltd (Senior Vice President)

Other appointments

Nil

Past directorship in other listed companies and principal commitments held in the preceding three years

Nil

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.

Note:

Hong Leong Investment Holdings Pte. Ltd. is the immediate and ultimate holding company of the Company. Millennium & Copthorne Hotels New Zealand Limited and Hong Leong Management Services Pte Ltd are related companies under the Hong Leong Group of companies.

* Listed company

CHNG BENG HUA / 55

NON-EXECUTIVE AND
INDEPENDENT DIRECTOR

First appointment as Director

1 July 2000

Last re-election as Director

25 June 2020

Will be stepping down upon the conclusion of the
2021 Annual General Meeting

Board committees

Nil

**Present directorships in other listed companies and
principal commitments**

- International Cement Group Ltd*
(Executive Director)
- Compact Metal Industries Ltd (Executive Director)

Other appointments

Nil

**Past directorships in other listed companies and
principal commitments held in the preceding
three years**

- Compact Metal Industries Ltd (Chief Executive
Officer) (*delisted and privatized in 2019*)

Mr Chng has many years of working experience in finance, management of hotel and service apartment, and real estate development. He sits on the board of Orchard Grand Court Pte Ltd which owns a serviced apartment consisting of 186 units, and Orchid Hotel Pte Ltd which owns a hotel with 272 guestrooms. He also sits on the board of International Cement Group Ltd as an Executive Director.

He holds a Bachelor of Business Administration (Finance) from the University of Texas, Austin, USA.

CHENG SHAO SHIONG @ BERTIE CHENG / 83

NON-EXECUTIVE AND
INDEPENDENT DIRECTOR

First appointment as Director

23 April 2004

Last re-election as Director

25 April 2019

Will be stepping down upon the conclusion of the
2021 Annual General Meeting

Board committees

- Executive Committee (Member)
- Board Risk Committee (Chairman)
- Nominating Committee (Chairman)
- Remuneration Committee (Member)
- Hong Leong Finance Share Option Scheme 2001
Committee (Member)

**Present directorships in other listed companies and
principal commitments**

- Pacific Andes Resources Development Limited*
(Non-Executive Director)
- Baiduri Bank Bhd, Brunei (Non-Executive Director)
- Baiduri Finance Bhd, Brunei (Non-Executive Director)

Other appointments

- Singapore General Hospital, Medifund Committee
(Chairman)
- Consumers Association of Singapore (CASE)
Endowment Fund, Board of Trustees (Vice-
Chairman)
- POSBank (Advisor)

**Past directorship in other listed companies and
principal commitments held in the preceding
three years**

- TEE International Limited* (Non-Executive Chairman)
- TeleChoice International Limited* (Non-Executive
Chairman)

Mr Cheng retired as the Chief Executive Officer of POSBank in July 1997 and was appointed as Advisor to POSBank on 1 June 2010. Mr Cheng was also the Group Managing Director of Thomson Medical Centre Limited from March 1999 to March 2001. 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.

Mr Cheng holds a Bachelor of Arts Degree in Economics (Honours) from the then University of Malaya in Singapore.

* Listed company

BOARD OF DIRECTORS

PO'AD BIN SHAIK ABU BAKAR MATTAR / 73

NON-EXECUTIVE AND
LEAD INDEPENDENT DIRECTOR

First appointment as Director

24 April 2009

Appointed Lead Independent Director on
1 September 2010

Last re-election as Director

25 April 2019

Will be stepping down upon the conclusion of the
2021 Annual General Meeting

Board committees

- Audit Committee (Chairman)
- Nominating Committee (Member)

Present directorships in other listed companies and principal commitments

- Public Service Commission (Member)
- National University of Singapore (Pro-Chancellor)

Other appointments

Nil

Past directorships in other listed companies and principal commitments held in the preceding three years

- Council of Presidential Advisers (Member)

Mr Mattar was the former Senior Partner of Deloitte & Touche until his retirement in March 2006. Mr Mattar also sits on other bodies in both the private and public sectors.

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.

TER KIM CHEU / 74

NON-EXECUTIVE AND
INDEPENDENT DIRECTOR

First appointment as Director

1 September 2010

Last re-election as Director
25 June 2020

Board committees

- Board Sustainability Committee (Chairman)
- Audit Committee (Member)
- Executive Committee (Member)
- Remuneration Committee (Member)
- Hong Leong Finance Share Option Scheme 2001 Committee (Member)

Present directorships in other listed companies and principal commitments

Nil

Other appointments

Nil

Past directorships in other listed companies and principal commitments held in the preceding three years

- Kimly Limited* (Non-Executive Director)

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 is a member of the Strata Titles Board of Singapore. 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.

* Listed company

RAYMOND LIM SIANG KEAT / 61

NON-EXECUTIVE AND
INDEPENDENT DIRECTOR

First appointment as Director

1 March 2012

Last re-election as Director

26 April 2018

Will not be seeking re-election at the
2021 Annual General Meeting

Board committees

- Executive Committee (Member)
- Board Risk Committee (Member)

**Present directorships in other listed companies and
principal commitments**

- Raffles Medical Group Limited *
(Independent Director)
- Swire Properties Limited * (Non-Executive Director)
- APS Asset Management Pte Ltd (Executive Chairman)

Other appointments

- Swire Group (Senior Advisor), a Hong Kong-based
industrial conglomerate
- Lee Kuan Yew School of Public Policy, National
University of Singapore (Adjunct Professor)
- Nanyang Centre of Public Administration, Nanyang
Technological University (Adjunct Professor)

**Past directorships in other listed companies and
principal commitments held in the preceding
three years**

Nil

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.

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.

* Listed company

Information as at 25 February 2021

PETER CHAY FOOK YUEN / 61

NON-EXECUTIVE AND
INDEPENDENT DIRECTOR

First appointment as Director

11 June 2019

Last election as Director

25 June 2020

Board committees

- Board Risk Committee (Member)
- Remuneration Committee (Chairman)
- Hong Leong Finance Share Option Scheme 2001
Committee (Chairman)

**Present directorships in other listed companies and
principal commitments**

Nil

Other appointments

Nil

**Past directorships in other listed companies and
principal commitments held in the preceding
three years**

Nil

He has over 30 years of experience in auditing and advisory work across various industries, primarily in real estate, financial institutions and healthcare, and specific experience in corporate restructuring, insolvency and corporate finance related work.

He retired from the Company's current audit firm, KPMG LLP in September 2017. At the time of his retirement, he was the Deputy Managing Partner, a position he held since 2010. Prior to his appointment as Deputy Managing Partner, he was the Head of Financial Advisory Services (2005 to 2009) and had direct oversight responsibility over services provided by various business units including restructuring, merger and acquisition, transaction advisory services and forensic accounting. During the preceding years prior to his retirement from KPMG LLP, he was particularly active in the provision of corporate restructuring and insolvency services, acting as liquidator, receiver and manager and judicial manager on a number of engagements.

Mr Chay graduated with a Bachelor of Commerce majoring in Accounting, Finance and Systems from the University of New South Wales, Australia. He is a Fellow of the Institute of Singapore Chartered Accountants and a member of the Institute of Chartered Accountants in Australia. He is also an approved liquidator.

BOARD OF DIRECTORS

TAN TEE HOW / 61

NON-EXECUTIVE AND
INDEPENDENT DIRECTOR

First appointment as Director

11 June 2019

Last election as Director

25 June 2020

Board committees

- Audit Committee (Member)
- Board Risk Committee (Member)

Present directorships in other listed companies and principal commitments

- Chip Eng Seng Corporation Ltd* (“CES”) (Executive Director)
- Casino Regulatory Authority of Singapore (Chairman)
- National Healthcare Group (Deputy Chairman)

Other appointments

- Panel of Experts, Singapore Co-operation Enterprise (Member)

Past directorships in other listed companies and principal commitments held in the preceding three years

- Commissioner of Inland Revenue of Singapore (“IRAS”) and concurrently the Chief Executive Officer (“CEO”) of IRAS

Prior to his joining CES in February 2018, Mr Tan had served 34 years in the Singapore Administrative Service, holding various key appointments, including Principal Private Secretary to the then-Prime Minister, Mr Goh Chok Tong (from 1997 to 2000) and founding CEO of National Healthcare Group (from 2000 to 2004). He was the Permanent Secretary of the Ministry of National Development (from 2004 to 2011) and of the Ministry of Home Affairs (from 2011 to 2014). From 2014 to 2018, he was the Commissioner of IRAS and concurrently the CEO of IRAS. Mr Tan retired from public service in 2018.

He holds a Bachelor of Business Administration (Honours) Degree from the National University of Singapore and a Master of Public Administration Degree from Harvard University. He attended the Wharton Business School Advanced Management Programme in 2002. He was awarded a Fulbright Fellowship in 1989/90.

TAN SIEW SAN / 69

NON-EXECUTIVE AND
INDEPENDENT DIRECTOR

First appointment as Director

11 June 2019

Last election as Director

25 June 2020

Board committees

- Board Sustainability Committee (Member)

Present directorships in other listed companies and principal commitments

- DOD Biotech Public Company Limited* (Independent Director)
- Triton Holding Public Company Limited* (Independent Director)

Other appointments

Nil

Past directorships in other listed companies and principal commitments held in the preceding three years

- Ambassador Extraordinary and Plenipotentiary to the Kingdom of Thailand
- P5 Capital Holdings Ltd.* (Independent Director)

Ms Tan was Singapore’s Ambassador to the Kingdom of Thailand from March 2012 to May 2019, and retired from the Singapore civil service in June 2019. She started her career as an analyst in the Ministry of Defence (“Mindef”) in 1974 and headed the Research department in Mindef from 1983 to 1995. Appointed Deputy Secretary (Policy) in Mindef in 1995, her area of responsibilities included strategic issues, defence relations, national education, military security and public affairs. She was appointed Deputy Secretary (Asia Pacific) in the Ministry of Foreign Affairs in October 2006, which appointment was held until her posting as Ambassador to Thailand in March 2012.

During her public service career, Ms Tan was awarded the Public Administration Medal (Silver) in 1990 and the Public Administration Medal (Gold) in 1999.

A graduate with a Bachelor of Social Science (Political Science), Second Class Honours (Upper) from the University of Singapore, she also obtained a Master of Arts (Political Science) from the University of Wisconsin-Madison, USA on a Fulbright-Hays scholarship.

* Listed company

CHRISTIAN GAUTIER DE CHARNACE / 71**NON-EXECUTIVE AND
INDEPENDENT DIRECTOR****First appointment as Director**

5 August 2020

Last re-election as Director

Not applicable

Will be seeking election at the
2021 Annual General Meeting**Board committees**

Nil

**Present directorships in other listed companies and
principal commitments**

- Golden Agri-Resources Ltd*
(Independent Director)
- PT BNP Paribas Sekuritas Indonesia
(Independent President Commissioner on the
Board of Commissioners)

Other appointments

Nil

**Past directorships in other listed companies and
principal commitments held in the preceding
three years**

- Millennium & Copthorne Hotels plc (Independent
Director) (*delisted and privatized in 2019, and now
known as Millennium & Copthorne Hotels Limited*)
- The Hong Kong Country Club (Director)

Mr de Charnace has over 40 years of broad and diversified international banking experience in corporate and institutional banking and had held various executive management positions having

responsibilities in the areas of corporate finance, investment banking, fund raising, capital markets and advisory transactions for clients.

He currently sits on the boards of Golden Agri-Resources Ltd as an Independent Director ("ID") and PT BNP Paribas Sekuritas Indonesia as an Independent President Commissioner. He was previously an ID of Millennium & Copthorne Hotels plc (now known as Millennium & Copthorne Hotels Limited), a related corporation of Hong Leong Finance Limited, until its delisting from the London Stock Exchange in October 2019.

Mr de Charnace was Chief Executive Officer Investment Banking Asia Pacific at BNP Paribas ("BNP") prior to retiring in 2017, having held that position since 2013. He was with BNP since 1980. During his tenure with BNP, he was Head of Paribas branches and region in Seoul, Taipei and Los Angeles / Western US region (1980 - 1990); Managing Director and Head of Asia Pacific region based in Paris (1991 - 1993); Managing Director and successively Head of Capital Markets and Corporate Finance for Asia Pacific based in London, Singapore, Hong Kong, Tokyo and Hong Kong (1993 - 2013). Mr de Charnace started his career in banking at Bank of America and he was Vice President of Multinational Division Paris and Houston (1973 to 1980).

Mr de Charnace graduated from Institut d'Etudes Politiques de Paris in Economy and Finance, and he also holds a Bachelor's degree from the University of Law in Paris.

* Listed company



C	U	L	T	I	V	A	T	I	N	G
R	E	S	I	L	I	E	N	T		
I	N	I	T	I	A	T	I	V	E	S



**Developing strategies to enhance
operational efficiencies and
empower business communities**

To keep up with changing times, we continued to tap into innovative solutions and embraced digitisation to pave the way for the future of banking. In addition to digitising processes, we focused on our employees' development in core, adaptive and future-enabled skills, and managed growth and risk in an ESG environment.

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, which is essential for the long-term sustainability of the Group’s businesses and the enhancement of shareholders’ value.

HLF has been placed on the SGX Fast Track programme since November 2019. This programme was launched by Singapore Exchange Regulation (SGX RegCo) in recognition of listed companies which have maintained good corporate governance standing and compliance track record. Companies under this programme will receive prioritised clearance on selected corporate action submissions to SGX RegCo.

The Company has complied with Rule 710 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“Listing Manual”) by describing in this report its corporate governance (“CG”) practices with specific reference to the principles and provisions in the Code of Corporate Governance (“2018 Code”). Where the Company’s practices differ from the principles under the 2018 Code, these differences and the Company’s position in respect of the same are explained in this report.

BOARD OF DIRECTORS

Mr Kwek Leng Beng
Executive Chairman & Managing Director

Non-executive and Non-independent Directors

Mr Kwek Leng Peck
Mr Kwek Leng Kee
Mr Kevin Hangchi

Independent Directors

Mr Po’ad Mattar, Lead Independent Director
Mr Chng Beng Hua
Mr Bertie Cheng
Mr Ter Kim Cheu
Mr Raymond Lim
Mr Peter Chay
Mr Tan Tee How
Ms Tan Siew San
Mr Christian de Charnace

KEY OBJECTIVES

Provides leadership by setting the strategic objectives of the Company together with the Senior Management team to achieve long-term success for the Company. Oversees the performance of the Company for accountability to shareholders by ensuring that necessary financial, operation and human resources are in place for the Company to meet its strategic objectives, which are supported by an adequate and effective system of risk management and internal controls.

BOARD COMMITTEE	COMPOSITION	KEY OBJECTIVES
Executive Committee	Mr Kwek Leng Beng <i>(chairman)</i> Mr Kwek Leng Peck <i>(also as alternate to chairman)</i> Mr Bertie Cheng Mr Ter Kim Cheu Mr Raymond Lim	Deliberates on Board matters between Board meetings and approves banking-related matters and acquisition and divestment transactions up to certain limits.
Audit Committee	Mr Po'ad Mattar <i>(chairman)</i> Mr Ter Kim Cheu Mr Tan Tee How	Assists the Board in the review of the Company's financial reporting, internal accounting controls and audit function.
Board Risk Committee	Mr Bertie Cheng <i>(chairman)</i> Mr Kwek Leng Beng Mr Kwek Leng Peck Mr Kevin Hangchi Mr Raymond Lim Mr Peter Chay Mr Tan Tee How	Assists the Board on matters relating to the review and management of the Company's key risks under a risk management framework.
Nominating Committee	Mr Bertie Cheng <i>(chairman)</i> Mr Kwek Leng Beng Mr Po'ad Mattar	Assists the Board in its succession plan through the review of board size, composition and skills set and provides recommendations on the independence of directors, appointment, re-nomination and retirement of Directors. Assists the Board in the evaluation of the performance of the Board, the Board Committees and the Directors
Remuneration Committee	Mr Peter Chay <i>(chairman)</i> Mr Bertie Cheng Mr Ter Kim Cheu	Assists the Board in the review and determination of the remuneration of the Board and the Key Management Personnel, including setting appropriate remuneration frameworks and policies to reflect a performance-based remuneration system.
Hong Leong Finance Share Option Scheme 2001 Committee	Mr Peter Chay <i>(chairman)</i> Mr Kwek Leng Peck Mr Bertie Cheng Mr Ter Kim Cheu	Reviews and approves the grant of options to eligible participants pursuant to the terms of the Company's Share Option Scheme.
Board Sustainability Committee	Mr Ter Kim Cheu <i>(chairman)</i> Mr Kevin Hangchi Ms Tan Siew San	Assists the Board in the review of the Company's sustainability issues, initiatives and performance and reviews the Company's sustainability reports.

CORPORATE GOVERNANCE 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 66 to 83 of this Annual Report 2020 ("AR").

Directors' Objective Discharge of Duties and Declaration of Interests (Provision 1.1)

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, and in the case of any conflicts or potential conflicts of interests, 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.

Accountability of the Board and Management (Provision 1.1)

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.

Board Orientation and Training (Provision 1.2)

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 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 required to also attend certain specific modules of the Listed Entity Director ("LED") Programme conducted by the Singapore Institute of Directors ("SID") to acquire relevant knowledge of what is expected of a listed company director, this being a mandatory requirement under the Listing Manual. 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 Listing Manual and the 2018 Code.

Mr Christian Gautier de Charnace was appointed as an independent non-executive Director in August 2020. He attended the induction programmes conducted by the Company and was given an update by key Management on the Company's business and operations including an overview of the organizational structure, key internal controls, roles and responsibilities of the various departments, and given a Directors' manual by the Company Secretary which includes, *inter alia*, the Company's internal corporate governance practices, and directors' duties and responsibilities pursuant to the relevant legislation. Mr de Charnace has prior experience as a director of a Singapore listed company.

The Directors are provided with updates and/or briefings from time to time by professional advisors, 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

CORPORATE GOVERNANCE REPORT

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.

Three in-house seminars/webinars were conducted by invited external speakers in 2020, on the following topics:

1. Emerging technology: Innovation, Future of Work and Cyber;
2. Geopolitical Risk Landscape
3. ESG Integration: A Pathway to Business Resilience

The AC members were also provided with a briefing from the Company's external auditors on applicable Accounting Standards updates during the year.

The Board members attended various training webinars, seminars and workshops in 2020 which accounted for more than 50 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.

Board Approval

(Provision 1.3)

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.

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.

Delegation by the Board

(Provision 1.4)

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. All terms of reference for the Board Committees are approved by the Board and reviewed periodically to ensure their continued relevance taking into consideration the changes in the governance and regulatory environment.

The Board has also placed its members, including independent non-executive Directors, 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.

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 opening, closing and operation of banking accounts of the Company and bank facilities (including money market placements) granted 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 Listing Manual up to limits authorised by the Board.

Please refer to the sections on Principles 4, 6, 9 and 10 in this report for further information on the activities of the NC, RC, BRC and AC. Information on the activities of the BSC can be found under the 'Sustainability' paragraph within 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 99 to 100 and in the Financial Statements on pages 128 to 132 of the AR.

Board and Board Committee Meetings (Provision 1.5)

Board and Board Committee meetings are held regularly. Three Board meetings were held in 2020. At the regular Board meetings held in 2020, the Board agenda included updates by the Senior Management on the Company's financial performance and updates on the Company's strategic initiatives. In addition to the regular Board meetings convened to review and approve in particular the Company's half-year and full year financial results, a separate Board meeting was convened in 2020 to review the Company's strategic direction, including specific business strategies.

A meeting of the non-executive Directors ("NEDs") chaired by the Lead Independent Director ("Lead ID") was held in 2020. Meetings of the NEDs and the IDs are convened as often as may be warranted by circumstances. No meeting of the IDs was required to be convened in 2020.

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 (including via electronic means) of the Directors at the annual general meeting ("AGM") and at meetings of the Board, the

CORPORATE GOVERNANCE REPORT

Board Committees and the NEDs, as well as the frequency of such meetings in 2020, 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 to better understand the challenges faced by the Company and the inputs of the Directors, through such engagement, provide valuable perspective to the Management.

Directors' Attendance (including via electronic means) at the AGM, and Meetings of the Board, Board Committees and the NEDs in 2020 (Provision 1.5)

(a)	Board	Exco	AC	NC	RC	SOSC	BRC	BSC	NEDs
	Number of meetings held in 2020:	3	1	4	2	2	1	2	2
	Name of Directors	Number of meetings attended in 2020							
Kwek Leng Beng	3/3	1/1	N.A.	2/2	N.A.	N.A.	2/2	N.A.	N.A.
Kwek Leng Peck	3/3	1/1	N.A.	N.A.	N.A.	1/1	2/2	N.A.	1/1
Kwek Leng Kee	3/3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1/1
Kevin Hangchi	3/3	N.A.	N.A.	N.A.	N.A.	N.A.	2/2	2/2	1/1
Chng Beng Hua	3/3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1/1
Cheng Shao Shiong @ Bertie Cheng	3/3	1/1	N.A.	2/2	2/2	1/1	2/2	N.A.	1/1
Po'ad bin Shaik Abu Bakar Mattar	3/3	N.A.	4/4	2/2	N.A.	N.A.	N.A.	N.A.	1/1
Ter Kim Cheu	3/3	1/1	4/4	N.A.	2/2	1/1	N.A.	2/2	1/1
Raymond Lim Siang Keat	3/3	1/1	N.A.	N.A.	N.A.	N.A.	2/2	N.A.	1/1
Peter Chay Fook Yuen	3/3	N.A.	N.A.	N.A.	2/2	1/1	2/2	N.A.	1/1
Tan Tee How	3/3	N.A.	4/4	N.A.	N.A.	N.A.	2/2	N.A.	1/1
Tan Siew San	3/3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	2/2	1/1
Christian de Charnace	2/3 ⁽ⁱ⁾	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1/1

Note:

(i) Mr Christian de Charnace was appointed a Director on 5 August 2020.

- (b) All the Directors, except for Mr de Charnace who was only appointed on 5 August 2020, attended the Company's AGM held via electronic means in June 2020.

Directors' Multiple Board Representations and Time Commitments **(Provision 1.5)**

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 and that he/she continues to remain fit and proper for continued appointment on the Board in accordance with the fit and proper guidelines issued by the Monetary Authority of Singapore ("MAS Fit and Proper Guidelines") for continued appointment to the Board. 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.

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 procedures for the review 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.

Complete, Adequate and Timely Information **(Provision 1.6)**

Prior to each meeting, members of the Board and the Board Committees are provided with the meeting agenda and the relevant papers submitted by Management, containing complete, adequate and timely information to enable full deliberation on the issues to be considered at the respective meetings. Management, the Company's external auditors and professional advisers who can provide additional insight into the matters for discussion are also invited from time to time to attend such meetings.

Management also provides all Directors with monthly updates on the Company's financial performance including analysis of the said updates. 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. Where the Board's or a Board Committee's approval is sought, relevant background and explanatory information on the specific matter is provided to enable Directors to understand the issues and to request for further disclosures, as necessary.

Draft agendas for Board and Board Committee meetings are circulated to the Board Chairman and the chairmen of the Board Committees,

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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 Management. 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.

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.

Access to Management, Company Secretary and Independent Professional Advisors (Provision 1.7)

All Directors have direct and independent access to Management. To facilitate this access, all Directors are provided the contact details of the key management personnel and other Senior Management members.

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 where circumstances warrant the same. The Company has in place internal guidelines allowing the Directors to seek independent professional advice.

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 the Directors and Management, 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 ongoing basis, the Directors have separate and independent access to the Company Secretary.

Principle 2: Board Composition and Guidance

Board Independence (Provisions 2.1, 2.2 and 2.3)

The Board currently comprises thirteen members. All members of the Board except for the Chairman of the Board ("Board Chairman") are NEDs. Of the twelve NEDs, the Board has determined nine of them, being more than half of the Board, to be independent ("9 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 9 IDs, the NC has considered the applicable Rule 210(5)(d) of the Listing Manual and the guidelines for independence set out in Provision 2.1 of the 2018 Code. As part of the consideration, the NC also took into account their other directorships, annual declarations regarding their independence, disclosures of interests in transactions in which they have a direct/indirect interest, their ability to avoid any apparent conflicts of interests especially by abstaining from deliberation and decision-making on such transactions, and their ability to

maintain objectivity in their conduct as Directors of the Company.

The 9 IDs are Mr Chng Beng Hua, Mr Bertie Cheng, Mr Po'ad Mattar, Mr Ter Kim Cheu, Mr Raymond Lim, Mr Peter Chay, Mr Tan Tee How, Ms Tan Siew San and Mr Christian de Charnace. In accordance with Rule 210(5)(d) of the Listing Manual, none of the 9 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 9 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 9 IDs have also provided confirmation that they are not related to the Directors and substantial shareholders of the Company. Each of the 9 IDs abstained from deliberation of their own independence. The NC is satisfied that there is no other relationship which could affect their independence. The Board concurred with the NC's determination of the independence of the 9 IDs.

Of the 9 IDs, four of them, namely Mr Chng Beng Hua, Mr Bertie Cheng, Mr Po'ad Mattar and Mr Ter Kim Cheu have served on the Board for more than nine years since their appointment to the Board. Mr Raymond Lim would reach his nine years' tenure on 1 March 2021. Mr Chng, Mr Cheng, Mr Mattar and Mr Lim would be stepping down from the Board upon the conclusion of the 2021 AGM. As recommended by the NC and approved by the Board, Mr Ter has agreed to stay on as an ID until a new ID is appointed.

Factors taken into consideration in determining the independence of Mr Chng, Mr Cheng, Mr Mattar, Mr Ter as well as Mr Lim included 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 above factors, the Board determined that these 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 had 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.

Board Composition, Size and Diversity (Provision 2.4)

The NC reviews the size and composition mix of the Board and Board Committees annually. At the recommendation of the NC, the Board had adopted in 2018 a formal Board Diversity Policy, setting out its policy and framework for promoting diversity on the Board. 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.

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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 however 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.

The Board currently comprises business leaders and professionals with financial (including audit and accounting), banking, legal, risk, business and management backgrounds. 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.

Of its 13 members, four members (including a female) were appointed in the last two years as part of the Board's rejuvenation. The ages of the Directors who have served on the Board for different tenures, range from 40s to more than 70 years old. Having considered the scope of the Company's current operations and the retirement of Mr Raymond Lim and the cessation of Mr Chng Beng Hua, Mr Bertie Cheng and Mr Po'ad Mattar as Directors following the conclusion of the 2021 AGM, the Board is satisfied that its members collectively have the necessary core competencies. Further information on the

individual Directors' background, experience and skills can be found in the 'Board of Directors' section in the AR.

NEDs' Participation (Provision 2.5)

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 2020 without the presence of Management and the Board Chairman.

Principle 3: Chairman and Chief Executive Officer

Role of Chairman and the Chief Executive Officer (Provisions 3.1 and 3.2)

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 Benjamin Ng, Senior Vice President (Operations/Technology & Special Duties)
- 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 joined the Company in 2003. He has a wealth of experience from the banking industry, in particular in the small and medium enterprises ("SME") lending sector, having worked in Tat Lee Bank Ltd/Keppel Tatlee Bank Ltd for over 27 years before its acquisition by Oversea-Chinese Banking Corporation ("OCBC"). His last held appointment with OCBC prior to joining the Company was that of General Manager, International Banking Division. The President 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 Board 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 (Provision 3.3)

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 or inadequate. No query or request on any matter which requires the Lead ID's attention was received from the shareholders in 2020. Under the chairmanship of the Lead ID, a meeting of the NEDs was convened in 2020 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. With the cessation of Mr Mattar as a Director following the conclusion of the 2021 AGM, he will also cease to be the Lead ID and Mr Peter Chay has been appointed to succeed him as the Lead ID.

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Principle 4: Board Membership

NC Composition and Role (Provisions 4.1 and 4.2)

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. With the cessation of Mr Bertie Cheng and Mr Po'ad Mattar as Directors following the conclusion of the 2021 AGM, they will also cease to be the NC chairman and NC member respectively and Ms Tan Siew San and Mr Peter Chay have been appointed to the NC to succeed Mr Cheng and Mr Mattar as the NC Chairman and a NC member respectively.

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) and the key management personnel ("KMP") which comprises the MD, the President and the CFO, 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 re-appointments of Directors (including alternate directors, if any) and the reasons for resignations of Directors and the reasons for the termination of the KMP and succession planning for the KMP, review and confirm the induction programmes 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 2020. 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 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 and Determination of Independence

(Provisions 4.3 and 4.4)

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 having regard to the provisions in the applicable Rule 210(5)(d) of the Listing Manual and the guidelines for independence set out in Provision 2.1 of the 2018 Code. The NC also considered the Directors' annual confirmation in accordance with the MAS Fit and Proper Guidelines for continued appointment to the Board. 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,

- (a) Mr Kwek Leng Beng, Mr Kwek Leng Peck, Mr Kwek Leng Kee and Mr Raymond Lim will be retiring by rotation; and
- (b) Mr Christian de Charnace, appointed in August 2020, will also be retiring,

at the 2021 AGM. Other than Mr Lim who will not be seeking re-election, the other retiring Directors being eligible have offered themselves for election/re-election.

As recommended by the NC, the Board recommends the re-election of Mr Kwek Leng Beng as Executive Director and Mr Kwek Leng Peck, Mr Kwek Leng Kee as non-independent NEDs, as well as the election of Mr Christian de Charnace as an ID.

Criteria and Process for Nomination and Selection of New Directors (Provision 4.3)

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 MAS Fit and Proper Guidelines 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 ID; 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.

Key Information on Directors (Provision 4.5)

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-election to the Board, principal commitments and directorships held in listed companies both currently and in the preceding three years, and other relevant information; 'Additional

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Information for Directors proposed for election/re-election at the 61st Annual General Meeting; and the ‘Notice of Annual General Meeting’ for information on Directors proposed for election/re-election at the 2021 AGM.

Succession Planning for the Board, the Board Chairman and KMP **(Provision 4.1)**

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

As part of the ongoing Board renewal process, Mr de Charnace joined the Board as an ID in August 2020. The NC had considered Mr de Charnace’s management and professional experience and was of the view that his appointment to the Board would provide further diversity to the core competencies of the Board and allow for fresh perspectives on the Company’s strategies and business. Mr de Charnace has over 40 years of broad and diversified international banking experience in corporate and institutional banking and had held various executive management positions having responsibilities in the areas of corporate

finance, investment banking, fund raising, capital markets and advisory transactions for clients. Further information on the newly appointed Director can be found on pages 25 and 174 to 181 of this AR.

As mentioned earlier, four independent Directors, namely Mr Raymond Lim, Mr Bertie Cheng, Mr Po’ad Mattar and Mr Chng Beng Hua will be stepping down from the Board following the conclusion of the 2021 AGM. The NC and the Board have identified the following Directors to succeed them in their various Board/Board Committee appointments following their cessation as Directors:

- Mr Peter Chay as the Lead ID, the chairman of the AC and member of the NC;
- Mr Tan Tee How as the chairman of the BRC, and member of the Exco
- Ms Tan Siew San as chairman of the NC, and member of the Exco, BRC, RC and SOSC; and
- Mr Christian de Charnace as member of the BRC

Board Development **(Provision 4.5)**

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 2020 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

(Provision 5.1)

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 the Board Chairman's and the 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 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

(Provision 5.2)

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.

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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 industry players for the corresponding period.

Individual Director Evaluation Criteria (Provision 5.2)

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. The performance evaluation of each Director is taken into account in the NC's consideration with regard to their re-appointment as Director.

REMUNERATION MATTERS

Principle 6: Procedures for Developing Remuneration Policies

RC Composition and Role (Provisions 6.1, 6.2, 6.3 and 6.4)

The RC comprises three NEDs, all of whom including the chairman of the RC are independent. With the cessation of Mr Bertie Cheng as a Director following the conclusion of the 2021 AGM, he will also cease to be a member of the RC and Ms Tan Siew San has been appointed to succeed him as a member of the RC.

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 KMP.

The Company has in place a remuneration framework (which covers all aspects of remuneration) for the Directors and the KMP. The Company has currently identified the MD who is the only Executive Director of the Company, the President and the CFO as the Company's KMP for FY 2020. On an annual basis, the RC reviews and approves the specific remuneration packages for the Directors and the KMP including salary adjustments/increments, where applicable, variable bonuses and share options 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. With the cessation of Mr Cheng as a Director following the conclusion of the 2021 AGM, he will also cease to be a member of the SOSC and Ms Tan has been appointed to succeed him as a member 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 2020.

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 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 7: Level and Mix of Remuneration

Remuneration of Directors and KMP (Provisions 7.1, 7.2 and 7.3)

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 and motivate Directors to provide good stewardship and exercise oversight responsibility over the Company so as to ensure a sustainable performance and long-term value creation for 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 remuneration based on the Company’s remuneration policy for the KMP which is substantially aligned with that of the employees and 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 ensure that the remuneration reflects employees’ duties and responsibilities; and
- (c) to reward employees for achieving corporate and individual performance targets in a fair and equitable way.

The Company adopts a performance-based remuneration framework that is flexible and responsive to the market, and the performance of the Company and the KMP. In designing the remuneration framework for the KMP, the Company seeks to ensure that the level and mix of remuneration is competitive, relevant and appropriate finding a balance between the current and longer-term 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 fixed and 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 the Company’s financial performance including specific performance indicators tracked over time as

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well as other factors (internal or external) which may have impacted the Company's performance during the year. 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 interest spreads, loan/deposits ratio, profitability, are also considered. The Company exercises its discretion and independent judgement in ensuring that the amount and mix of compensation are aligned with the interests of shareholders and promote the long-term success of the Company. The overall level of remuneration is not considered to be at a level which is likely to promote behavior contrary to the Company's risk profile.

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 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 99 to 100 and the Financial Statements on pages 128 to 132 of the AR.

The SOS was first approved by the shareholders at an extraordinary general meeting in 2001 for an initial period of ten years commencing on 31 January 2001. It was extended at the AGM in April 2010 for a further period of ten years from 31 January 2011 to 30 January 2021. At the AGM held in June 2020, the shareholders approved the second extension of the duration of the SOS for another period of ten years from 31 January 2021 to 30 January 2031.

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 was of the view that the grant of options under the SOS to NEDs should not be used as a scheme to encourage NEDs to hold shares in the Company. Although the NEDs are eligible to participate in the SOS, no options were granted to them since the implementation of the SOS in 2001. 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.

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. The RC is mindful that the remuneration for IDs should not be excessive in order not 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 2020 is as follows:

Appointment	Fees per annum (\$)
Director	75,000 (Basic fee)
	Additional Fees:
Board Chairman	20,000
Lead Independent Director	10,000
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

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Principle 8: Disclosure of Remuneration

Disclosure of Remuneration (Provisions 8.1(a) and 8.3)

The compensation packages for 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 2020.

The remuneration of each Director for FY 2020 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 2020, 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)	2,298	48	42	8	1	1	100
Non-executive Directors							
2. Kwek Leng Peck	138	-	-	100	-	-	100
3. Kwek Leng Kee	75	-	-	100	-	-	100
4. Kevin Hangchi	119	-	-	100	-	-	100
5. Chng Beng Hua	75	-	-	100	-	-	100
6. Cheng Shao Shiong @ Bertie Cheng	253	-	-	98	-	2	100
7. Po'ad bin Shaik Abu Bakar Mattar	157	-	-	100	-	-	100
8. Ter Kim Cheu	156	-	-	100	-	-	100
9. Raymond Lim Siang Keat	135	-	-	100	-	-	100
10. Peter Chay Fook Yuen	137	-	-	100	-	-	100
11. Tan Tee How	155	-	-	100	-	-	100
12. Tan Siew San	79	-	-	100	-	-	100
13. Christian Gautier de Charnace	31	-	-	100	-	-	100

Notes:

- (1) The salary and variable bonuses/allowances paid/payable are inclusive of employer's central provident fund contributions.
- (2) These fees comprise Board and Board Committee fees for FY 2020, which are subject to approval by shareholders as a lump sum at the 2021 AGM.
- (3) These relate to options granted during FY 2020. The fair value of the options as at the date of grant is \$0.1767 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) (Provisions 8.1(b) and 8.3)

For FY 2020, the Company identified the President and the CFO as its KMP (not being a Director or Chief Executive Officer).

The Board does not believe it is in the interest of the Company to disclose the FY 2020 remuneration of its KMP (not being a Director or Chief Executive Officer) 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 2020 (Provision 8.2)

There are no employees of the Company who are substantial shareholders of the Company or immediate family members of a Director, and whose remuneration exceeds \$100,000 during the year.

Principle 9: Risk Management and Internal Controls

Oversight of Risk Management (Provision 9.1)

The Board has overall responsibility for the governance of risk, including determining the nature and extent of the significant risks which the Company is willing to take to achieve its corporate objectives. The Board oversees the Company's risk management framework and policies; and ensures that Management maintains a sound system of risk management and internal controls.

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 the Company's risk management and internal control systems regularly against best practices as set out in the industry and regulatory guidance. It also approves the risk management framework, related risk management policies and systems and oversees Management in the establishment and operation of the risk management systems that are in place. The BRC comprises seven Directors, six 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 is accountable to the Board through the BRC for ensuring the effectiveness of the risk management framework. Departments perform regular self-assessments to assess the adequacy and effectiveness of their internal controls. The results of the evaluations are reviewed by Management.

The Company's approach to risk management is set out in the 'Risk Management Report' on pages 60 to 65 of this AR.

Assurances from the KMP (Provision 9.2)

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

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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 KMP 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 are adequate and effective to address in all material aspects the financial, operational, compliance and IT risks in the context of the current scope of the Company's business operations.

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

Based on the work performed by Internal Audit ("IA"), and the statutory audit by the Company's

external auditors, KPMG LLP ("KPMG"), as well as the assurances from the KMP, 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 2020 to address in all material aspects the financial, operational, compliance and IT risks, is adequate and effective in the context of the current scope of the Company's business operations.

Principle 10: Audit Committee

Composition of AC

(Provisions 10.2 and 10.3)

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. With the cessation of Mr Po'ad Mattar as a Director following the conclusion of the 2021 AGM, he will also cease to be the chairman of the AC and Mr Peter Chay has been appointed to succeed him as the AC chairman.

With the current composition and impending change, 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.

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. None of the current members of the AC were former partners or directors of or have any financial interest in KPMG. Mr Chay ceased as the Deputy Managing Partner of KPMG in September 2017.

Powers and Duties of the AC

(Provisions 10.1 and 10.5)

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 AC is tasked to discharge its duties objectively within its written terms of reference, which duties 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 KMP 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;
- 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 adequacy, effectiveness, independence, scope and results of the IA function;
- to review annually the adequacy, effectiveness, independence, scope

and results of the EA’s audit, 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 and terms of engagement 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 2020. 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.

The Group developed Expected Credit Loss (“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. In 2020, the Group had also

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incorporated the impact of uncertain economic outlook arising from the Covid-19 pandemic. The difference between the Stage 1 and 2 ECL and the Minimum Regulatory Loss Allowance as required under Revised MAS Notice 811 is reported as Regulatory Loss Allowance Reserve.

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 AC held four 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

(Provisions 10.1(d) and 10.1(e))

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 2020. The AC considered the Company's policies, processes and safeguards to protect and preserve audit independence. The AC also considered and approved the nature of the provision of the non-audit services in 2020 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 2020, please refer to note 21 of the Notes to the Financial Statements on page 140.

In reviewing the nomination of KPMG for re-appointment for the financial year ending 31 December 2021, 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 timelines. 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 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 2021 AGM.

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

Name of IP	Nature of Relationship	Aggregate value of all IP transactions in FY 2020 (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 2020 under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) (\$'000)
Hong Leong Investment Holdings Pte. Ltd. (“HLIH”) group of companies - Receipt of corporate secretarial services - Cleaning, security and building maintenance services	Subsidiaries of HLIH which is the immediate and ultimate holding company of the Company	417	Not applicable*
		103	Not applicable*

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

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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

(Provision 10.1(f))

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 annually 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 BSC reviews annually this policy which is administered by the Head of Compliance department.

Internal Audit

(Provisions 10.4 and 10.5)

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 evaluates the annual performance appraisal of the Head of IA and approved all bonus payments and salary adjustments for this position within the compensation policies established by the Company. 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 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, Ms Chung Yuet Simm 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 and improve the 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 2020 IA plan in November 2019 and received regular reports during 2020 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 2020, 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 and the process for the next review had started in late 2020. IA had received the proposals for review from the external consultants and the quality assurance review will be conducted after the evaluation and selection process.

SHAREHOLDER RIGHTS AND ENGAGEMENT

Principle 11: Shareholder Rights and Conduct of General Meetings

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.

General Meetings (Provisions 11.1, 11.2 and 11.3)

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

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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.

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.

At general meetings of the Company, shareholders are given the opportunity to communicate their views and are encouraged to ask the Directors and the Management questions regarding matters concerning the Company. All the Directors, except for Mr de Charnace who was appointed in August 2020, and the EA attended the 2020 AGM which was held via electronic means.

Voting at General Meetings (Provision 11.4)

Shareholders are given the opportunity to vote at general meetings. However, as the authentication of shareholder identity information and other related integrity issues remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail or electronic means.

Pursuant to Rule 730A(2) of the Listing Manual, all resolutions to be proposed at general meetings 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 has been conducting electronic poll voting since its 2012 AGM (except for the 2020 AGM which was done by way of proxy votes) and would continue to do so at the 2021 AGM assuming that the Company is able to resume convening physical general meetings. With electronic poll

voting assuming that the Company is able to resume convening physical general meetings, shareholders present in person or represented by proxy at the 2021 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 2021 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.

Minutes of General Meetings (Provision 11.5)

The Company also maintains minutes of its general meetings, which includes the key comments and queries raised by shareholders and the responses from the Board, Management and/or the EA. The minutes of the general meetings are available on the Company’s website, and the Company will also furnish the minutes of the general meetings to any shareholder upon request.

2020 AGM and 2021 AGM

In view of the Covid-19 situation, the 2020 AGM was convened and held by electronic means on 25 June 2020 pursuant to the Covid-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020 (the “Order”). Alternative Arrangements relating to attendance at the AGM via electronic means (including arrangements by which the meeting can be electronically accessed via ‘live’ audio-visual webcast or ‘live’ audio-only stream), submission of questions to the Chairman of the Meeting in advance of the AGM, addressing of substantial and relevant questions prior to the AGM and voting by appointing the Chairman of the Meeting as proxy at the AGM, were put in place for the 2020 AGM. The mode of the convening

and conduct of the 2021 AGM are dependent on the Covid-19 situation in Singapore nearer the date of the 2021 AGM. Shareholders would be notified by the Company in advance of the 2021 AGM.

Dividend Policy (Provision 11.6)

The Company has formalized its dividend policy which aims to pay dividends twice a year, at rates which balance returns to shareholders with prudent capital and financial management. Before proposing any dividends, the Board will consider a range of factors, including the Group's financial performance, sufficiency of retained earnings and cash for operations as well as for capital requirements, capital expenditure, investment plans, general business conditions and market factors. The Board will review the dividend policy from time to time and reserves the right to modify, amend and update the policy.

The Company strives to maintain a strong capital position to ensure market confidence, and to meet the expectations of depositors, customers and investors, while ensuring compliance with regulatory 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.

Principle 12: Engagement with Shareholders

The Company notifies its investors in advance of the date of release of its financial results via SGXNET. Following the amendments to Rule 705(2) of the Listing Manual of SGX-ST, which took effect on 7 February 2020, the Company has ceased to release announcements of the Group's quarterly unaudited financial statements. Commencing FY 2020, results for the first half year ("1H") were released to shareholders within 45 days of the end of 1H whilst annual results were released within 60 days from the financial year end. In presenting the Group's financial

results the Board aims to provide investors 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.

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 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. The Company had published the notice of its 2020 AGM on its corporate website and released the same *via* SGXNET in accordance with the Order which sets out the Alternative Arrangements in respect of, *inter alia*, general meetings of companies and also the requirement for all notices of general meeting of issuers to be published on SGXNET and, if available, the issuer's corporate website.

Shareholder Communication (Provision 12.1)

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" ("IR") link that provides, *inter alia*, information on the Board of Directors, Annual Reports, financial results as released by the Company on SGXNET, financial highlights and matters relating to the Company's AGM, and minutes of general meetings. Shareholders are also encouraged to attend the Company's general meetings. The Board Chairman and the chairmen of the respective Board Committees will also attend such meetings.

CORPORATE GOVERNANCE REPORT

Investor Relations Policy (Provisions 12.2 and 12.3)

The Company aims to build investor confidence and trust through effective open, two-way communication with shareholders and the investment community. The Company's IR Policy which is available on the Company's corporate website (www.hlf.com.sg), sets out the process and mechanism to engage its stakeholders, including the channel of communication through which shareholders and investors may pose queries and through which the Company may respond. The IR Policy outlines the principles and framework in which the Company communicates and engages with investors and other IR stakeholders to provide balanced, clear and pertinent information.

MANAGING STAKEHOLDER RELATIONSHIPS

Principle 13: Engagement with Stakeholders

The Company has identified its stakeholders and has arrangements in place to engage with them through a variety of channels (including via the Company's corporate website) in order to determine the environmental, social and governance issues that are important to them. These issues form the materiality matrix upon which targets, metrics, initiatives and progress are reviewed by the Management team and reported to the BSC and the Board for approval, before they are published annually in the Company's sustainability report. Further information on the Company's approach to stakeholder engagement and its materiality assessment can be found on pages 66 to 83 of this AR.

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. 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. The code of conduct in practice is in addition to observing the Code of Conduct issued by the Finance Houses Association of Singapore and 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.

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 Anti-Money Laundering/ Countering the Financing of Terrorism 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

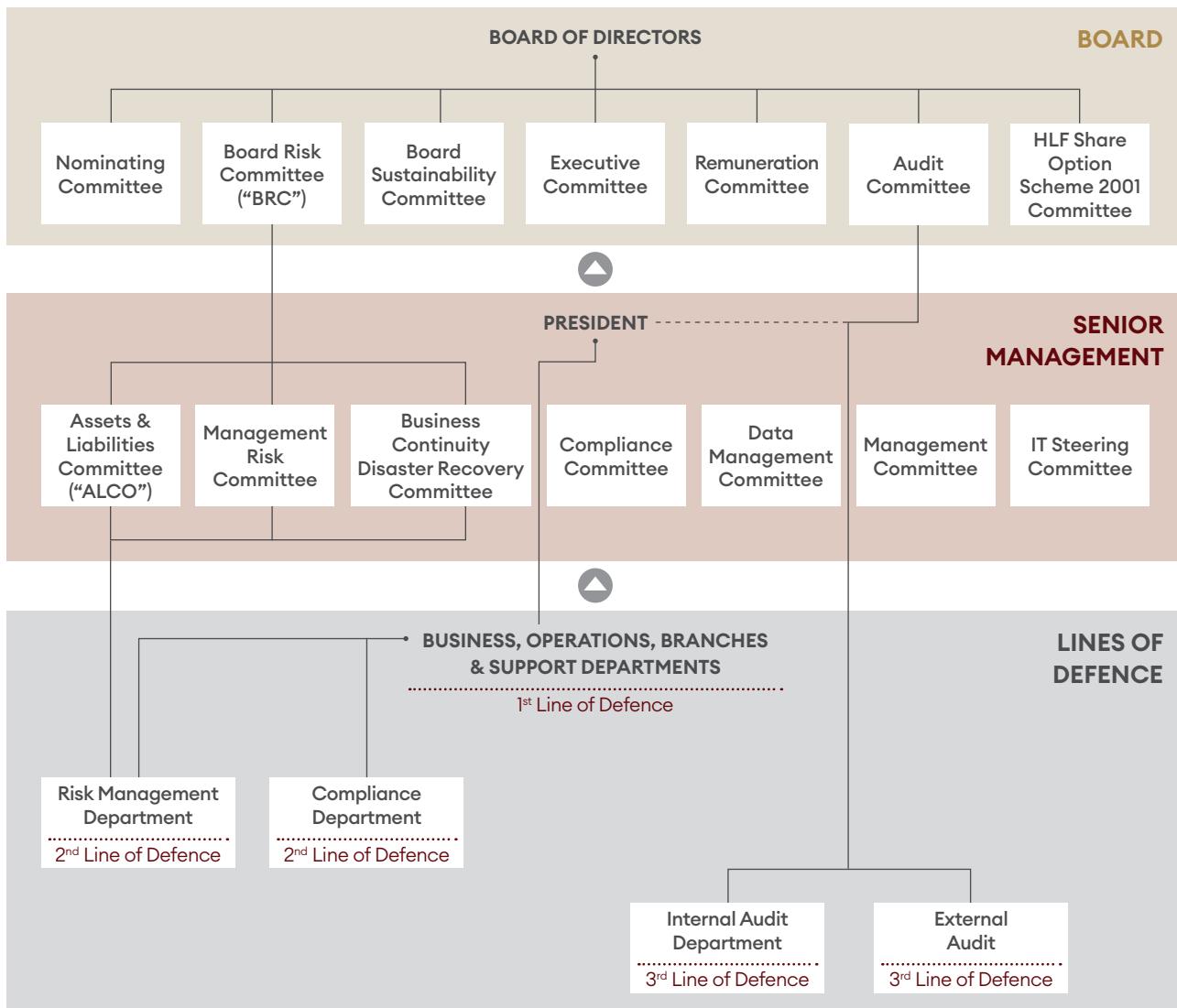
- Company that may have any legitimate concerns about any possible improprieties relating to accounting, financial reporting, internal controls and auditing matters or other matters, the same may be raised without fear of reprisals in any forms, discriminating or adverse consequences;
- (iv) Anti-Corruption 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 and related data management policies 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 all Directors and employees from 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 period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the date of announcement of the Company's full year financial statements (if the Company is required to announce its quarterly financial statements), and during the period commencing one month before the date of announcement of the Company's 1H and full year financial statements (if the Company is not required to announce its quarterly financial statements). 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: 25 February 2021

RISK MANAGEMENT REPORT



Risk Management is at the centre of our business strategy. We want to protect our customers, colleagues, shareholders and the Company; at the same time enabling sustainable growth in targeted market segments. This can only be achieved through informed risk decisions and robust risk management, supported by a consistent risk-focused culture.

The risk management framework is structured to align with the industry accepted internal control framework standards. 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.

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.

The Company has adopted three lines of defence in the Organisation structure to ensure that there is ownership of risks, accountability, and independence in the management of risks.

LINES OF DEFENCE

This sets out a clear lines of defence model. All staff are responsible for understanding and managing risks within the context of their individual roles and responsibilities. As the first line of defence against risk, the Business, Operations, and Support Departments in the Company are primarily responsible for identifying, mitigating, and managing risk through the implementation of effective controls within their lines of business. These controls are performed, owned and overseen at the programme and transaction levels by the staff who are involved in Relationship Management, Operations, and Support. They ensure that their day-to-day business activities are carried out within the established risk policies, procedures and limits for optimal performance.

Risk Management and Compliance Departments form the second line of defence through the establishment of guidelines, policies, and processes for managing specific risk management areas that include Credit, Operations, Market & Liquidity, and Regulatory Risks. They also assist in reviewing and monitoring risks and controls at the first line of defence level within the organisation.

The third line of defence, Internal and External Audit functions provide independent assurance of the first and second line of defence over the effectiveness of governance, risk management and controls.

RISK MANAGEMENT DEPARTMENT

A risk management team supports the BRC in 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 BRC in carrying out its oversight of the Company's risk management programme, (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 managing 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.

RISK MANAGEMENT REPORT

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, has been 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. 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

Credit risk is the potential loss arising from the failure of borrowers and/or counterparties to meet their contractual obligations. The Company is exposed to Credit Risk from our lending activities to retail, corporate and institutional borrowers.

Policies & Processes

The Credit Risk Management ("CRM") policy details how credit risks are being managed in the company. The CRM policy ensures a sound process to identify, measure, monitor and to manage credit risk exposure to an acceptable level, consistent with the Company's risk tolerance and aligned with the relevant business strategy. This policy sets forth credit risk principles and provides guidance to relevant business units. It is supplemented by the Credit Manual which details the process and management relating to credit transactions.

Responsible financing, covering Environmental, Social and Governance (ESG) issues, is a topic of increasing importance and one that affects lending decisions to corporate borrowers. In support of promoting Responsible Financing lending practices, checks are performed for companies operating in sectors with elevated Environmental, Social and Governance ("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 Portfolio Management and Concentration Risk

The Company's guiding principle in its lending activity is to diversify its loan portfolio mix and avoid any undue concentration of Credit Risk in its loan portfolio. Portfolio monitoring and reporting enable timely assessment to capture changes in risk profiles and business conditions, as well as develop appropriate risk-response strategies. The Company proactively monitors and manages credit transactions and portfolios against established risk limits.

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.

Credit Stress Test

Regular Credit Stress Tests are conducted to identify the impact on asset quality, earnings performance and capital adequacy to a range of adverse scenarios. Our stress test scenarios include potential but plausible macroeconomic conditions and geopolitical events in varying degrees of severity. This helps the Company to assess our capital adequacy, identify potentially risky portfolio segments, and plan preventive actions where applicable.

Credit Risk Mitigation

In line with the prevailing business plan, the company will continue to have most of its credit risk exposures in secured lending. As a fundamental credit principle, HLF does not grant credit facilities solely on the basis of

collateral provided. Credit facilities are granted primarily based on the borrower's credit quality, debt servicing ability and source of repayment. Where possible, the Company takes collateral as a secondary recourse of repayment to the borrower to mitigate credit risk. These secured loans are collateralized with assets such as cash, properties, motor vehicles, shares, trade receivables, plant and equipment. The value of collateral is monitored periodically.

SFRS (I) 9 Expected Credit Loss

Effective 1 January 2018, we adopted Singapore Financial Reporting Standards (International) 9 Financial Instruments, where a new approach for the estimation of allowance for credit losses based on the Expected Credit Loss ("ECL") model is introduced. It 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.

Potential Impact to Covid-19 Pandemic

To address the Covid-19 outbreak and with the Government's initiatives, the Group has rolled out Covid-19 Loan Relief Schemes to help SMEs and individual customers to tide over their cash flows during this difficult time. In addition, businesses and retail customers are also able to defer payment of their loans. These measures have been well received and we remain responsive to our customers' changing needs. The measures are expected to be unwound gradually. The Group remains closely engaged to understand the impact of these measures on our customers and credit risk profile. There are processes in place to ensure appropriate ongoing borrower review, customer engagement and oversight across the credit risk assessment process for the Covid-19 impacted customers.

RISK MANAGEMENT REPORT

MARKET RISK

Market risk is the risk to earnings and capital arising from changes in the interest rates environment. Mismatches in the repricing periods of assets and liabilities expose the Company to market risk, of which interest rate risk is a large component. Interest rate risk in the banking book is driven by customers' deposit taking and lending activities, holdings in the statutory liquid asset portfolio and funding activities.

The Company's market risk management is governed by a set of framework, policies and processes which are subjected to regular reviews to ensure that they remain relevant to the current market practices and regulatory guidelines. This involves quantifying the magnitude of interest rate risk within the balance sheet through independent risk measurement. The objective of interest rate risk management is to secure stable and optimal net interest income over the short and long term within approved risk limits.

Exposures are measured using a combination of techniques such as net interest income simulation, which involves the simulation of the impact of various interest rate scenarios on the net interest income. Other static measures include the repricing gap analysis and PV01.

LIQUIDITY RISK

Liquidity risk is the risk that arises from the Company's inability to meet its obligations to honour withdrawal of deposits and fund increases in assets as they fall due.

The Company's liquidity risk management is governed by a set of framework, policies and processes, as approved by the ALCO. These are subjected to regular reviews to ensure that they remain relevant to the current market practices and regulatory guidelines.

In the management of liquidity risk, the Company ensures that there are sufficient funds at all times over a range of market conditions to meet

both contractual and regulatory obligations at a reasonable cost. These include minimising excessive funding concentrations by diversifying the sources of funds and maintaining a portfolio of high quality liquid assets in excess of regulatory requirements. 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. Core funding comprising capital, a diversified pool of personal and, to a lesser extent, corporate deposits, is the foundation of our structural liquidity position.

Covid-19 is underscoring the importance of liquidity risk management towards financial stability, and the Company continues to ensure a strong funding profile to meet all of our liquidity requirements.

Liquidity exposures are monitored using a combination of liquidity gaps and liquidity risk ratios such as the loans to deposits, top depositors and MLA ratios. Early warning indicators and triggers are also in place to identify potential liquidity crisis that may arise. Liquidity stress testing on adverse crisis scenarios such as name-specific and general market crises is also performed regularly. In the event of a potential liquidity crisis, there are various contingency funding strategies and action plans in place, which can be activated to minimise the impact of a liquidity crunch.

The Company enhances its risk monitoring process through the implementation of the Funds Transfer Pricing ("FTP") framework. The FTP framework is an internal pricing mechanism which monitors the performance of products and business units by incorporating the cost of funds dimension to the balance sheet. More details on liquidity and interest rate risks could be found in the Notes to the Financial Statements on pages 150 to 156 of the AR.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from

inadequate or failed internal process, people, systems, organization, regulatory and internal compliance or from external events. 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 an operational risk framework in place that assists all departments to achieve their objectives through the effective identification, assessment, measurement, control and mitigation of their risks. As part of the framework, business units are required to report their operational risks on both a regular and an event driven basis. Risks are identified through an operational risk self-assessment framework and business units incorporate early warning indicators to identify underlying changes in the risk profile. Risk Management Department maps identified risks into risk categories, monitors key risk indicators and coordinates loss events reporting, including determining the root cause analysis and future steps to be taken to prevent a reoccurrence. Action plans are formulated based on the severity of the assessed residual risks after considering mitigating controls.

Through the Operational Risk Management Framework, the risk of potential financial loss or damage to the Company's reputation, its customers or staff is mitigated and the necessary regulatory and legal requirements are complied with.

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. The Business Continuity Program is closely aligned with the principles in the Business Continuity Institute's Good Practice Guidelines and ISO standards. The robust Business Continuity Program sets out to minimize the impact of business disruptions

arising from severe loss scenarios and to ensure swift recovery in the performance of critical business functions both onsite and at disaster recovery sites. The crisis management structure includes incident management, escalation, and activation of the crisis management and recovery teams. Exercises and tests form an integral part of the program and are conducted regularly. On an annual basis, the IT systems undergo redundancy, network connectivity, and uninterrupted power supply/generator set tests to ensure high availability to systems and avoid single points of failure. Simulation exercises, table top exercises and tests are also conducted annually and biennially to validate the Business Continuity plans, and to enhance the staff's response and preparedness for disruptions and crises. Cybersecurity has been a major concern, and in this respect, the Company has acquired new tools and enforced additional security procedures to safeguard the Company's IT infrastructure. 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. A strong and trustworthy reputation will generally strengthen our market position, reduce the cost of capital, increase shareholder value, strengthen our resiliency, and help attract and retain top talent. 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.



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ABOUT THIS REPORT

Hong Leong Finance (“HLF”) is pleased to present our Sustainability Report 2020 (“SR”), which communicates our approach on managing the material Environmental, Social and Governance (“ESG”) factors that affect our business. This SR outlines our practices, initiatives and performance and provides an update on our progress for 2020.

Reporting Framework and Scope

This SR has been prepared with reference to the Global Reporting Initiatives (“GRI”) Standards as well as the Singapore Exchange (“SGX”) Listing Rule guide for sustainability reporting.

The scope covers our operations in our offices at three buildings, 28 branches, and additional rented premises for warehousing and data centres. The outbreak of Covid-19 has caused

disruptions to our business operations, and we have several measures in place to ensure safe management during the Circuit Breaker and Safe Reopening phases.

Data and External Assurance

We apply a standardised approach to data collection and analysis across our business. We have not sought independent external assurance of the information in this report but will consider doing so in the future. Please contact us at sustainability@hlf.com.sg with any queries you may have.

The SR, which is a part of our Annual Report 2020, along with a GRI Content Index with a full list of disclosures referenced in this SR, can be found on our website at <https://www.hlf.com.sg/ar.html>.

SUSTAINABILITY REPORT

BOARD STATEMENT

Over the past 59 years, HLF has demonstrated robust business growth and created sustainable value for customers through a comprehensive range of products and services. We remain committed to our Sustainable Business Priorities and Responsible Business Practices that drive our longstanding business success.

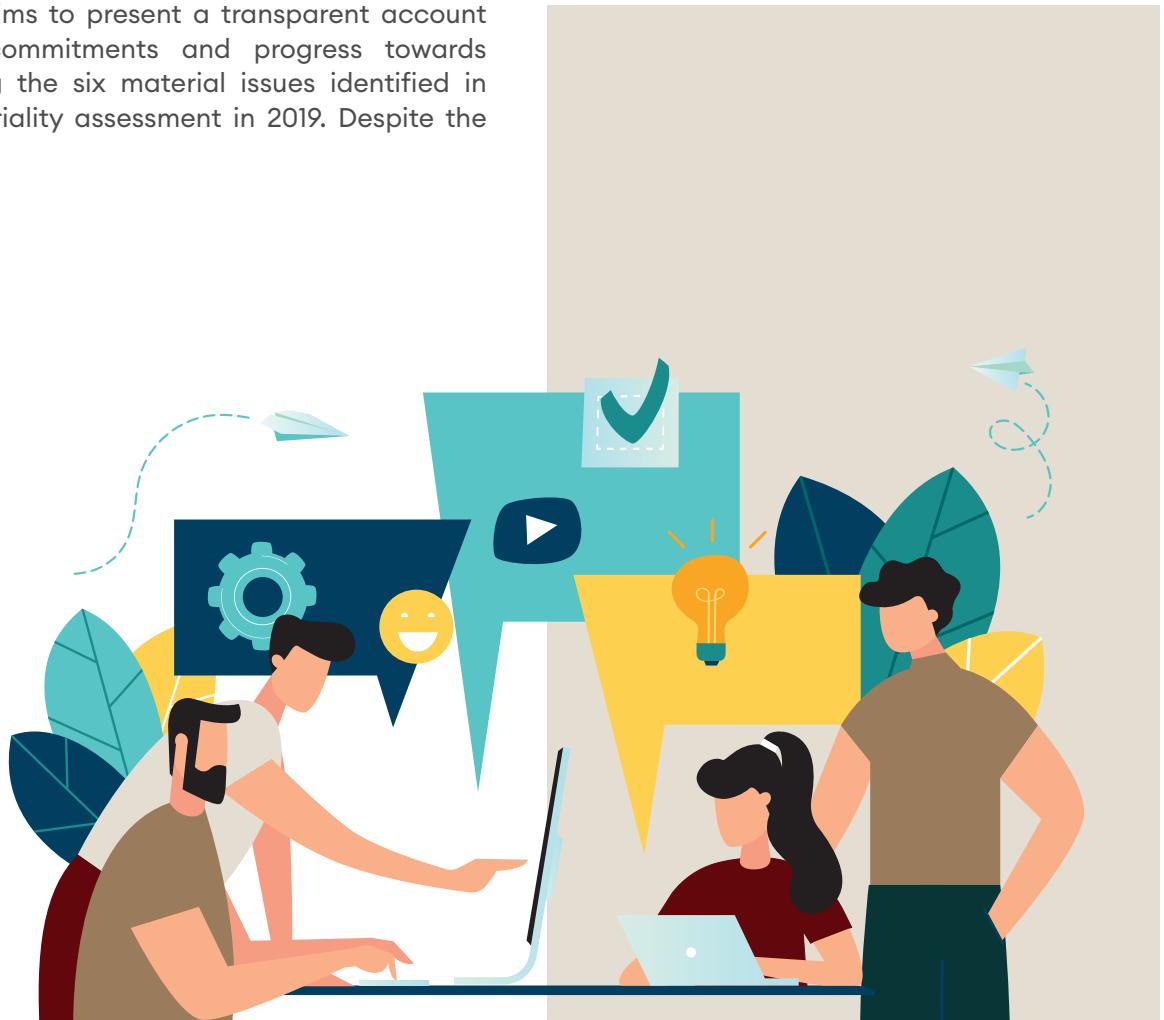
These Sustainable Business Priorities are crucial in creating long-term business profitability, while our Responsible Business Practices ensure our stakeholders continue to have confidence in us. To do so, we maintain a long-term outlook on the ESG factors relevant to us and our stakeholders by investing in our business franchise, building our talent pool, and safeguarding our business interests by ensuring responsible practices in areas such as corporate governance, risk management and data privacy.

This SR aims to present a transparent account of our commitments and progress towards managing the six material issues identified in our materiality assessment in 2019. Despite the

changing business landscape due to Covid-19, as well as new industry developments and trends, these material issues remain relevant.

Over the past year, we have leveraged on HLF's established brand and customer base to build new products and stronger internal capabilities. We have embarked on a digitalisation journey which has led to more efficient processes and better customer experience.

Our progress is presented in this SR and we strive to stay nimble to take on new challenges and make further headway in our sustainability journey.



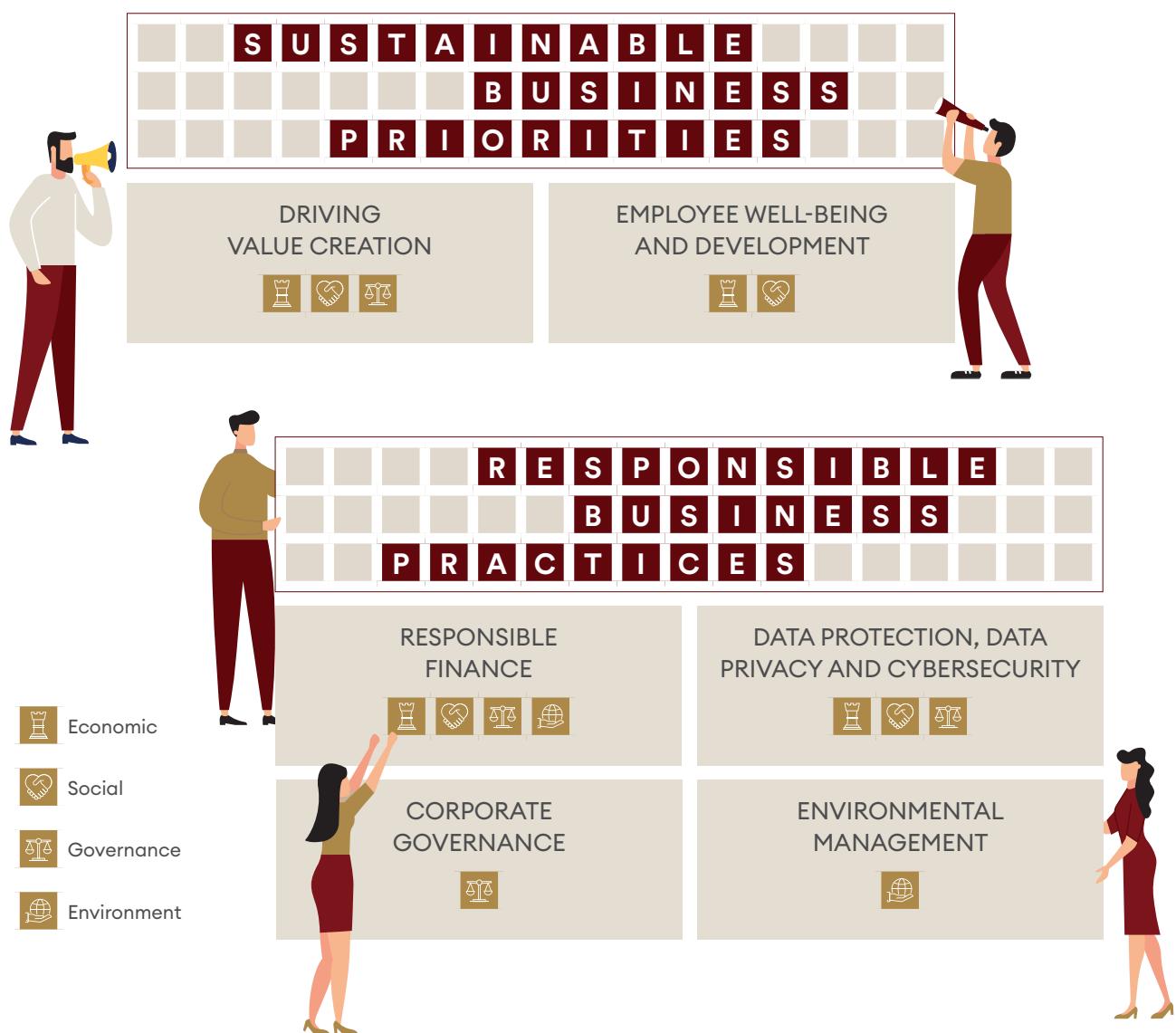
SUSTAINABILITY REPORT

SUSTAINABILITY AT HONG LEONG FINANCE

Sustainability at HLF is about having a long-term outlook in managing the material issues that affect our business. Our approach continues to be guided by our Sustainability Framework which enables our business to continue thriving and remain profitable, even as we deliver on our social responsibilities as a desirable employer and member of the community. We remain dedicated to taking progressive steps yearly in our ongoing sustainability journey.

Our Sustainability Framework

We conducted a materiality review in 2019 to ensure that our ESG issues remain relevant in our industry (Please see our 2019 Sustainability Report for details). There are no major changes to the six material issues, which have been categorised under ‘Sustainable Business Priorities’ and ‘Responsible Business Practices’.



MATERIAL ISSUES	WHY THEY ARE IMPORTANT TO US
Sustainable Business Priorities	
Driving Value Creation 	It is vital for us to drive our business in a way that creates value for our customers. To do so, we invest in digitalisation and constantly upgrade our suite of products and services to meet the changing needs of our SME and individual customers.
Employee Well-Being and Development 	We promote a culture of diversity and inclusion, and wellness activities to protect the well-being of our employees. We also focus on attracting new talent while retaining our people by developing and re-training them with new skills.
Responsible Business Practices	
Responsible Finance 	We are strongly committed towards guarding against ESG risks in our lending activities, and ensure we have a robust lending approach by integrating ESG factors in our credit risk analysis.
Corporate Governance 	Corporate governance is at the core of our DNA, achieved through the cultivation of strong values and putting in place a robust governance framework and stringent internal controls. To build a high level of trust with our customers, we provide them with accurate, transparent and fair advice so they can make the best-informed decisions.
Data Protection, Data Privacy and Cybersecurity 	To manage the growing threats related to data privacy and cybersecurity, we continue to invest in efforts to ensure data privacy and to strengthen cybersecurity across our business.
Environmental Management 	In line with growing environmental concerns, we seek to reduce our ecological footprint and minimise the use of resources, including managing our paper and energy consumption. These initiatives have helped us to reduce additional costs.

Sustainability Governance Structure



SUSTAINABILITY REPORT

SUSTAINABILITY AT HONG LEONG FINANCE

Stakeholder Engagement

Our stakeholders help ensure that our products and services are relevant, and our business is conducted in a responsible manner. We engage in active dialogue with our stakeholders through various formats:

OUR KEY STAKEHOLDERS	FORMS OF ENGAGEMENT	KEY TOPICS RAISED	OUR RESPONSE
CUSTOMERS 	<ul style="list-style-type: none"> ■ Website feedback form ■ Calls to Customer Service Centre ■ Formal correspondence ■ Face-to-face meetings ■ Newsletters, emails, SMS alerts ■ SR ■ Annual Report (“AR”) 	<ul style="list-style-type: none"> ■ Customers’ own challenges and priorities caused by Covid-19 ■ Feedback on products and services 	<ul style="list-style-type: none"> ■ Introduced Covid-19 Loan Reliefs and additional support to help customers with their challenges and priorities ■ Formed the Customer Experience Committee (“CEC”) to oversee customer feedback and implement customer delivery improvements ■ Continue to enhance products and services for customers
EMPLOYEES 	<ul style="list-style-type: none"> ■ Performance appraisals ■ Seminars and training sessions ■ Employee orientation ■ Sports and Recreation Club for employees and their family members ■ SR 	<ul style="list-style-type: none"> ■ Employee welfare, health and safety ■ Upgrading of skills ■ Career development 	<ul style="list-style-type: none"> ■ Rolled out workplace Safe Management Measures (“SMM”) and work-from-home ■ Launched new training programmes, including future-enabled skills ■ Hosted trainings via e-learning platform due to Covid-19

OUR KEY STAKEHOLDERS	FORMS OF ENGAGEMENT	KEY TOPICS RAISED	OUR RESPONSE
REGULATORS 	<ul style="list-style-type: none"> ■ Consultations and meetings ■ Inspection reports ■ Survey, business and financial information updates ■ Clearance for half-yearly financial statements, annual audited financial statements, submission of regulatory and tax returns/surveys as prescribed by Monetary Authority of Singapore (“MAS”) Notices and SGX circulars and regulations ■ SR 	<ul style="list-style-type: none"> ■ Prevention of financial fraud and money laundering and countering the financing of terrorism ■ Regulations, accounting, taxes and financial reporting ■ Enhancements in IT security to address IT risks such as cyberattacks 	<ul style="list-style-type: none"> ■ Compliance with regulatory guidelines, advisories and notices by the relevant authorities ■ Implemented policies and procedures to ensure business and operations meet the stipulated standards and requirements by the relevant authorities ■ Actively participated in consultation papers issued by regulators ■ Implemented revised IT security policies ■ Hosted regular IT Security Awareness Employee Training
INVESTORS 	<ul style="list-style-type: none"> ■ Annual General Meeting (“AGM”) ■ AGM presentation slides and minutes released via SGXNet ■ Disclosure of material information through SGXNet and press releases ■ Half-yearly results announcements ■ AR ■ SR ■ Website 	<ul style="list-style-type: none"> ■ Corporate governance ■ Accurate and timely disclosures of material information relating to the Company and its financial performance ■ HLF’s plans towards digital transformation ■ Dividend payment policy 	<ul style="list-style-type: none"> ■ Ongoing digitalisation initiatives ■ Maintained good practices in corporate governance, business ethics and integrity
LOCAL COMMUNITY 	<ul style="list-style-type: none"> ■ Community engagement activities, donations 	<ul style="list-style-type: none"> ■ Community projects, local charities 	<ul style="list-style-type: none"> ■ Supported community projects and organisations

External Initiatives

To stay on top of issues relevant to our industry, we actively participate in dialogue and maintain memberships with organisations including the Singapore Business Federation, The Association of Banks in Singapore (“ABS”), the Finance Houses Association of Singapore, and the Singapore National Employers Federation.

SUSTAINABILITY REPORT

DRIVING VALUE CREATION (Economic / Social / Governance)



We strive to build a profitable and competitive business that drives long-term value for our stakeholders. We invest in programmes that are customer-centric, such as rolling out relevant solutions for customers, and transiting towards digital financial services.

Building Business Sustainability Through Digitalisation

A strategic thrust in our value creation is to use digitalisation to propel long-term business sustainability and profitability. We have gained momentum and built on the digitalisation initiatives introduced in SR 2019, achieving leaner and more efficient processes, and developing plans for deepening the scope of digital services in 2021.

KEY INITIATIVES

Digitalising the Loan Application Process for Vehicle Financing

We developed a digital platform for car hire purchase applications in collaboration with distribution partners including Porsche Services Singapore and Inchcape. Applications are sent electronically to HLF via secured API channels. Customers can use SingPass authentication and MyInfo to furnish their personal data conveniently and securely for online applications. This replaces tedious data entry and the need for hardcopy documents.

At the same time, we also developed an automated rules engine for quicker credit assessment and application screening, with outcomes shared promptly through the digital platform. Customers can now receive the results in under 30 minutes, compared to eight hours previously.

Since the platform's launch in January 2020, we have further enhanced the application process to be totally paperless with the integration of e-hire purchase agreements on 30 October.

Enhancing Digital Options for Customers

To reduce customer footfall in branches during the Circuit Breaker, we introduced alternative channels for fixed deposit customers. Existing

customers can use an online instruction form on our website for placements, renewals and withdrawals of deposits.

PayNow acceptance was expanded to include deposit placement, as well as crediting or topping up of business current and savings accounts. To promote its usage, customer education was rolled out with a slew of promotional campaigns. In 2020, monthly volume for PayNow averaged 1,300 transactions, increasing nearly 110% compared to 620 monthly transactions in the previous year.

Establishing Stronger Digital Marketing Presence

This year, we embarked on new digital marketing strategies, including Search Engine Marketing, programmatic marketing and launching our YouTube channel. We won Silver for 'Excellence in Programmatic Marketing' at the Marketing Excellence Awards 2020.

We launched our Business Loans digital campaign via channels such as search and display networks as part of our outreach to SMEs. The campaign informed customers on the types of SME support programmes available during the pandemic, resulting in a 200% increase in enquiries.

Enhancing the Customer Experience

We continue to enhance processes, products and services, keeping customer satisfaction at the core of our offerings.

K E Y I N I T I A T I V E S

■ Introducing Flexi-Hire Purchase for SMEs and Individuals

SMEs needing equipment loans can opt to service only the loan interest for the first year with no principal payment. The scheme is an alternative financing option and provides repayment flexibility for customers who prefer a lower cash outlay in the first year of their loan.

This competitive scheme was introduced for car loans. Feedback from business partners has been positive as the loan encouraged more showroom enquiries from potential car buyers, resulting in more hire purchase business.

■ Maintaining Fair Dealing

We are committed to providing our customers with accurate, transparent and appropriate advice, enabling them to make well-informed decisions for their financing needs. As we innovate and develop new products and services to meet our customers' changing needs, we ensure that employees are well-trained to provide quality and appropriate recommendations. In 2020, we released an updated Code of Conduct in compliance with the latest regulatory requirements to guide employees on ethical business conduct, and organised relevant courses and briefings by subject matter experts for employees.

■ Being Responsive to Customer's Feedback

We track customers' feedback via service calls, our website, and face-to-face interactions with customers. In 2020, 52% of feedback were compliments and suggestions as compared to 40% in 2019. All compliments were service-related, while majority of suggestions were on processes improvements.

Through CEC, we rolled out the use of SMS alerts to replace hardcopy fixed deposit renewal notices to customers in 2020. About 88% of customers benefited from the improved service of more timely reminders, while the hardcopy option remains available for customers with limited digital access.



SUSTAINABILITY REPORT

Supporting Our Customers During the Pandemic

We introduced programmes that complemented Singapore's Budget 2020, and Resilience, Solidarity and Fortitude Budgets to support our SME and individual customers throughout the pandemic.

During Circuit Breaker, we progressively closed up to 20 branches and seven SME Centres at the branches for the safety of customers and employees. Customers were encouraged to reach us online for their financial needs. We appointed Branch Safe Distancing Ambassadors at our premises to ensure adherence to SMM, such as wearing of masks and using SafeEntry. Priority branch service was given to vulnerable customers such as the elderly and pregnant, during dedicated hours.

KEY INITIATIVES

■ Rolling Out of Covid-19 Loan Reliefs

Loan relief measures were implemented to help individuals and businesses operating in Singapore mitigate their cashflow difficulties. As at 31 December 2020, we have approved over 1,000 loan relief applications to both SME and individual customers.

For SMEs, these measures included providing additional loans against their owner-occupied properties and offering collateral-free SME Bridging Loans that were released in tranches according to their cashflow needs.

Loan payment deferment up to 31 December 2020 and loan term extension by the corresponding principal deferment period for specific loans were also available for

companies and individuals under the Special Financial Relief Programme ("SFRP").

■ Supporting Enhanced Enterprises Singapore Financing Schemes

We supported the Enhanced SME Working Capital Loan and Temporary Bridging Loan Programme by Enterprise Singapore, by offering our customers these collateral-free loans with a rate reduction and fee waiver.

■ Offering Extended Support Schemes ("ESS")

While the SFRP ended on 31 December 2020, we continue to render further cashflow help through ESS by deferring partial principal repayment and restructuring of existing credit facilities for some loans to businesses and individuals.



HLF produced two in-house videos to illustrate the relief packages offered and SMM at branches. The videos were shared digitally, allowing for effective delivery of the messages.



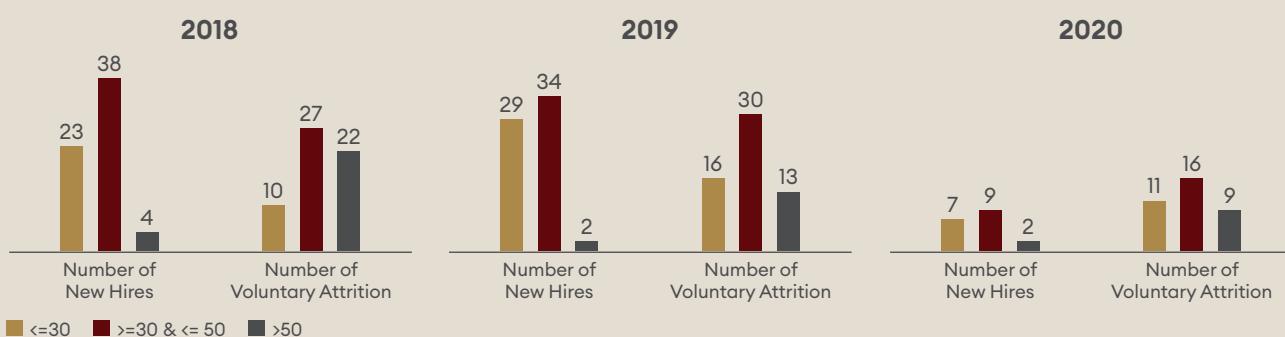
SMM at branches included wearing of masks, temperature taking and enhanced cleaning and disinfection of high touchpoint surfaces like counters and door handles.

EMPLOYEE WELL-BEING AND DEVELOPMENT (Economic / Social)

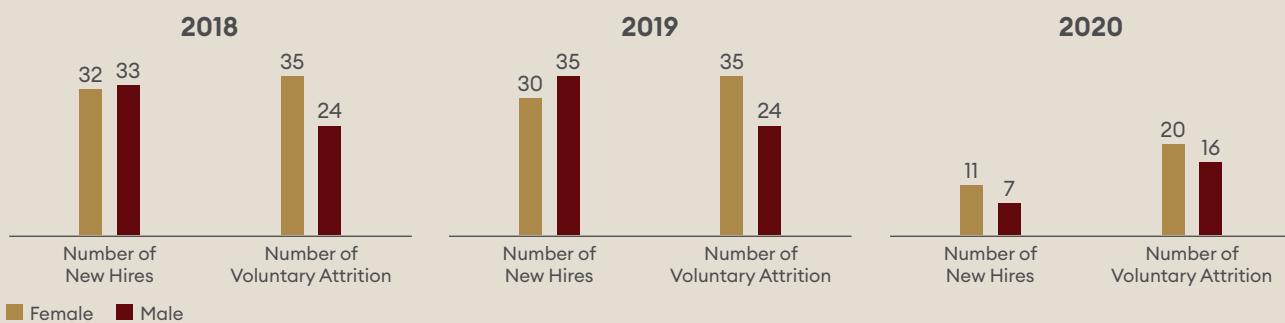


We continue to invest in the professional and personal well-being of our 617 employees. We are committed to creating a work environment that is diverse, inclusive and positive, regardless of gender, age, ethnicity and background.

By Age Group



By Gender



Supporting Employees' Well-Being During the Pandemic

During Covid-19, we adopted measures to provide a safe working environment, which include implementing flexible work arrangements, encouraging the use of video-conferencing platforms, and providing masks and hand sanitisers.

We also supported the government's call to support domestic talent and wage restraint while keeping employee retrenchment at bay. As at 31 December 2020, local employees make up 96% of our total workforce, and our recruitment policy continues to prioritise Singapore citizens and permanent residents.

Supporting Employees' Continuous Learning and Development

While Covid-19 disrupted training plans, it strengthened our efforts in the upskilling and training of our employees. We leveraged on enhanced training grants, and continued sending our employees for training, with our approach focused on 3Rs – Refocus, Resilience, Relevance.

Selected online courses were identified and our employees attended training in virtual classrooms and online e-learning modules from home. These included courses on Data Analytics, Agile and Scrum frameworks, Digital Mindset and Transformation, as well as Digital Advertising and Marketing, which have increased relevance to our work.

SUSTAINABILITY REPORT

Refocus

The four main pillars introduced in SR 2019 were refocused into three essential prongs that better encapsulate the changing needs of the industry:

ESSENTIAL PRONGS	OBJECTIVES
Core Skills	To develop technical and non-technical skills, knowledge, and understanding that underpin successful participation at work.
Adaptive Skills	To develop competencies like critical thinking and effective communication skills that help employees to better navigate changes. This will build quicker responses and more agile problem-solving skills, while fostering transformation at the workplace.
Future Enabled Skills	To equip employees with digital skills and take advantage of new opportunities in the future economy.

Resilience

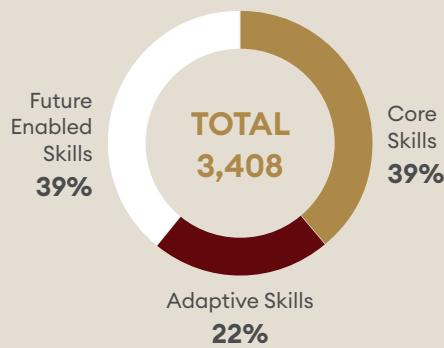
We embarked on our Digital Learning journey in 2019, where we created a complementary technology-based learning environment for employees. Due to Covid-19, we converted all classroom training sessions to live virtual classes. We worked with our learning partners to enable self-paced e-learning as employees worked from home.

Relevance

To remain relevant and anticipate the needs of rapid technological and market changes, it is vital that our employees keep abreast of the latest industry developments and be future-ready.

In 2020, our employees attended 288 courses with 3,408 training places targeted at specific skill sets and tailored to their professional roles.

Training Places based on Training Category (%)



AVERAGE TRAINING HOURS		
2020	2019	2018
12 hours	28 hours	22 hours

Although the average training hours clocked was more than 50% shorter than 2019 overall, our employees attended a much larger collection of about 290 training courses that cover a gamut of industry skills, such as financial dispute resolution, design thinking, data analytics and IT security. This marked increase of almost 80 additional courses attended in 2020, was largely due to our employees utilizing the online platform which offered a large curated selection of trending e-learning topics and allowed them to complete at their own pace in a safe online environment.



Participants attending the Explore Data Analytics training via video conference

RESPONSIBLE FINANCE

(Economic / Social / Governance / Environment)



We are committed to carrying out responsible lending practices to ensure that our ESG risks are well managed and we do not directly or indirectly contribute to adverse impacts on people, the environment and the economy.

K E Y I N I T I A T I V E S

Our portfolio comprises mainly personal, SME and corporate loans. Among corporate borrowers, only about 1% of our loan portfolio operates in sectors with elevated ESG risk profiles as identified by ABS. For these borrowers, our internal processes stipulate that ESG risks must be mitigated by attaining ISO certification on environmental management, and compliance with the Singapore Standard on the Code of Practice for pollution control, among other means. To date, we do not have exposure to borrowers with unmitigated ESG risks and we continue to monitor those with elevated ESG risk profiles.

ESG risk analysis is a part of the review process for all corporate borrowers. In line with the Responsible Financing Guidelines (“RFG”) by ABS, our due diligence process includes the following components:

■ ESG Risk Profile Assessment

Conducting ESG checks on companies at loan origination and annual checks on companies with the following characteristics:

- Operating in eight sectors identified to have an elevated risk profile, as per the RFG, including agriculture, energy and forestry. For borrowers in these industries, our Relationship Managers (“RMs”) conduct a detailed risk assessment together with them.
- Previously identified to have ESG issues from the last assessment.

SCOPE OF RFG CONSIDERATIONS ON ESG ISSUES

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

Where ESG issues are identified and depending on the scale, a timeline will be suggested for the borrower to comply, with progress reviewed periodically. The decision on the loan is assessed on a case-by-case basis. Where appropriate, specific sector guidance or approach for ESG-sensitive industries are incorporated to provide further information on ESG risks unique to that industry.

As part of our internal ESG capacity-building efforts, employees from the Business, Credit and Risk Management Departments have attended ESG-related training organised by ABS. Similarly, our RMs are trained internally on our ESG framework and policies.

SUSTAINABILITY REPORT

CORPORATE GOVERNANCE (Governance)



We conduct our business activities with highest standards of corporate governance, accountability and transparency. We pay particular attention to anti-corruption and combating financial and cybercrime. Managing these issues ensure we retain our customers' trust, and enhances our reputation, in turn protecting the long-term value we create.

Ethical Business Conduct, Anti-Corruption and Combating Financial and Cybercrime

We view corruption and financial and cybercrime as significant risks to our business and reputation. Business ethics and conduct are addressed within our governance framework by establishing and maintaining an effective risk culture that promotes good conduct.

Our Board is responsible for ensuring we maintain high standards of corporate governance and comply with all applicable laws and regulatory requirements. The Board provides leadership, sets strategic goals, oversees HLF's governance framework and monitors performance.

Conflict of Interest

To prevent conflict of interest, we have instituted the segregation of business activities within the company, such as using "Chinese Walls" and written policies and procedures to limit the flow of confidential and price-sensitive information between departments. We also have in place internal controls on personal dealing that is reviewed biannually.

Preventing Fraud

Our Fraud Policy provides guidance to employees on matters relating to fraudulent activities. Any cases of suspected corruption or fraud are reported to the relevant authorities through our Legal or Internal Audit Department.

This year, we had one incident of an email impersonation scam after a customer's email was compromised. The case did not result in any financial loss to HLF, public legal case against HLF or our employees, or employees being dismissed. It was handled in accordance with our Fraud Policy, and the regulator was duly informed.



Foiling Scam With Quick Wit and Basic Instincts

HLF staff was recently commended for their quick wit and public spiritedness by the Singapore Police Force. Ms Chua Soke Ling and Mr Francis Tan from the Jurong West Branch were presented with the Public Spiritedness Award by Jurong West NPC Commanding Officer Superintendent Mr Tan Yong Hong, who applauded their vigilance and efforts in thwarting a love scam.

An anxious HLF customer had wanted to quickly withdraw on a \$22,500 fixed deposit. Noticing how the request was made in an unusual manner, Ms Chua's first instincts were to probe further. She then found out that the money was meant to be transferred to a stranger.

To ensure that the customer was not a victim of crime, Ms Chua immediately alerted Branch Manager Mr Francis Tan. Both of them interviewed the customer further and concluded that it might be a love scam. Ms Chua and Mr Tan then put the customer's withdrawal request on hold and contacted the next-of-kin, who subsequently reported the incident to the police. The scam was successfully foiled.



HLF Jurong West Branch Senior Officer Ms Chua Soke Ling and Branch Manager Mr Francis Tan (front row) received the Public Spiritedness Award by the Singapore Police Force. They are pictured above with HLF Vice President, Branches, Ms Karen Fong, Jurong West NPC Commanding Officer Superintendent Mr Tan Yong Hong and HLF First Vice President and Head, Branches, Ms Pauline Tan. (Photo credit: Singapore Police Force Jurong West Neighbourhood Police Centre)

Anti-Money Laundering (“AML”) and Countering the Financing of Terrorism (“CFT”)

To manage the money laundering and terrorist financing risk, HLF has a defined AML/CFT policy in place, along with compliance advisory capabilities, employee trainings, compliance assurance reviews and transaction monitoring.

In end-2019, we rolled out a Know Your Client system and a transaction monitoring system. These systems facilitate daily customer screening and holistic reviews of customer transactions to detect unusual or suspicious activities against their respective backgrounds and profiles.

This year, the Compliance Department rolled out the AML/CFT Self-Assessment Questionnaire (“SAQ”), through which we hope to achieve:

- 1** Employee awareness and understanding of the prevailing AML/CFT regulations and policies;
- 2** Identify areas of weakness and improvement in the AML/CFT process; and
- 3** Identify actions to address those areas of weakness and improvement to be made to the AML/CFT process.



SUSTAINABILITY REPORT

Whistleblowing

HLF has in place a whistleblowing policy where employees or other persons can raise in confidence concerns on possible improprieties relating to accounting, financial reporting, internal controls, auditing, or other matters. In line with our policy, improprieties can be reported without fear of reprisals. For further details on this policy, please refer to [our website](#).

Employee Training

Anti-Corruption, Fraud and Whistleblowing

Courses on anti-corruption, fraud and whistleblowing are part of our Orientation Programme. Through the courses, new hires understand the potential risk of corruption against the company, and how to recognise, address, resolve and prevent instances of corruption which may arise during their work. Employees also learn key terms, which help them identify when and how to use our whistleblowing mechanism, and how whistleblowers are protected.

AML and CFT

All new employees are provided with training on AML and CFT during Orientation and we provide refresher training to the Board and all employees biennially. Last year, all employees completed the AML and CFT biennial refresher training.

More details on our corporate governance practices can be found in the Corporate Governance Report on pages 28 to 59.

Risk Management

HLF implements a prudent approach to risk with strong management controls to support sustainable business growth and minimise potential losses. The approach to managing risk is based on a robust control framework and a strong risk management culture which are the foundation for the delivery of effective risk management. Governance is maintained through

delegation of authority from the Board to all employees through the management hierarchy.

Enhancing Risk Management Practices

In the past year, we have continued to embrace the uncertainties facing HLF, and developed strategies to benefit from or minimise their impact on the achievement of our purpose and approach.

Some enhanced risk management practices during this period are:

- Continuing to embrace a strong risk culture for all employees throughout HLF;
- Updating capabilities to strengthen operational risk management reporting and analysis; and
- Continuously improving our business continuity management practices during Covid-19.

More details on our risk management practices can be found in the Risk Management Report on pages 60 to 65.

Enhancing Business Resilience

Our Crisis Management team was fully engaged with the management of Covid-19 throughout 2020. Domestic spread of the virus was detected in Singapore in early February 2020 and the situation was under control with the sound administration of our strong Business Resilience Programme (“BRP”). The programme was enhanced with additional safety measures, including the appointment of Safe Management Officers to ensure regulations and responsibilities are effectively performed and managed. Clear lines of communication to all employees were established with timely and regular flow of information to facilitate quick decisions and early actions.

Overall, the pandemic has strengthened our resilience to weather unforeseen crises and sharpened our responses with an enhanced BRP. We will continue to build on our business continuity planning moving forward.

DATA PROTECTION, DATA PRIVACY AND CYBERSECURITY

(Economic / Social / Governance)



As we continue to leverage digital tools to innovate and drive business growth, we are increasingly cautious of the risks associated with technology. Customer data protection and privacy, and cybersecurity are vital to us as we produce, collect and use many different types of data in our business operations. To tackle data security issues, we built a strong IT security team and continually invest in strengthening our infrastructure for early detection of attempted cyberattacks. By doing so, our employees are equipped with the necessary tools and skills to protect themselves and customers against data theft.

Data Protection and Privacy

In 2020, in addition to the existing policies on Data Protection, Data Classification and Data Breach Management, we have added Data Intermediary Guidance. This provides guidance for employees to ensure that the standard of data protection is in place when dealing with third party service providers, thus providing assurance and confidence to our customers on the standard of care that is expected of these third parties.

We provide regular communiqué bulletins and annual data management trainings to employees to ensure a better corporate governance outcome, and boost employees' risk awareness on the need for data protection and privacy.

Cybersecurity

We continue to invest in cybersecurity capabilities to safeguard our customers' money and information. We are in a strong position to

protect our database and systems and keep customers safe from the increasing pace, scale and sophistication of cyberattacks. Our IT security team works to ensure we detect, respond and recover quickly in the event that a cyber threat becomes a reality.

Our security tools are constantly upgraded to defend against the latest cyber threats in terms of monitoring, detecting and protection.

While technical controls are important, people are our first line of defence. Educating our employees is key to fostering a security-centric culture at HLF. Cybersecurity is everyone's responsibility and our educational and awareness programmes have proven successful in informing and empowering employees to play their part.



SUSTAINABILITY REPORT

ENVIRONMENTAL MANAGEMENT (Environment)



As an office-based company, our direct ecological footprint is not where we make the greatest impact. Our primary focus on addressing environmental issues is linked to our financing activities. However, we continue to do our part for the environment by supporting the go-paperless initiative and various efforts.

Due to social distancing requirements arising from Covid-19, the number of employees in office premises were reduced. This has contributed to a significant reduction of paper usage and lower energy consumption and Scope 2 emissions in 2020. Overall reductions were by 38.5%, 2.7% and 2.7% respectively.

Reducing Paper Usage

The following initiatives were in place to reduce paper consumption:

- **E-Reporting System**

With the progressive migration to our new e-reporting system across departments, products and services, we continue to see lower paper usage as hardcopy reports are printed in lower frequency and smaller quantity.

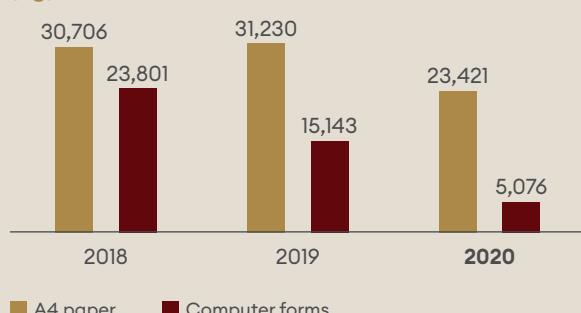
- **Electronic Fund Transfer**

We adopted electronic payment modes with customers, banks and suppliers, replacing paper instructions and cheque issuance.

- **E-Payslip and E-Claims Systems**

We rolled out e-payslip and e-claims systems to eliminate the printing and use of paper forms. It also helps to streamline processes, enhance operational efficiencies, enable documentation of approvals, and provide an electronic audit trail.

Breakdown by paper consumption (kg)

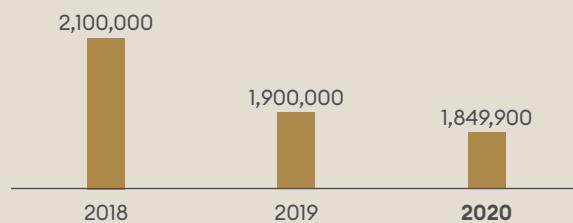


Reducing Energy Consumption

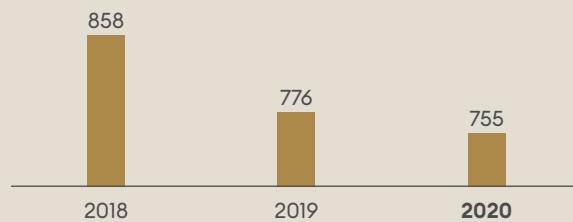
We reduced our GHG emissions through initiatives such as engaging our employees on energy efficiency and upgrading our existing infrastructure and facilities. The initiatives included:

- Progressive replacement of faulty printers and scanners with energy-efficient multi-function printers; and
- Upgrading of lighting at branches to LED system.

Energy Consumption (kWh)



Scope 2 Emissions (tonne CO₂e)



Note

The Scope 2 GHG emissions are from the consumption of purchased electricity. The emission figures for 2019 and 2018 have been restated to reflect the latest conversion factors published by the Energy Market Authority (Electricity Grid Emission Factor updated on 29 October 2020). Water consumption figures are not reported as the overall impact was not material.

COMMUNITY

(Social)



We are committed to serving and giving back to the communities in which we operate. While community investment may not be identified as a material issue for HLF, we want to create meaningful impact in the wider community by committing resources to support social causes that are aligned with our values, and bolster employee engagement with volunteering opportunities.

KEY INITIATIVES

■ Children for Children Fundraising Event

HLF, together with Hong Leong Group, carried on our support for the third year as a sponsor for the Children for Children annual fundraising campaign. The campaign is jointly organised by The Business Times, CHIJ Kellock and The Rice Company Ltd to raise funds for The Business Times Budding Artists Fund (“BT BAF”). The sponsorship enabled 1,000 underprivileged children to spend a joyful day at Universal Studios Singapore and help BT BAF nurture and support the development of talented children from needy families.



Screengrabs from the Children for Children 2020 concert, which was held virtually this year due to Covid-19.

■ Assisi Hospice Fundraising

HLF supported Assisi Hospice's fundraising event Assisi Fun Day for the third consecutive year, which was done virtually in 2020 due to Covid-19. HLF set up a virtual snack stall during the 10-day e-fair to raise funds to provide palliative home and inpatient care to patients with life-limiting illnesses. The stall was managed by nine employees throughout the virtual fair and raised over \$5,000.

FINANCIAL ANALYSIS AND REVIEW

FINANCIAL ANALYSIS

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

	2020 \$mil	2019 \$mil	Variance* +/(−) %
Selected Profit and Loss Items			
Net interest income/hiring charges	146.8	201.7	(27.2)
Fee and commission income	10.2	13.7	(25.4)
Other operating income	1.7	0.3	429.0
Income before operating expenses	158.7	215.7	(26.4)
Less: Operating expenses	76.3	90.2	(15.4)
Profit from operations before allowances	82.4	125.5	(34.3)
Less: Allowances for doubtful debts and other financial assets net of reversal or recovery of doubtful debts	7.7	1.6	390.1
Profit before tax	74.7	123.9	(39.7)
Profit after tax attributable to owners	63.9	103.1	(38.0)
Selected Balance Sheet Items			
Loans, advances and receivables (net of allowances)	10,948	11,554	(5.2)
Deposits and balances of customers	11,194	12,307	(9.0)
Total assets	13,365	14,461	(7.6)
Total liabilities	11,447	12,547	(8.8)
Total equity	1,918	1,914	0.2
Key Financial Ratios			
Net interest margin (%)	1.1	1.5	
Net interest income/total income (%)	92.5	93.5	
Non-interest income/total income (%)	7.5	6.5	
Cost/income ratio (%)	48.1	41.8	
Loans/deposits ratio (%)	98	94	
Non-performing loans ratio (%)			
- Secured by collateral	0.9	0.7	
- Unsecured and fully provided for	0.1	0.1	
Return on equity (%)	3.3	5.4	
Return on assets (%)	0.5	0.7	
Capital adequacy ratio (%)	16.4	15.0	
Earnings per share (cents)			
- per basic share	14.3	23.1	
- per diluted share	14.3	23.0	
Net assets per share (\$)			
- per basic share	4.29	4.28	
- per diluted share	4.18	4.17	

* Calculated based on actual figures before rounding.

	2020 cents	2019 cents
Dividend per share (tax exempt)		
- interim	3.5	5
- final	5.5	10
Total	9	15

FINANCIAL OVERVIEW

The Group reported profit from operations before allowances of \$82.4 million for the year ended 31 December 2020, declined by 34.3% from \$125.5 million in the previous year on the back of a Covid-19 pandemic-induced economic recession. The net attributable profit was \$63.9 million in 2020, 38.0% down from \$103.1 million a year ago. In line with industry practice, higher general loan loss allowances was set aside against inherent credit risk amid uncertainties arising from Covid-19 pandemic.

The net interest income for 2020 fell 27.2% to \$146.8 million, driven by compressed net interest margin as the dip in interest yields outweighed the saving in lower cost of fund amid falling interest rate. In the light of sustained low interest rate environment, we will moderate our loan growth and pare down our deposit base to manage the downside pressure on interest margin and stay vigilant in managing the credit portfolio. We will also calibrate on our lending and funding strategies to enhance our earnings.

Fee and commission income decreased by 25.4% to \$10.2 million with lower fee income earned from both lending and non-lending activities in 2020.

Total operating expenses including the budget relief measures from Singapore Government totalling \$76.3 million declined by 15.4% from a year ago. Excluding the offset from Jobs Support Scheme, Covid-19 support grant and rebates totalling \$10.4 million, total operating expenses reduced by 4.0% as staff compensation and discretionary expenses were tightly managed.

Arising from the conservative build-up of general allowances for non credit-impaired loans to recognise the possible downside risks inherent in the current economic conditions and higher credit loss allowances for credit-impaired loans, net allowances for loans and other financial assets for 2020 rose to \$7.7 million (2019: \$1.6 million). Our exposure to riskier sectors significantly impacted by Covid-19 remain low and our overall portfolios are largely collateralised. The Group continues to monitor its asset quality and maintains adequate loss allowances, taking into account the impact of on-going Covid-19 pandemic.

Net loan assets stood at \$10,948 million as at 31 December 2020, down 5.2% or \$606 million over the previous year's base of \$11,554 million as at 31 December 2019, on the backdrop of slower business momentum triggered by the global lockdown and restriction.

In tandem with the lower loan balances, deposits and balances of customers were pared down to \$11,194 million as at 31 December 2020, decreased 9.0% or \$1,113 million over the previous year's base of \$12,307 million as at 31 December 2019. Cash and cash equivalents including statutory deposit with the Monetary Authority of Singapore ("MAS") together with Singapore Government debt securities and MAS Bills held as liquid assets amounted to \$2,337 million as at 31 December 2020 (31 December 2019: \$2,818 million). The Group continues to maintain strong levels of capital, funding and liquidity and remains well-positioned to ride through current market uncertainties.

FINANCIAL ANALYSIS AND REVIEW

Group shareholders' funds as at 31 December 2020 totalled \$1,918 million (31 December 2019: \$1,914 million) with net asset value at \$4.29 per share (31 December 2019: \$4.28 per share). The Group continues to maintain a strong capital adequacy ratio of 16.4% as at 31 December 2020, higher than the prescribed requirement.

An interim dividend of 3.5 cents per share (tax exempt one-tier) was paid on 9 September 2020. With the proposed payment of a final dividend of 5.5 cents per share (tax exempt one-tier) in respect of the financial year ended 31 December 2020, subject to the approval of shareholders at the forthcoming Annual General Meeting, the total distribution for 2020 will amount to approximately \$40.3 million, compared to \$67.1 million for 2019. This represents a dividend payout ratio of 63.0% for financial year 2020, as compared with 65.1% in financial year 2019.

This report is made up to the date of the release of the financial statements announcement for the full year ended 31 December 2020 based on figures that have been audited.

ANALYSIS OF PERFORMANCE

Net Interest Income

Net interest income includes hiring charges. Overall, net interest income decreased by 27.2% to \$146.8 million in 2020 from \$201.7 million in 2019 arising from sustained low interest rates. Net interest income was the major source of income contributing 92.5% (2019: 93.5%) to total income.

Net interest margin as a percentage of interest-bearing assets stood at 1.1% in 2020 (2019: 1.5%).

	2020			2019		
	Average Balance \$mil	Interest \$mil	Average Rate %	Average Balance \$mil	Interest \$mil	Average Rate %
Interest-bearing Assets						
Loans, advances and receivables	11,288	282.4	2.5	10,956	349.9	3.2
Singapore Government debt securities and MAS Bills	1,437	20.2	1.4	1,454	26.0	1.8
Other assets	804	8.1	1.0	1,153	20.5	1.8
Total	13,529	310.7	2.3	13,563	396.4	2.9
Interest-bearing Liabilities						
Deposits and balances of customers	11,741	163.1	1.4	11,775	193.6	1.6
Borrowings (unsecured)	3	0.1	1.3	-	-	-
Borrowings (secured)	13	-	0.1	-	-	-
Other liabilities	4	0.1	3.8	6	0.3	4.1
Total	11,761	163.3	1.4	11,781	193.9	1.6
Net interest income/margin as a percentage of interest-bearing assets	-	147.4*	1.1	-	202.5*	1.5

* Before deducting interest expense on lease liabilities of \$0.6 million (2019: \$0.8 million).

Volume and Rate Analysis

Increase/(decrease) for 2020 over 2019 due to change in	Volume \$mil	Rate \$mil	Total \$mil
Interest Income			
Loans, advances and receivables	10.6	(78.1)	(67.5)
Singapore Government debt securities and MAS Bills	(0.3)	(5.5)	(5.8)
Other assets	(6.2)	(6.2)	(12.4)
Net	4.1	(89.8)	(85.7)
Interest Expense			
Deposits and balances of customers	(0.5)	(30.0)	(30.5)
Borrowings (unsecured)	0.1	-	0.1
Borrowings (secured)	-	-	-
Other liabilities	(0.2)	-	(0.2)
Net	(0.6)	(30.0)	(30.6)
Net interest income	4.7	(59.8)	(55.1)

Non-Interest Income

Non-interest income decreased by 14.9% to \$11.9 million in 2020 (2019: \$14.0 million). Fee and commission income which constituted 85.6% (2019: 97.7%) of non-interest income was \$10.2 million in 2020 (2019: \$13.7 million).

Total non-interest income for 2020 was 7.5% of total income, up from 6.5% for 2019, with the non-lending portion comprising 0.7% of total income (2019: 0.7%).

	2020 \$mil	2019 \$mil	Variance* +/- (%)
Fee and Commission Income			
Loan related and other financing business	9.2	12.2	(24.3)
Non-lending business including corporate advisory services and other trailer fees	1.0	1.5	(34.6)
	10.2	13.7	(25.4)
Other Operating Income	1.7	0.3	429.0
Total	11.9	14.0	(14.9)

* Calculated based on actual figures before rounding.

FINANCIAL ANALYSIS AND REVIEW

Operating Expenses

Total operating expenses decreased by 15.4% to \$76.3 million in 2020 from \$90.2 million in 2019.

	2020 \$mil	2019 \$mil	Variance* +/(−) %
Staff costs	54.7	67.7	(19.2)
Depreciation of property, plant and equipment	7.9	8.1	(1.8)
Other operating expenses	13.7	14.4	(5.0)
Total	76.3	90.2	(15.4)
Group staff strength – period end	617	640	(3.6)
Group staff strength – average	630	635	(0.8)

Total operating expenses includes the offset of Jobs Support Scheme, Covid-19 support grant and rebates from budget relief measures amounting to \$10,390,000 (31 December 2019: \$98,000) for the year ended 31 December 2020. Excluding the budget relief measures, total operating expenses reduced by 4.0%.

Analysis of Gross Loan Portfolio

(a) Customer loans by product group

The Group continues to focus on its key pillar business with mortgage loan from residential and commercial sectors made up 73% of total portfolio (2019: 71%). The housing and HDB loans component stood at 11% of the total (2019: 12%) of which HDB home loans made up of 7% (2019: 8%). HP Vehicles formed 13% of total loan portfolio as at 31 December 2020 (2019: 14%) with remaining portfolios supporting small and medium enterprise (“SME”) loans.

	2020 \$mil	2020 %	2019 \$mil	2019 %
Property Loans – Residential/ Commercial	7,961	73	8,159	71
Housing and HDB Home Loans	1,186	11	1,403	12
HP Industrial/Vehicles	1,585	14	1,765	15
Share Loans	108	1	138	1
Others	135	1	109	1
Total	10,975	100	11,574	100

* Calculated based on actual figures before rounding.

(b) Customer loans by remaining contractual maturity

	2020	2019		
	\$mil	%	\$mil	%
Reviewable/due within 1 year	2,425	22	2,456	21
Due after 1 year but within 3 years	3,726	34	3,560	31
Due after 3 years but within 5 years	1,935	18	2,257	19
Over 5 years	2,889	26	3,301	29
Total	10,975	100	11,574	100

(c) Non-performing loans

The loan portfolio includes secured non-performing loans of 0.9% of the portfolio in 2020 (2019: 0.7%) together with unsecured non-performing loans of 0.1% of the portfolio in 2020 (2019: 0.1%). The Group maintains full specific allowances for all non-performing loans where the net outstanding debt is not covered by the value of the collateral held. The NPL ratio remains stable at 1.0% (2019: 0.8%).

There are no loans and advances graded as doubtful as at 31 December 2020 and 2019.

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

	2020 \$mil	2019 \$mil	Variance* +/(-) %
Substandard	96.7	85.3	13.4
Loss	8.1	6.6	23.3
Total	104.8	91.9	14.1
(i) Secured non-performing loans (“NPLs”)	96.7	85.3	13.4
Secured NPLs as % of total NPLs	92.3	92.9	(0.6%pt)
(ii) Unsecured NPLs	8.1	6.6	23.3
Specific allowances for NPLs	8.1	6.6	23.3
(iii) Specific allowances as % of total NPLs	7.7	7.1	0.6%pt

* Calculated based on actual figures before rounding.

FINANCIAL ANALYSIS AND REVIEW

(c) Non-performing loans (continued)

Analysis of non-performing loans by industrial classification

	2020	2019		
	\$'000	%	\$'000	%
Manufacturing	355	–	504	1
Building and construction	23,426	22	9,502	10
General commerce	6,372	6	2,064	2
Transport, storage and communication	2,827	3	3,042	3
Investment and holding companies	48	–	–	–
Professional and private individuals	71,099	68	75,791	83
Others	661	1	950	1
Total	104,788	100	91,853	100

Analysis of non-performing loans by period overdue

	2020	2019		
	\$'000	%	\$'000	%
Over 180 days	34,861	33	25,011	27
Over 90 to 180 days	8,473	8	18,238	20
Less than 90 days	19,134	18	24,707	27
Not overdue	42,320	41	23,897	26
Total	104,788	100	91,853	100

Funding Sources

Total funding (including total equity) decreased by 7.6% in 2020 to \$13,365 million from \$14,461 million in 2019. Customers' deposits was \$1,113 million or 9.0% lower in 2020 closing at \$11,194 million from \$12,307 million in 2019 in line with lower funding requirements. The Group's loans to deposit ratio was 98% compared to 94% a year ago with the scale down of deposit to optimize loan funding. There are no bank borrowings outstanding as at 31 December 2020.

	2020 \$mil	2019 \$mil	Variance* +/(−) %
Fixed deposits	10,943	12,077	(9.4)
Savings deposits and other balances of customers	235	216	8.8
Current accounts and other deposits	16	14	14.4
Total customer deposits	11,194	12,307	(9.0)
Other liabilities	253	240	5.5
Total shareholders' equity	1,918	1,914	0.2
Total	13,365	14,461	(7.6)
Customer deposits by remaining contractual maturity			
On demand/up to 1 year	10,950	12,283	(10.9)
Over 1 year to 3 years	244	24	927.9
Total customer deposits	11,194	12,307	(9.0)

* Calculated based on actual figures before rounding.

Capital Adequacy Ratio

As at 31 December 2020, the capital adequacy ratio was 16.4% as compared to 15.0% a year ago amid slow down of loan growth. The Group maintains strong capital adequacy ratio well above the minimum regulatory requirement.

	2020 \$mil	2019 \$mil
Share capital	889	889
Reserves	949	906
Eligible total capital	<u>1,838</u>	<u>1,795</u>
 Risk-weighted assets	 11,212	 11,951
 Ratio	 16.4%	 15.0%

Date : 25 February 2021



D E L I V E R I N G
R E S I L I E N T
R E S U L T S



**Building on a strong track record
to endure new challenges and
deliver long-term value**

As a dedicated SME specialist, we have constantly refined our capabilities to deliver sustainable results for our stakeholders through the years. Building on our strong fundamentals has continued to fuel our progress, as HLF was named ASEAN Finance Company of the Year for the seventh consecutive year in 2020 and among the Top 1000 World Banks and Top 100 ASEAN Banks for the third year running in 2020.

FINANCIAL REPORT



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DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

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 2020.

In our opinion:-

- (a) the consolidated financial statements of the Group set out on pages 106 to 165 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 2020 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
 Kevin Hangchi
 Chng Beng Hua
 Cheng Shao Shiong @ Bertie Cheng
 Po'ad bin Shaik Abu Bakar Mattar
 Ter Kim Cheu
 Raymond Lim Siang Keat
 Peter Chay Fook Yuen
 Tan Tee How
 Tan Siew San
 Christian Gautier de Charnace (appointed on 5 August 2020)

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 of the financial year, or date of appointment if later, 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 2020

	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
<u>The Company</u>			
Shares			
Kwek Leng Beng			
Kwek Leng Beng	6,618,607	6,618,607	
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	1,051,960	814,960	
<u>Immediate and Ultimate Holding Company</u>			
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	518	
<u>Related Corporations</u>			
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	354,833	

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

	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
<u>Related Corporations (continued)</u>			
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	3,826,600	7,870,700	
Kwek Leng Kee	300,000	300,000	
Options to subscribe for ordinary shares under the Hong Leong Asia Share Option Scheme 2000			
Kwek Leng Peck	300,000	300,000	

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

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

Immediate and Ultimate Holding Company

Hong Leong Investment Holdings Pte. Ltd.
Ordinary Shares

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

The directors' interests in the Company as at 31 December 2020 disclosed above remained unchanged as at 21 January 2021 except for Mr Kwek Leng Peck whose option to subscribe for 300,000 ordinary shares under the Hong Leong Asia Share Option Scheme 2000 had lapsed on 4 January 2021.

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

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

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). The Share Option Scheme was extended at the annual general meeting of the Company held on 23 April 2010 for a further period of 10 years from 31 January 2011 to 30 January 2021. At the Company’s annual general meeting held on 25 June 2020, the shareholders approved the second extension of the duration of the Share Option Scheme for another period of 10 years from 31 January 2021 to 30 January 2031. 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:-

Peter Chay Fook Yuen (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.

(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
23.9.2020	23.9.2021 to 22.9.2030	2,812,000 (net of options not accepted)	\$2.31

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

- (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	163,000	5,390,000	2,015,040	2,560,000	814,960

- (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 15,235,950 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.

DIRECTORS' STATEMENT

YEAR ENDED 31 DECEMBER 2020

Audit Committee

The Audit Committee comprises three independent non-executive members of the Board of Directors:-

Po'ad bin Shaik Abu Bakar Mattar (Chairman)
 Ter Kim Cheu
 Tan Tee How

The Audit Committee performed its functions in accordance with its terms of reference which include those specified in the Act, the Listing Manual of the Singapore Exchange Securities Trading Limited ("Listing Manual") and the Code of Corporate Governance 2018.

In the performance of its functions, the Audit Committee met with the Company's internal and external auditors, and reviewed their audit plans as well as the scope and results of their examination and their evaluation of the Company's system of internal controls.

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

- assistance provided by the Company's officers to the internal and external auditors;
- half-yearly and annual financial statements of the Group and of the Company prior to their submission to the directors of the Company for approval; and
- the nature and level of audit and non-audit fees of the external auditors.

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 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

25 February 2021

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 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 106 to 165.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position 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 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group 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 to the financial statements)

The key audit matter

The Group's loans, advances and receivables to customers represent 82% of its total assets.

SFRS(I) 9 "Financial Instruments" requires 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 are highly subjective due to the judgement applied by management in estimating the future cash flows, including the realisable value of collaterals, if relevant, and consequently the ECL.

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.

In 2020, the resulting economic uncertainty from the Covid-19 pandemic has added further complexity to the level of judgement required by the Group in calculating the ECL.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HONG LEONG FINANCE LIMITED

How the matter was addressed in our audit

We tested the design, implementation and operating effectiveness of the key controls in place over the credit approval and review process. We performed sample checks of credit reviews on loans and advances to critically assess the appropriateness of the credit grading and any objective evidence of impairment. We also considered the modifications made by management to the ECL model to account for the effects of Covid-19.

In respect of non credit-impaired exposures, we assessed the appropriateness of the model methodology and parameters for compliance with SFRS(I) 9 requirements. We tested the accuracy and integrity of the inputs used to compute the ECL allowances.

For a sample of non credit-impaired exposures, we re-calculated the ECL allowance using the modelled attributes to test the mathematical accuracy of the calculations produced by the ECL model.

In respect of credit-impaired exposures, we 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. This includes checking 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.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HONG LEONG FINANCE LIMITED

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.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HONG LEONG FINANCE LIMITED

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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

25 February 2021

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
		Group	Company		
Number of shares in issue	4	447,552,473	447,526,473	447,552,473	447,526,473
		\$'000	\$'000	\$'000	\$'000
Share capital	4	889,117	889,051	889,117	889,051
Reserves	4	756,941	749,914	756,941	749,914
Accumulated profits		272,055	275,278	268,612	271,899
Equity attributable to owners of the Company		1,918,113	1,914,243	1,914,670	1,910,864
Liabilities					
Deposits and balances of customers	6	11,194,359	12,307,049	11,198,668	12,311,282
Trade and other payables	7	232,213	215,866	230,874	214,549
Current tax payable		19,480	21,828	19,474	21,823
Deferred tax liabilities	8	897	1,794	897	1,794
Total liabilities		11,446,949	12,546,537	11,449,913	12,549,448
Total equity and liabilities		13,365,062	14,460,780	13,364,583	14,460,312
Assets					
Cash at banks and in hand	9	613,775	947,430	612,762	946,428
Statutory deposit with the Monetary Authority of Singapore	9	317,621	338,393	317,621	338,393
Singapore Government debt securities and MAS bills	10	1,405,434	1,531,763	1,405,434	1,531,763
Loans, advances and receivables	11	10,947,909	11,554,302	10,947,909	11,554,302
Other receivables, deposits and prepayments	12	19,070	22,160	19,069	22,159
Subsidiaries	13	—	—	535	535
Investments (long-term)	14	—	—	—	—
Property, plant and equipment	15	61,253	66,732	61,253	66,732
Total assets		13,365,062	14,460,780	13,364,583	14,460,312
Acceptances, guarantees and other obligations on behalf of customers	16	4,054	3,804	4,054	3,804

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	Note	Group 2020 \$'000	2019 \$'000
Profit and loss account:			
Interest on loans		230,360	292,664
Hiring charges		52,086	57,200
Other interest income		28,339	46,492
Interest income/hiring charges		310,785	396,356
Less: Interest expense		163,937	194,652
Net interest income/hiring charges	17	146,848	201,704
Fee and commission income	18	10,229	13,714
Other operating income	19	1,714	324
Income before operating expenses		158,791	215,742
Less: Staff costs	20	54,678	67,675
Depreciation of property, plant and equipment	15	7,922	8,071
Other operating expenses	21	13,739	14,460
Total operating expenses		76,339	90,206
Profit from operations before allowances		82,452	125,536
Less: Allowances for doubtful debts and other financial assets net of reversal or recovery of doubtful debts	9, 11	7,733	1,578
Profit before income tax		74,719	123,958
Less: Income tax expense	22	10,810	20,873
Profit for the year/Comprehensive income attributable to owners of the Company		63,909	103,085
Earnings per share (cents)	23		
Basic		14.28	23.09
Diluted		14.28	23.05

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total equity \$'000
Group							
At 1 January 2019	884,440	702,994	2,307	4,755	16,544	262,658	1,873,698
Issue of shares under share option scheme		4,137					4,137
Value of employee services received for issue of share options					277		277
Value of employee services transferred for share options exercised or lapsed	474			(1,753)		1,279	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(982)	982	-
Comprehensive income for the year						103,085	103,085
Transfer to Statutory reserve		25,772				(25,772)	-
At 31 December 2019	889,051	728,766	2,307	3,279	15,562	275,278	1,914,243
At 1 January 2020	889,051	728,766	2,307	3,279	15,562	275,278	1,914,243
Issue of shares under share option scheme		62					62
Value of employee services received for issue of share options					319		319
Value of employee services transferred for share options exercised or lapsed	4			(1,201)		1,197	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2019						(44,756)	(44,756)
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(15,664)	(15,664)
Adjustment under MAS 811					(8,069)	8,069	-
Comprehensive income for the year						63,909	63,909
Transfer to Statutory reserve		15,978				(15,978)	-
At 31 December 2020	889,117	744,744	2,307	2,397	7,493	272,055	1,918,113

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 2020

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance \$'000	Accumulated profits \$'000	Total equity \$'000
Company							
At 1 January 2019	884,440	702,994	2,307	4,755	16,544	259,367	1,870,407
Issue of shares under share option scheme		4,137					4,137
Value of employee services received for issue of share options					277		277
Value of employee services transferred for share options exercised or lapsed	474			(1,753)		1,279	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(982)	982	-
Comprehensive income for the year						102,997	102,997
Transfer to Statutory reserve		25,772				(25,772)	-
At 31 December 2019	889,051	728,766	2,307	3,279	15,562	271,899	1,910,864
At 1 January 2020	889,051	728,766	2,307	3,279	15,562	271,899	1,910,864
Issue of shares under share option scheme		62					62
Value of employee services received for issue of share options					319		319
Value of employee services transferred for share options exercised or lapsed	4			(1,201)		1,197	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2019						(44,756)	(44,756)
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(15,664)	(15,664)
Adjustment under MAS 811					(8,069)	8,069	-
Comprehensive income for the year						63,845	63,845
Transfer to Statutory reserve		15,978				(15,978)	-
At 31 December 2020	889,117	744,744	2,307	2,397	7,493	268,612	1,914,670

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 2020

	Note	2020 \$'000	2019 \$'000
Operating activities			
Profit for the year		63,909	103,085
Adjustments for:-			
Impact of accrual of interest income		4,414	200
Impact of accrual of interest expense		(68,726)	45,495
Allowances for doubtful debts		8,219	2,811
Interest expense on lease liabilities		633	776
Depreciation of property, plant and equipment		7,922	8,071
Gain on disposal of property, plant and equipment		(1,357)	(62)
Value of employee services received for issue of share options		319	277
Income tax expense	22	10,810	20,873
		26,143	181,526
Changes in working capital:-			
Loans, advances and receivables		598,174	(1,279,450)
Other receivables, deposits and prepayments		(1,324)	(1,142)
Singapore Government debt securities and MAS Bills		126,329	(209,437)
Deposits and balances of customers		(1,112,690)	969,229
Trade and other payables		45,409	(4,286)
Cash used in operations		(317,959)	(343,560)
Income taxes paid		(14,055)	(36,379)
Cash flows used in operating activities		(332,014)	(379,939)
Investing activities			
Purchase of property, plant and equipment		(349)	(4,775)
Proceeds from disposal of property, plant and equipment		1,750	71
Cash flows from/(used in) investing activities		1,401	(4,704)
Financing activities			
Payment for lease liabilities		(6,370)	(6,689)
Proceeds from exercise of share options		62	4,137
Proceeds from borrowings		42,914	-
Dividends paid		(60,420)	(66,954)
Cash flows used in financing activities		(23,814)	(69,506)
Net decrease in cash and cash equivalents		(354,427)	(454,149)
Cash and cash equivalents at beginning of year		1,285,823	1,739,972
Cash and cash equivalents at end of year	9	931,396	1,285,823

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 25 February 2021.

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 2020 comprise 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)).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

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 initially recognised when 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Classification and subsequent measurement

Non-derivative financial assets

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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

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

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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

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.

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 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 in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(v) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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'.

(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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(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.

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) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (continued)

(i) As a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate as the discount rate.

The Group determines the lessee's incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in trade and other payables in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment

(i) Non-derivative financial assets

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3c(iii).

For loans subjected to the Covid-19 repayment deferral arrangements, an assessment of any change to credit risk has been determined based on various measures of the customer's current financial position and earnings capacity. Significant increase in credit risk is then determined in accordance with the accounting policy set out in Note 3f(i).

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

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.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment (continued)

(ii) Non-financial assets (continued)

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

Impairment losses are recognised in profit or loss.

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

(g) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term employee benefits

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

(iii) Share-based payment transactions (continued)

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

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions determined for the long term are arrived at after discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability with the unwinding of the discount subsequently recognised as finance cost.

(i) Recognition of income and expense

(i) Interest

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Recognition of income and expense (continued)

(i) Interest (continued)

Income earned on trade finance and factoring accounts
Interest is charged principally on a monthly rest basis.

Income from debt securities

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

Income from bank deposits

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

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

Interest expense is accrued on a time-apportioned basis.

(ii) Fee and commission

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

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

(iii) Dividend income

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

(iv) Offsetting

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

(j) Government grants

Government grants are recognised as a receivable when there is reasonable assurance that the grant will be received. Grants that compensate the Group for expenses incurred are recognised in profit or loss as an offset against related expenses in the periods in which the expenses are recognised.

(k) 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.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Income tax (continued)

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

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

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

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

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.

(l) 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.

(m) 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 majority of the revenue for the Group is from the same business segment. Its principal 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.

(n) New standards and interpretations not yet adopted

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning after 1 January 2020 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 new standards, interpretations and amendments to standards are not expected to have a significant impact on the Group's consolidated financial statements and the Company's statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

4. CAPITAL AND RESERVES

Share capital

		Company	
		2020	2019
	Note	Number of shares	Number of shares
Fully paid shares, with no par value:-			
At 1 January		447,526,473	445,818,433
Issue of shares under share option scheme	5	26,000	1,708,040
At 31 December		447,552,473	447,526,473

In 2020, 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	
		2020	2019
		Number of shares	Number of shares
Exercise price			
\$2.74		-	120,000
\$2.28		500	425,500
\$2.45		-	329,500
\$2.56		-	233,000
\$2.66		-	72,000
\$2.34		-	268,500
\$2.23		15,500	165,540
\$2.61		-	74,500
\$2.58		10,000	19,500
		26,000	1,708,040

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	
		2020	2019
		\$'000	\$'000
Statutory reserve			
Capital reserve		2,307	2,307
Share option reserve		2,397	3,279
Regulatory loss allowance reserve		7,493	15,562
		756,941	749,914

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

4. CAPITAL AND RESERVES (CONTINUED)

Reserves (continued)

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 SFRS(I) 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.

Dividends

After the reporting date, the Directors proposed a final dividend of 5.5 cents per share, tax exempt one-tier, amounting to \$24,615,000 (2019: 10 cents per share, tax exempt one-tier, amounting to \$44,756,000) 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 3.5 cents per share, tax exempt one-tier, amounting to \$15,664,000 (2019: 5 cents per share, tax exempt one-tier, amounting to \$22,324,000) paid on 9 September 2020 (2019: 11 September 2019).

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). The Share Option Scheme was extended at the Annual General Meeting of the Company held on 23 April 2010 for a further period of 10 years from 31 January 2011 to 30 January 2021. At the Company's Annual General Meeting held on 25 June 2020, the shareholders approved the second extension of the duration of the Share Option Scheme for another period of 10 years from 31 January 2021 to 30 January 2031. 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 2020:-

Peter Chay Fook Yuen (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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

5. EMPLOYEE SHARE OPTIONS (CONTINUED)

- (b) Each option is exercisable, in whole or in part, during the option period applicable to that option subject to any conditions, including a vesting schedule, that may be imposed by the Share Option Scheme Committee in relation to any shares comprised in that option.
- (c) All options are settled by delivery of shares upon receipt of the exercise price in cash.
- (d) The options granted to Group Employees and Parent Group Employees expire 10 years from the date of grant. The options granted to Non-Group Employees expire 5 years from the date of grant.

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

	Weighted average exercise price 2020	Number of options 2020	Weighted average exercise price 2019	Number of options 2019
	\$	'000	\$	'000
At 1 January	2.62	15,076	2.62	16,187
Granted	2.31	3,006	2.62	3,488
Not accepted	2.31	(194)	2.62	(219)
Lapsed	3.04	(2,626)	2.74	(2,672)
Exercised	2.37	(26)	2.42	(1,708)
At 31 December	2.49	15,236	2.62	15,076
Exercisable at 31 December	2.53	11,858	2.62	11,405

The options outstanding at 31 December 2020 have an exercise price in the range of \$2.23 to \$2.66 (2019: \$2.23 to \$3.10) and a weighted average remaining contractual life of 6.5 years (2019: 5.8 years).

The weighted average share price at the date of exercise for share options exercised in 2020 was \$2.37 (2019: \$2.42).

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 2020

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	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	23.9.2019	23.9.2020
Fair value at grant date	\$0.49	\$0.28	\$0.31	\$0.36	\$0.29	\$0.17	\$0.13	\$0.20	\$0.11	\$0.08	\$0.17
Share price	\$3.09	\$2.29	\$2.45	\$2.60	\$2.67	\$2.30	\$2.22	\$2.60	\$2.58	\$2.60	\$2.30
Exercise price	\$3.10	\$2.28	\$2.45	\$2.56	\$2.66	\$2.34	\$2.23	\$2.61	\$2.58	\$2.62	\$2.31
Expected volatility	28.1%	27.2%	26.7%	25.7%	20.5%	15.0%	14.8%	14.8%	13.1%	12.9%	15.7%
Expected option life	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	5.9 to 10 years	6.1 to 10 years
Expected dividend yield	3.9%	5.2%	4.9%	4.6%	4.5%	4.4%	4.5%	3.9%	5.4%	5.8%	3.3%
Risk-free interest rate (based on government bonds)	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%	1.6 to 1.7%	0.5 to 0.9%

Employee expenses:-

	2020 \$'000	2019 \$'000
Share options granted in		
2016	-	6
2017	7	19
2018	16	188
2019	174	64
2020	122	-
Total expense recognised as employee costs	319	277

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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	28.9.2010	29.9.2011	14.9.2012	25.9.2013	25.9.2014	23.9.2015
Expiry date	27.9.2020	28.9.2021	13.9.2022	24.9.2023	24.9.2024	22.9.2025
Exercise price	\$3.10	\$2.28	\$2.45	\$2.56	\$2.66	\$2.34
Number of options outstanding at 1.1.2020	2,328,700	718,990	1,174,500	1,068,500	1,385,500	772,500
Options lapsed	(2,328,700)	(6,000)	(7,000)	(30,500)	(34,000)	(10,000)
Options exercised (1.1.2020 to 31.12.2020)	-	(500)	-	-	-	-
Number of options outstanding at 31.12.2020	-	712,490	1,167,500	1,038,000	1,351,500	762,500
Number of options exercisable at 1.1.2020	2,328,700	718,990	1,174,500	1,068,500	1,385,500	772,500
Number of options exercisable at 31.12.2020	-	712,490	1,167,500	1,038,000	1,351,500	762,500
Option exercise period of options outstanding at 31.12.2020						
29.9.2012 to 28.9.2021	vested on 29.9.2012	536,280				
	vested on 29.9.2013	86,790				
	vested on 29.9.2014	89,420				
14.9.2013 to 13.9.2022	vested on 14.9.2013		955,780			
	vested on 14.9.2014		104,280			
	vested on 14.9.2015		107,440			
25.9.2014 to 24.9.2023	vested on 25.9.2014			909,360		
	vested on 25.9.2015			63,360		
	vested on 25.9.2016			65,280		
25.9.2015 to 24.9.2024	vested on 25.9.2015				1,092,880	
	vested on 25.9.2016				127,380	
	vested on 25.9.2017				131,240	
23.9.2016 to 22.9.2025	vested on 23.9.2016					643,180
	vested on 23.9.2017					48,970
	vested on 23.9.2018					70,350

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

5. EMPLOYEE SHARE OPTIONS (CONTINUED)

	(7)	(8)	(9)	(10)	(11)
Date of grant of options	23.9.2016	21.9.2017	25.9.2018	23.9.2019	23.9.2020
Expiry date	22.9.2026	20.9.2027	24.9.2028	22.9.2029	22.9.2030
Exercise price	\$2.23	\$2.61	\$2.58	\$2.62	\$2.31
Number of options outstanding at 1.1.2020	895,460	1,209,000	2,268,500	3,254,000	-
Options granted	-	-	-	-	3,005,500
Options not accepted	-	-	-	-	(193,500)
Options lapsed	(6,500)	(30,500)	(65,500)	(89,000)	(18,000)
Options exercised (1.1.2020 to 31.12.2020)	(15,500)	-	(10,000)	-	-
Number of options outstanding at 31.12.2020	873,460	1,178,500	2,193,000	3,165,000	2,794,000
Number of options exercisable at 1.1.2020	895,460	1,104,960	1,955,945	-	-
Number of options exercisable at 31.12.2020	873,460	1,178,500	2,034,390	2,739,550	-
Option exercise period of options outstanding at 31.12.2020					
23.9.2017 to 22.9.2026	vested on 23.9.2017	671,405			
	vested on 23.9.2018	75,405			
	vested on 23.9.2019	126,650			
21.9.2018 to 20.9.2027	vested on 21.9.2018		973,480		
	vested on 21.9.2019		100,980		
	vested on 21.9.2020		104,040		
25.9.2019 to 24.9.2028	vested on 25.9.2019			1,880,445	
	vested on 25.9.2020			153,945	
	vesting on 25.9.2021			158,610	
23.9.2020 to 22.9.2029	vested on 23.9.2020				2,739,550
	vesting on 23.9.2021				209,550
	vesting on 23.9.2022				215,900
23.9.2021 to 22.9.2030	vesting on 23.9.2021				2,398,030
	vesting on 23.9.2022				195,030
	vesting on 23.9.2023				200,940

6. DEPOSITS AND BALANCES OF CUSTOMERS

	Group		Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Fixed deposits	10,943,459	12,077,180	10,947,768	12,081,413
Savings deposits and other balances of customers	234,641	215,653	234,641	215,653
Current accounts and other deposits	16,259	14,216	16,259	14,216
Total deposits and balances of customers	11,194,359	12,307,049	11,198,668	12,311,282

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

7. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Due after 12 months				
Borrowings from MAS SGD Facility	42,914	-	42,914	-
Amount due to Enterprise Singapore	762	2,740	762	2,740
Lease liabilities	35,152	38,835	35,152	38,835
	78,828	41,575	78,828	41,575
Due within 12 months				
Amount due to Enterprise Singapore	1,299	2,434	1,299	2,434
Interest payable	63,825	132,551	63,836	132,575
Other trade payables and accrued operating expenses	80,110	31,661	78,856	30,417
Other payables	1,718	1,645	1,622	1,548
Lease liabilities	6,433	6,000	6,433	6,000
	153,385	174,291	152,046	172,974
Total trade and other payables	232,213	215,866	230,874	214,549

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.

Borrowings from MAS SGD Facility is secured by assignment of eligible loan agreements amounting to \$47,682,000 (2019: \$Nil) as collaterals under Enterprise Singapore's Enhanced Enterprise Financing Scheme.

8. DEFERRED TAX

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

	Group and Company					
	Recognised		Recognised			
	At	in profit or loss	At	in profit or loss	At	
1 January			31 December		31 December	
2019	(Note 22)		2019	(Note 22)	2020	
\$'000	\$'000		\$'000	\$'000	\$'000	
Deferred tax liabilities/(assets)						
Trade and other payables	(190)	-	(190)	-	(190)	
Loans, advances and receivables	2,192	(168)	2,024	(751)	1,273	
Property, plant and equipment	(3)	(38)	(41)	(146)	(187)	
Other items	17	(16)	1	-	1	
Net deferred tax liabilities/(assets)	2,016	(222)	1,794	(897)	897	

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

9. CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Cash at banks and in hand	613,842	947,497	612,829	946,495
Less: Loss allowances				
At 1 January	67	26	67	26
Allowances made during the year	-	41	-	41
At 31 December	67	67	67	67
 Cash at banks and in hand, net	613,775	947,430	612,762	946,428
Statutory deposit with the Monetary Authority of Singapore	317,621	338,393	317,621	338,393
Total	931,396	1,285,823	930,383	1,284,821

10. SINGAPORE GOVERNMENT DEBT SECURITIES AND MAS BILLS

	Group and Company	
	2020 \$'000	2019 \$'000
Singapore Government debt securities and MAS Bills		
- Within 12 months	843,506	831,019
- After 12 months	561,928	700,744
	1,405,434	1,531,763
 Market value	1,423,039	1,538,664

Singapore Government debt securities and MAS bills are classified at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

11. LOANS, ADVANCES AND RECEIVABLES

	Group and Company	
	2020	2019
	\$'000	\$'000
(a) Loans, advances and receivables at amortised cost		
Due after 12 months		
Loans, advances and hire purchase receivables	8,606,852	9,188,873
Less: Unearned charges and interest	57,219	70,882
	8,549,633	9,117,991
Less: Allowances for doubtful debts		
– Loans and advances	17,131	11,863
– Hire purchase receivables	3,616	3,204
	20,747	15,067
	8,528,886	9,102,924
Due within 12 months		
Loans, advances, factoring receivables and hire purchase receivables	2,467,121	2,505,017
Less: Unearned charges and interest	42,073	49,384
	2,425,048	2,455,633
Less: Allowances for doubtful debts		
– Loans, advances and factoring receivables	4,511	2,914
– Hire purchase receivables	1,514	1,341
	6,025	4,255
	2,419,023	2,451,378
Total loans, advances and receivables	10,947,909	11,554,302
(b) Allowances for doubtful debts		
Stage 3 loss allowances		
At 1 January	6,562	7,717
Net allowances made during the year	2,297	1,378
Receivables written off against allowances	(769)	(2,533)
At 31 December	8,090	6,562
Stages 1 & 2 loss allowances		
At 1 January	12,760	11,327
Net allowances made during the year	5,922	1,433
At 31 December	18,682	12,760
Total allowances for doubtful debts	26,772	19,322

In addition to the above, included in allowances for doubtful debts and other financial assets net of reversal or recovery of doubtful debts are net recoveries of bad debts amounting to \$486,000 (2019: \$1,274,000), as recorded in the Consolidated Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

11. LOANS, ADVANCES AND RECEIVABLES (CONTINUED)

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

	Group and Company					
	2020			2019		
	Receivables \$'000	Interest \$'000	Principal \$'000	Receivables \$'000	Interest \$'000	Principal \$'000
Due within 1 year	508,641	40,823	467,818	568,546	47,780	520,766
Due after 1 year but within 5 years	1,099,928	55,863	1,044,065	1,222,168	68,860	1,153,308
Due after 5 years	74,005	1,275	72,730	92,646	1,743	90,903
Total	1,682,574	97,961	1,584,613	1,883,360	118,383	1,764,977

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

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Interest receivables	5,944	10,358	5,944	10,358
Deposits	1,841	1,855	1,841	1,855
Prepayments	1,358	1,559	1,357	1,558
Other receivables	9,927	8,388	9,927	8,388
Total	19,070	22,160	19,069	22,159

13. SUBSIDIARIES

	Company	
	2020 \$'000	2019 \$'000
Unquoted equity investments, at cost	535	535

Details of the subsidiaries are as follows:-

Name of Subsidiary	Principal place of business / Country of incorporation	Effective equity held by the Group	
		2020 %	2019 %
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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

14. INVESTMENTS (LONG-TERM)

	Group and Company	
	2020	2019
	\$'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.

15. PROPERTY, PLANT AND EQUIPMENT

	Group and Company						
	Office equipment, fixtures	and fittings	Computer equipment	Motor vehicles	Total		
	Freehold land	Freehold buildings	Leasehold buildings	\$'000	\$'000	\$'000	\$'000
Cost							
At 1 January 2019	50	2,938	72,211	13,866	9,485	780	99,330
Additions	-	-	13,644	424	776	-	14,844
Derecognition	-	-	(182)	-	-	-	(182)
Disposals	-	-	-	(297)	(34)	(237)	(568)
At 31 December 2019	50	2,938	85,673	13,993	10,227	543	113,424
Additions	-	-	2,487	81	268	-	2,836
Disposals	-	-	(834)	(70)	(43)	-	(947)
At 31 December 2020	50	2,938	87,326	14,004	10,452	543	115,313
Accumulated depreciation and impairment losses							
At 1 January 2019	-	1,659	15,105	12,998	9,253	323	39,338
Depreciation charge for the year	-	59	7,057	522	325	108	8,071
Derecognition	-	-	(158)	-	-	-	(158)
Disposals	-	-	-	(288)	(34)	(237)	(559)
At 31 December 2019	-	1,718	22,004	13,232	9,544	194	46,692
Depreciation charge for the year	-	60	7,109	298	348	107	7,922
Disposals	-	-	(442)	(69)	(43)	-	(554)
At 31 December 2020	-	1,778	28,671	13,461	9,849	301	54,060
Carrying amount							
At 1 January 2019	50	1,279	57,106	868	232	457	59,992
At 31 December 2019	50	1,220	63,669	761	683	349	66,732
At 31 December 2020	50	1,160	58,655	543	603	242	61,253

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Properties held at 31 December are as follows:-

		Group and Company	
		2020	2019
		\$'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.	865	893
(2)	Properties with carrying amounts up to \$500,000 each comprise 2 shop units held as branch premises.	345	377
	Total	1,210	1,270
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.	1,108	1,159
(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.	1,398	1,455
(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.	1,300	1,342
(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.	7,147	7,323
(e)	A shop unit at Block 531 Upper Cross Street #01-50, Singapore, comprising 1,098 sq. ft. on a 83-year lease commencing July 1996 held as branch premises.	3,432	3,504
(2)	Properties with carrying amounts more than \$500,000 to \$1,000,000 each comprise 4 shop units held as branch premises.	2,729	2,838
(3)	Properties with carrying amounts up to \$500,000 each comprise 5 (2019: 6) shop units held as branch premises and 4 industrial units used as warehousing facilities.	1,885	2,456
	Total	18,999	20,077

Property, plant and equipment includes right-of-use assets of \$39.7 million (2019: \$43.6 million) related to leasehold buildings.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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	
	2020	2019
	\$'000	\$'000
Guarantees	4,054	3,804
Total	4,054	3,804

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

17. NET INTEREST INCOME/HIRING CHARGES

	Group	
	2020	2019
	\$'000	\$'000
<i>Interest income/hiring charges</i>		
Loans, advances and receivables	282,446	349,864
Deposits placed	8,098	20,529
Singapore Government debt securities and MAS bills	20,241	25,963
Total interest income/hiring charges	310,785	396,356
<i>Interest expense</i>		
Deposits and balances of customers	163,120	193,635
Others	135	241
Borrowings	49	-
Lease liabilities	633	776
Total interest expense	163,937	194,652
Net interest income/hiring charges	146,848	201,704

18. FEE AND COMMISSION INCOME

	Group	
	2020	2019
	\$'000	\$'000
Fee and commission income arising from:-		
Loans and advances	9,201	12,157
Non-lending activities	998	1,525
Others	30	32
Total	10,229	13,714

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

19. OTHER OPERATING INCOME

	Group	
	2020	2019
	\$'000	\$'000
Gain on disposal of plant and equipment	1,357	62
Other operating income	357	262
Total	<u>1,714</u>	<u>324</u>

20. STAFF COSTS

	Group	
	2020	2019
	\$'000	\$'000
Short-term employee benefits	48,010	60,783
CPF contributions to defined contribution plans	6,349	6,615
Share-based payments	319	277
Total	<u>54,678</u>	<u>67,675</u>

Included in short-term employee benefits is the offset of wage credit subsidies, Jobs Support Scheme and Covid-19 support grant from budget relief measures amounting to \$10.1 million (2019: \$0.1 million).

21. OTHER OPERATING EXPENSES

	Group	
	2020	2019
	\$'000	\$'000
Audit fees to auditors	412	434
Non-audit fees to auditors	55	98
Operating lease expenses	68	18
IT-related expenses	2,858	2,953
Other expenses	10,346	10,957
Total	<u>13,739</u>	<u>14,460</u>

Included in other expenses are fee and commission expenses arising from loans, advances and receivables amounting to \$429,000 (2019: \$532,000) and the offset of Covid-19 support grant and rebates from budget relief measures amounting to \$0.3 million (2019: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

22. INCOME TAX EXPENSE

	Note	Group	2020 \$'000	2019 \$'000
Current tax expense				
Current year			12,327	21,095
Adjustment for prior year			(620)	-
			11,707	21,095
Deferred tax expense				
Origination and reversal of temporary differences			(1,517)	(222)
Adjustment for prior year			620	-
	8		(897)	(222)
Income tax expense			10,810	20,873
Adjustment for prior year of \$620,000 in 2020 relates to provision for tax for prior year being written back following the finalisation of tax assessment.				
Reconciliation of income tax expense				
		Group	2020 \$'000	2019 \$'000
Profit after tax for the year			63,909	103,085
Income tax expense			10,810	20,873
Profit before income tax			74,719	123,958
Tax calculated using Singapore tax rate of 17% (2019: 17%)			12,702	21,073
Tax effect of:-				
Exempt income not taxable for tax purposes			(1,915)	(26)
Enhanced tax deductions			(1)	(2)
Bad debts recovered not subject to tax			(17)	(4)
Income taxed at a 10% concessionary tax rate			(326)	(567)
Expenses not deductible for tax purposes			389	412
Others			(22)	(13)
Income tax expense			10,810	20,873
Effective tax rate (%)			14.5	16.8

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

23. EARNINGS PER SHARE

- (a) Basic earnings per share

	Group	
	2020	2019
	\$'000	\$'000
<hr/>		
Basic earnings per share is based on:-		
Profit after tax for the year attributable to owners of the Company	<u>63,909</u>	<u>103,085</u>
<hr/>		
Number of shares	2020	2019
	Number of shares '000	Number of shares '000
Issued shares at 1 January	<u>447,526</u>	445,818
Effect of share options exercised	<u>18</u>	713
Weighted average number of shares during the year	<u>447,544</u>	<u>446,531</u>

- (b) Diluted earnings per share

	Group	
	2020	2019
	\$'000	\$'000
<hr/>		

Diluted earnings per share is based on:-

Profit after tax for the year attributable to owners of the Company	<u>63,909</u>	<u>103,085</u>
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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	
	2020	2019
	Number of shares '000	Number of shares '000
<hr/>		
Weighted average number of:-		
shares used in the calculation of basic earnings per share	<u>447,544</u>	446,531
potential shares issuable under share options	<u>90</u>	697
Weighted average number of issued and potential shares assuming full conversion	<u>447,634</u>	<u>447,228</u>

Outstanding share options that were not included in the computation of diluted earnings per share because the share options were anti-dilutive amounted to 12,887,500 at exercise price of \$2.31 to \$2.66 as at 31 December 2020 (2019: 5,674,840 at exercise price of \$2.58 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 2020

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. The objective is to manage businesses and its related risks in a way that creates balanced and sustainable value for the Group's customers, shareholders and the community. 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 Report.

Risk management framework

The Group's risk management framework provides the principles and guidance for our risk management activities. 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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 staging migration and collateral shocks to the Capital Adequacy Ratio. This enables the Group to identify potentially risky portfolio segments, and plan preventive actions, where applicable.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Environmental, Social and Governance Factors

The Group incorporates Responsible Financing practices into the business model 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.

Potential Impact to Covid-19 Pandemic

To address the Covid-19 outbreak and with the Government’s initiatives, the Group has rolled out Covid-19 Loan Relief Schemes to help SMEs and individual customers to tide over their cash flows during this difficult time. In addition, businesses and retail customers are also able to defer payment of their loans. These measures have been well received and the Group remains responsive to the customers’ changing needs. The measures are expected to be unwound gradually. The Group remains closely engaged to understand the impact of these measures on the customers and credit risk profile. There are processes in place to ensure appropriate ongoing borrower review, customer engagement and oversight across the credit risk assessment process for the Covid-19 impacted customers.

Notwithstanding the range of relief measures made available to individuals and corporates, the depth and severity of Covid-19 impacts on the economy remain uncertain. To recognise the potential downside on credit risk, a conservative build-up of general allowance for non credit-impaired assets was set aside for 2020, taking into consideration the macroeconomic outlook due to Covid-19. These were determined based on plausible economic and industry stress factors, taking into account the mitigating impacts of government-assisted schemes.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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 expected credit loss	Lifetime expected credit loss	Lifetime expected credit loss	Total
	Not credit-impaired	Not credit-impaired	Credit-impaired	
	\$'000	\$'000	\$'000	\$'000
2020				
Performing accounts				
– neither past due nor impaired	10,572,634	150,528	–	10,723,162
– past due but not impaired	109,570	37,161	–	146,731
Substandard	–	–	96,698	96,698
Loss	–	–	8,090	8,090
Gross amount	10,682,204	187,689	104,788	10,974,681
Stage 1 & 2 loss allowances	(17,963)	(719)	–	(18,682)
Stage 3 loss allowances	–	–	(8,090)	(8,090)
Carrying amount	10,664,241	186,970	96,698	10,947,909
2019				
Performing accounts				
– neither past due nor impaired	11,065,596	225,866	–	11,291,462
– past due but not impaired	108,480	81,829	–	190,309
Substandard	–	–	85,291	85,291
Loss	–	–	6,562	6,562
Gross amount	11,174,076	307,695	91,853	11,573,624
Stage 1 & 2 loss allowances	(11,742)	(1,018)	–	(12,760)
Stage 3 loss allowances	–	–	(6,562)	(6,562)
Carrying amount	11,162,334	306,677	85,291	11,554,302

There are no loans and advances graded as doubtful as at 31 December 2020 and 2019.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Exposure to credit risk (continued)

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 2020		
Substandard	96,698	96,698
Loss	8,090	-
Total	<u>104,788</u>	<u>96,698</u>
31 December 2019		
Substandard	85,291	85,291
Loss	6,562	-
Total	<u>91,853</u>	<u>85,291</u>

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

An estimate of the financial effect of collateral and other security enhancements held against loans and advances to customers on maximum credit risk exposure amounted to \$10,879,463,000 (2019: \$11,514,000,000). 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 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Exposure to credit risk (continued)

	Group and Company	
	2020 \$'000	2019 \$'000
Equipment	297	1,704
Motor vehicles	10	218
Properties	<u>1,750</u>	229
Total	<u>2,057</u>	2,151

Covid-19 repayment deferral: Since April 2020, the Group has offered various forms of assistance to customers to counteract the impact of Covid-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, and extension of loan maturity dates.

The loan repayment deferral is considered to be a loan modification (non-substantial modification) whereby the existing loan continues to be recognised.

The gross carrying amount of loans at the date of modification that were considered non-substantial modifications was \$1,350,158,000. Of which, loans with loan loss allowances based on lifetime expected losses was \$52,850,000. No gain or loss was recognised as a result of the modification at the end of financial year 2020 and the gross carrying amount of loans that have subsequently changed to a 12-month loan loss allowance was \$3,573,000.

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	
	2020 \$'000	2019 \$'000
Gross carrying amount	<u>10,974,681</u>	11,573,624
Concentration by sector		
Hire purchase/block discounting	1,584,613	1,764,977
Housing loans secured by property under finance	970,262	1,150,714
Other loans and advances:-		
Manufacturing	47,399	58,224
Building and construction	5,042,100	5,248,642
General commerce	93,978	104,092
Transport, storage and communication	184,945	185,794
Investment and holding companies	706,467	627,649
Professional and private individuals	220,757	267,040
Others (including hotels, associations and charitable organisations)	<u>2,124,160</u>	2,166,492
Total	<u>10,974,681</u>	11,573,624

At the reporting date, there was no other significant concentration of credit risk.

Financial guarantees comprising guarantees issued by the Company to third parties on behalf of customers amounted to \$4,054,000 as at 31 December 2020 (2019: \$3,804,000). At the reporting date, the Company does not consider it probable that claims will be made against the Company under the guarantees.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Reconciliation of Loss Allowance
Reconciliation of impairment provision

	12-month ECL Not credit- impaired \$'000	Lifetime ECL Not credit- impaired \$'000	Lifetime ECL Credit- impaired \$'000	Total \$'000
2020				
Balance as at 1 January	11,742	1,018	6,562	19,322
New financial assets originated or purchased	5,499	40	5	5,544
Financial assets repaid	(4,270)	(454)	(888)	(5,612)
Financial assets written off	–	–	(769)	(769)
Transfer to 12-month ECL – not credit-impaired	276	(276)	–	–
Transfer to Lifetime ECL – not credit-impaired	(372)	374	(2)	–
Transfer to Lifetime ECL – credit-impaired	(54)	(53)	107	–
Changes in models/risk parameters	4,159	47	–	4,206
Impairment loss recognised	982	24	3,075	4,081
Balance as at 31 December	17,962	720	8,090	26,772
2019				
Balance as at 1 January	10,886	441	7,717	19,044
New financial assets originated or purchased	3,271	195	212	3,678
Financial assets repaid	(3,904)	(173)	(1,589)	(5,666)
Financial assets written off	–	–	(2,533)	(2,533)
Transfer to 12-month ECL – not credit-impaired	96	(96)	–	–
Transfer to Lifetime ECL – not credit-impaired	(669)	688	(19)	–
Transfer to Lifetime ECL – credit-impaired	(162)	(46)	208	–
Changes in models/risk parameters	1,984	2	–	1,986
Impairment loss recognised	240	7	2,566	2,813
Balance as at 31 December	11,742	1,018	6,562	19,322

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 \$0.8 million (2019: \$2.5 million).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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 in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both business-as-usual 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 business-as-usual, and maintaining soundness in times of stress.

The Group is currently funded by 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 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 managerial actions 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 debt securities and MAS bills) 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	
	2020	2019
At 31 December	16.23%	16.80%
Average for the period	16.35%	16.89%
Maximum for the period	17.53%	19.01%
Minimum for the period	16.09%	16.13%

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

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

	Carrying amount \$'000	Gross nominal outflow \$'000	Up to 1 month \$'000	Over 1 month to 3 months \$'000	Over 3 months to 1 year \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000
Group							
31 December 2020							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	11,194,359	(11,297,147)	(3,095,444)	(1,508,241)	(6,445,765)	(247,697)	-
Borrowings from MAS SGD Facility	42,914	(43,000)	-	-	-	(43,000)	-
Amount due to Enterprise Singapore	2,061	(2,091)	(549)	(181)	(588)	(773)	-
Other liabilities	78,195	(78,195)	(61,101)	(123)	(16,478)	(303)	(190)
Lease liabilities	41,585	(43,272)	(582)	(1,158)	(5,014)	(23,546)	(12,972)
	11,359,114	(11,463,705)	(3,157,676)	(1,509,703)	(6,467,845)	(315,319)	(13,162)
Financial guarantees	-	(4,054)	(4,054)	-	-	-	-
	11,359,114	(11,467,759)	(3,161,730)	(1,509,703)	(6,467,845)	(315,319)	(13,162)
Undrawn loan commitments	-	(1,222,276)	(960,376)	(261,900)	-	-	-
	11,359,114	(12,690,035)	(4,122,106)	(1,771,603)	(6,467,845)	(315,319)	(13,162)
31 December 2019							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	12,307,049	(12,528,183)	(2,194,565)	(3,814,564)	(6,494,726)	(24,328)	-
Amount due to Enterprise Singapore	5,174	(5,215)	(465)	(395)	(1,594)	(2,761)	-
Other liabilities	30,400	(30,400)	(15,048)	(586)	(14,042)	(190)	(534)
Lease liabilities	44,835	(49,333)	(566)	(1,159)	(5,056)	(24,618)	(17,934)
	12,387,458	(12,613,131)	(2,210,644)	(3,816,704)	(6,515,418)	(51,897)	(18,468)
Financial guarantees	-	(3,804)	(3,804)	-	-	-	-
	12,387,458	(12,616,935)	(2,214,448)	(3,816,704)	(6,515,418)	(51,897)	(18,468)
Undrawn loan commitments	-	(1,550,886)	(1,172,386)	(378,500)	-	-	-
	12,387,458	(14,167,821)	(3,386,834)	(4,195,204)	(6,515,418)	(51,897)	(18,468)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

	Carrying amount \$'000	Gross nominal outflow \$'000	Up to 1 month \$'000	Over 1 month to 3 months \$'000	Over 3 months to 1 year \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000
Company							
31 December 2020							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	11,198,668	(11,301,468)	(3,095,788)	(1,508,241)	(6,449,742)	(247,697)	-
Borrowings from MAS SGD Facility	42,914	(43,000)	-	-	-	(43,000)	-
Amount due to Enterprise Singapore	2,061	(2,091)	(549)	(181)	(588)	(773)	-
Other liabilities	76,845	(76,845)	(59,780)	(109)	(16,463)	(303)	(190)
Lease liabilities	41,585	(43,272)	(582)	(1,158)	(5,014)	(23,546)	(12,972)
	11,362,073	(11,466,676)	(3,156,699)	(1,509,689)	(6,471,807)	(315,319)	(13,162)
Financial guarantees	-	(4,054)	(4,054)	-	-	-	-
	11,362,073	(11,470,730)	(3,160,753)	(1,509,689)	(6,471,807)	(315,319)	(13,162)
Undrawn loan commitments	-	(1,222,276)	(960,376)	(261,900)	-	-	-
	11,362,073	(12,693,006)	(4,121,129)	(1,771,589)	(6,471,807)	(315,319)	(13,162)
31 December 2019							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	12,311,282	(12,532,487)	(2,194,903)	(3,814,564)	(6,498,692)	(24,328)	-
Amount due to Enterprise Singapore	5,174	(5,215)	(465)	(395)	(1,594)	(2,761)	-
Other liabilities	29,058	(29,058)	(13,730)	(577)	(14,027)	(190)	(534)
Lease liabilities	44,835	(49,333)	(566)	(1,159)	(5,056)	(24,618)	(17,934)
	12,390,349	(12,616,093)	(2,209,664)	(3,816,695)	(6,519,369)	(51,897)	(18,468)
Financial guarantees	-	(3,804)	(3,804)	-	-	-	-
	12,390,349	(12,619,897)	(2,213,468)	(3,816,695)	(6,519,369)	(51,897)	(18,468)
Undrawn loan commitments	-	(1,550,886)	(1,172,386)	(378,500)	-	-	-
	12,390,349	(14,170,783)	(3,385,854)	(4,195,195)	(6,519,369)	(51,897)	(18,468)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

Interest rate risk is the risk to the Group's earnings and capital arising from exposure to adverse movements in interest rates. Interest rate risk arises primarily from timing differences in the maturity (for fixed rate) and repricing (for floating rate) of assets and liabilities.

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 debt securities and MAS bills 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 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk (continued)

	Note	Carrying amount \$'000	Up to 1 year \$'000	Group Over 1 to 5 years \$'000	After 5 years \$'000	Non- interest bearing \$'000
31 December 2020						
Financial assets						
Loans, advances and receivables	11	10,947,909	9,485,397	1,389,959	72,553	-
Singapore Government debt securities and MAS bills	10	1,405,434	843,506	561,928	-	-
Cash at banks and in hand	9	613,775	595,191	-	-	18,584
Statutory deposit with the Monetary Authority of Singapore	9	317,621	-	-	-	317,621
Other assets		17,712	-	-	-	17,712
Financial liabilities						
Deposits and balances of customers	6	11,194,359	10,875,119	243,983	-	75,257
Borrowings from MAS SGD Facility	7	42,914	-	42,914	-	-
Amount due to Enterprise Singapore	7	2,061	1,299	762	-	-
Other liabilities	7	145,653	-	-	-	145,653
Lease liabilities	7	41,585	-	-	-	41,585
31 December 2019						
Financial assets						
Loans, advances and receivables	11	11,554,302	9,879,530	1,576,468	98,304	-
Singapore Government debt securities and MAS bills	10	1,531,763	831,019	685,745	14,999	-
Cash at banks and in hand	9	947,430	935,041	-	-	12,389
Statutory deposit with the Monetary Authority of Singapore	9	338,393	-	-	-	338,393
Other assets		20,601	-	-	-	20,601
Financial liabilities						
Deposits and balances of customers	6	12,307,049	12,208,777	23,737	-	74,535
Amount due to Enterprise Singapore	7	5,174	2,434	2,740	-	-
Other liabilities	7	165,857	-	-	-	165,857
Lease liabilities	7	44,835	-	-	-	44,835

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk (continued)

	Note	Carrying amount \$'000	Up to 1 year \$'000	Over 1 to 5 years \$'000	After 5 years \$'000	Non- interest bearing \$'000
31 December 2020						
Financial assets						
Loans, advances and receivables						
11	10,947,909	9,485,397	1,389,959	72,553		-
Singapore Government debt securities and MAS bills						
10	1,405,434	843,506	561,928		-	-
Cash at banks and in hand						
	612,762	594,178		-	-	18,584
Statutory deposit with the Monetary Authority of Singapore						
	317,621		-	-	-	317,621
Other assets						
	17,712		-	-	-	17,712
Financial liabilities						
Deposits and balances of customers						
6	11,198,668	10,879,428	243,983		-	75,257
Borrowings from MAS SGD Facility						
7	42,914		42,914		-	-
Amount due to Enterprise Singapore						
7	2,061	1,299	762		-	-
Other liabilities						
7	144,314		-	-	-	144,314
Lease liabilities						
7	41,585		-	-	-	41,585
31 December 2019						
Financial assets						
Loans, advances and receivables						
11	11,554,302	9,879,530	1,576,468	98,304		-
Singapore Government debt securities and MAS bills						
10	1,531,763	831,019	685,745	14,999		-
Cash at banks and in hand						
	946,428	934,039		-	-	12,389
Statutory deposit with the Monetary Authority of Singapore						
	338,393		-	-	-	338,393
Other assets						
	20,601		-	-	-	20,601
Financial liabilities						
Deposits and balances of customers						
6	12,311,282	12,213,010	23,737		-	74,535
Amount due to Enterprise Singapore						
7	5,174	2,434	2,740		-	-
Other liabilities						
7	164,540		-	-	-	164,540
Lease liabilities						
7	44,835		-	-	-	44,835

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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	2020 \$'000	2019 \$'000
+ 100 basis points parallel shift in yield curves	34,481	20,579	
- 100 basis points parallel shift in yield curves	(14,514)	(23,860)	

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.

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

	2020 \$'000	2019 \$'000
Share capital	889,117	889,051
Accumulated profits	214,858	196,357
Statutory reserve	728,766	702,994
Capital reserve	2,307	2,307
Share option reserve	3,279	4,755
Eligible total capital	1,838,327	1,795,464
 Risk-weighted assets	 11,211,746	 11,950,853
 Capital adequacy ratio	 16.4%	 15.0%

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

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 debt securities and MAS bills

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

- (c) Other financial assets and financial liabilities

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

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	Fair value	Carrying amount	Fair value
		2020	2020	2019	2019
		\$'000	\$'000	\$'000	\$'000
Financial assets					
Loans, advances and receivables	11	10,947,909	10,959,355	11,554,302	11,556,404
Singapore Government debt securities and MAS bills	10	1,405,434	1,423,039	1,531,763	1,538,664
		12,353,343	12,382,394	13,086,065	13,095,068
Financial liabilities					
Deposits and balances of customers	6	(11,194,359)	(11,213,180)	(12,307,049)	(12,364,484)
		1,158,984	1,169,214	779,016	730,584

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

25. FINANCIAL INSTRUMENTS (CONTINUED)

	Note	Company			
		Carrying amount	Fair value	Carrying amount	Fair value
		2020	2020	2019	2019
		\$'000	\$'000	\$'000	\$'000
Financial assets					
Loans, advances and receivables	11	10,947,909	10,959,355	11,554,302	11,556,404
Singapore Government debt securities and MAS bills	10	1,405,434	1,423,039	1,531,763	1,538,664
		12,353,343	12,382,394	13,086,065	13,095,068
Financial liabilities					
Deposits and balances of customers	6	(11,198,668)	(11,217,494)	(12,311,282)	(12,368,745)
		1,154,675	1,164,900	774,783	726,323

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 \$2.41 billion (2019: \$2.47 billion) against a carrying value of \$2.396 billion (2019: \$2.469 billion). Singapore Government debt securities and MAS bills are Level 1 instruments with fair value of \$1.42 billion (2019: \$1.54 billion). The portion of deposits and balances of customers being Level 2 instruments have a fair value of \$8.99 billion (2019: \$10.45 billion) against a carrying value of \$8.97 billion (2019: \$10.40 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

26. COMMITMENTS

(a) 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 \$Nil (2019: \$8,000).

(b) 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 \$1,222,276,000 (2019: \$1,550,886,000).

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	
	2020	2019
	\$'000	\$'000
Short-term employee benefits	3,872	4,480
CPF contributions to defined contribution plans	33	33
Depreciation of motor vehicles	21	21
Other operating expenses including principally directors' fees	1,745	1,594
Share-based payments	53	26
	5,724	6,154

Directors' remuneration (inclusive of fees) included in key management personnel compensation amounted to \$3,808,000 (2019: \$4,013,000).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Key Management Personnel Compensation (continued)

Key management personnel of the Company participate in the Share Option Scheme as described in Note 5. During the year, options to 309,000 (2019: 331,000) shares were granted to key management personnel. These share options are subject to a vesting schedule.

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

	2020	2019
Granted on		
28.9.2010	-	572,000
29.9.2011	143,190	143,190
14.9.2012	127,000	127,000
25.9.2013	76,000	76,000
25.9.2014	236,000	236,000
23.9.2015	71,000	71,000
23.9.2016	119,960	119,960
21.9.2017	171,500	171,500
25.9.2018	271,500	271,500
23.9.2019	331,000	331,000
23.9.2020	309,000	-

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

	2020	2019
Granted on		
28.9.2010	-	400,000
25.9.2014	160,000	160,000
23.9.2016	48,960	48,960
21.9.2017	115,000	115,000
25.9.2018	156,000	156,000
23.9.2019	172,000	172,000
23.9.2020	163,000	-

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Other Related Party Transactions

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

		Group		
	Holding Company	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 2019	-	1,625	25,108	
Increase	-	-	50,850	
(Decrease)	-	(965)	(8,435)	
As at 31 December 2019	-	660	67,523	
Increase	-	111	84,687	
(Decrease)	-	(452)	(5,558)	
As at 31 December 2020	-	319	146,652	
Undrawn loan commitments:				
As at 1 January 2019	-	-	70,291	
Increase	-	-	19,000	
(Decrease)	-	-	(864)	
As at 31 December 2019	-	-	88,427	
Increase	-	-	-	
(Decrease)	-	-	(23,730)	
As at 31 December 2020	-	-	64,697	
(b) Specific allowances for doubtful debts				
As at 31 December 2019	-	-	-	
As at 31 December 2020	-	-	-	
(c) Other receivables, deposits and prepayment				
Outstanding balances:				
As at 1 January 2019	-	1,427	-	
Increase	-	10	-	
(Decrease)	-	(199)	-	
As at 31 December 2019	-	1,238	-	
Increase	-	-	-	
(Decrease)	-	-	-	
As at 31 December 2020	-	1,238	-	
(d) Deposits and balances of customers				
Outstanding balances:				
As at 1 January 2019	40,000	274,639	25,204	
Increase	15,511	102,451	4,316	
(Decrease)	-	(37,694)	(4,113)	
As at 31 December 2019	55,511	339,396	25,407	
Increase	10,611	166,314	15,727	
(Decrease)	-	(7,380)	(640)	
As at 31 December 2020	66,122	498,330	40,494	

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Other Related Party Transactions (continued)

Group

	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000
(e) Trade and other payables			
Outstanding balances:			
As at 1 January 2019	124	1,200	107
Increase	-	464	57
(Decrease)	(8)	(44)	-
As at 31 December 2019	116	1,620	164
Increase	-	631	1
(Decrease)	(95)	(735)	(116)
As at 31 December 2020	21	1,516	49
(f) Lease liabilities			
As at 31 December 2019	-	26,379	-
As at 31 December 2020	-	22,434	-
(g) Profit and loss transactions			
Year ended 31 December 2020			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	-	13	3,277
- Interest expense on deposits	(521)	(3,653)	(284)
- Fee, commission and other income	-	-	3
- Other operating expenses	-	(698)	-
- Specific allowances for bad and doubtful debts	-	-	-
- Interest expense on lease liabilities	-	(362)	-
Year ended 31 December 2019			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	-	32	2,324
- Interest expense on deposits	(670)	(6,238)	(384)
- Fee, commission and other income	-	-	4
- Other operating expenses	-	(733)	-
- Specific allowances for bad and doubtful debts	-	-	-
- Interest expense on lease liabilities	-	(517)	-
(h) Cash outflows relating to operating leases			
- Lease payments			
Year ended 31 December 2019	-	(5,188)	-
Year ended 31 December 2020	-	(4,582)	-

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Other Related Party Transactions (continued)

Company

	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000	Key Subsidiaries \$'000
(a) Secured loans, advances and hire purchase receivables				
Outstanding balances:				
As at 1 January 2019	-	1,625	25,108	-
Increase	-	-	50,850	-
(Decrease)	-	(965)	(8,435)	-
As at 31 December 2019	-	660	67,523	-
Increase	-	111	84,687	-
(Decrease)	-	(452)	(5,558)	-
As at 31 December 2020	-	319	146,652	-
Undrawn loan commitments:				
As at 1 January 2019	-	-	70,291	-
Increase	-	-	19,000	-
(Decrease)	-	-	(864)	-
As at 31 December 2019	-	-	88,427	-
Increase	-	-	-	-
(Decrease)	-	-	(23,730)	-
As at 31 December 2020	-	-	64,697	-
(b) Specific allowances for doubtful debts				
As at 31 December 2019	-	-	-	-
As at 31 December 2020	-	-	-	-
(c) Other receivables, deposits and prepayment				
Outstanding balances:				
As at 1 January 2019	-	1,427	-	-
Increase	-	10	-	-
(Decrease)	-	(199)	-	-
As at 31 December 2019	-	1,238	-	-
Increase	-	-	-	-
(Decrease)	-	-	-	-
As at 31 December 2020	-	1,238	-	-

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Other Related Party Transactions (continued)

Company

	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000	Key Subsidiaries \$'000
(d) Deposits and balances of customers				
Outstanding balances:				
As at 1 January 2019	40,000	274,639	25,204	4,166
Increase	15,511	102,451	4,316	67
(Decrease)	-	(37,694)	(4,113)	-
As at 31 December 2019	55,511	339,396	25,407	4,233
Increase	10,611	166,314	15,727	76
(Decrease)	-	(7,380)	(640)	-
As at 31 December 2020	66,122	498,330	40,494	4,309
(e) Trade and other payables				
Outstanding balances:				
As at 1 January 2019	124	1,191	107	29
Increase	-	463	57	4
(Decrease)	(8)	(43)	-	(1)
As at 31 December 2019	116	1,611	164	32
Increase	-	626	1	-
(Decrease)	(95)	(735)	(116)	(14)
As at 31 December 2020	21	1,502	49	18
(f) Lease liabilities				
As at 31 December 2019	-	26,379	-	-
As at 31 December 2020	-	22,434	-	-

* 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 2020

28. LEASES

Leases as lessee (SFRS(I) 16)

The Group leases properties and motor vehicles. The leases typically run for a period of three to ten years, with options to renew the lease after that date. Previously, these leases were classified as operating leases under SFRS(I) 1-17. None of the leases contain contingent rentals.

The Group leases motor vehicle with one year contract term. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased properties presented as property, plant and equipment (see note 15).

	Leasehold buildings	
	2020	2019
	\$'000	\$'000
Balance at 1 January	43,592	39,916
Depreciation charge for the year	(6,423)	(6,369)
Additions to right-of-use assets	2,487	10,069
Derecognition of right-of-use assets*	—	(24)
Balance at 31 December	39,656	43,592

* Derecognition of the right-of-use assets during 2019 is as a result of lease termination.

Amounts recognised in profit or loss

	2020	2019
	\$'000	\$'000
Interest on lease liabilities	633	776
Expenses relating to short-term leases	61	18
Expenses relating to leases of low-value assets	7	—

Amount recognised in consolidated statement of cash flows

	2020	2019
	\$'000	\$'000
Total cash outflow for leases	6,370	6,689

Extension options

Some property leases contain extension options exercisable by the Group up to ten years before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

ANALYSIS OF SHAREHOLDINGS

AS AT 4 MARCH 2021

Number of Shares in Issue	:	447,564,473
Class of Shares	:	Ordinary shares ("Shares")
Number of Shareholders	:	12,096
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 4 March 2021. As at 4 March 2021, 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	347	2.87	14,117	0.00
100 – 1,000	1,855	15.34	1,257,867	0.28
1,001 – 10,000	7,448	61.57	33,790,428	7.55
10,001 – 1,000,000	2,420	20.01	116,849,889	26.11
1,000,001 and above	26	0.21	295,652,172	66.06
	12,096	100.00	447,564,473	100.00

Based on the information available to the Company as at 4 March 2021, approximately 45.61% 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 4 MARCH 2021

No.	Name	No. of Shares Held	% *
1.	Hong Leong Investment Holdings Pte. Ltd.	116,507,363	26.03
2.	DBS Nominees Pte Ltd	26,288,789	5.87
3.	Hong Realty (Private) Limited	23,271,370	5.20
4.	Hong Leong Corporation Holdings Pte Ltd	19,685,812	4.40
5.	Garden Estates (Pte.) Limited	16,710,670	3.73
6.	Hong Leong Foundation	13,854,823	3.10
7.	United Overseas Bank Nominees Private Limited	10,773,782	2.41
8.	City Developments Limited	9,149,817	2.04
9.	Citibank Nominees Singapore Pte Ltd	7,819,206	1.75
10.	Tudor Court Gallery Pte Ltd	6,517,000	1.46
11.	Chng Gim Huat	5,770,000	1.29
12.	HSBC (Singapore) Nominees Pte Ltd	5,567,007	1.24
13.	Hong Leong Holdings Limited	5,460,422	1.22
14.	Hong Leong Enterprises Pte. Ltd.	4,485,047	1.00
15.	Raffles Nominees (Pte.) Limited	4,364,696	0.97
16.	Phillip Securities Pte Ltd	4,025,292	0.90
17.	OCBC Nominees Singapore Private Limited	2,627,413	0.59
18.	Chow Joo Ming	2,200,000	0.49
19.	Morph Investments Ltd	2,160,000	0.48
20.	Kwek Leng Kee	1,595,079	0.36
		288,833,588	64.53

* The percentage of Shares held is based on the total number of issued Shares of the Company as at 4 March 2021.

ANALYSIS OF SHAREHOLDINGS

AS AT 4 MARCH 2021

SUBSTANTIAL SHAREHOLDERS

(As shown in the Register of Substantial Shareholders as at 4 March 2021)

	No. of Shares				
	Direct Interest	Deemed Interest	Total Interest	% *	
Hong Realty (Private) Limited	23,271,370	23,678,335 ⁽¹⁾	46,949,705	10.49	
Hong Leong Enterprises Pte. Ltd.	4,485,047	19,968,812 ⁽²⁾	24,453,859	5.46	
Hong Leong Investment Holdings Pte. Ltd.	116,507,363	89,353,395 ⁽³⁾	205,860,758	46.00	
Davos Investment Holdings Private Limited	-	205,860,758 ⁽⁴⁾	205,860,758	46.00	
Kwek Holdings Pte Ltd	-	205,860,758 ⁽⁴⁾	205,860,758	46.00	

* The percentage of Shares held is based on the total number of issued Shares of the Company as at 4 March 2021.

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 89,353,395 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 Sixty-First Annual General Meeting (the "Meeting") of HONG LEONG FINANCE LIMITED (the "Company") will be convened and held by way of electronic means on Thursday, 29 April 2021 at 11.00 a.m. for the following purposes:

A) ORDINARY BUSINESS:

1. To receive the Directors' Statement and Audited Financial Statements for the year ended 31 December ("FY") 2020 and the Auditors' Report thereon.
2. To declare a final one-tier tax exempt dividend of 5.5 cents per share for FY 2020 ("Final Dividend").
3. To approve Directors' Fees of \$1,681,533 for FY 2020 (FY 2019: \$1,516,466).
4. To elect/re-elect the following Directors retiring in accordance with the Company's Constitution and who, being eligible, offer themselves for election/re-election as Directors of the Company:
 - (a) Mr Kwek Leng Beng
 - (b) Mr Kwek Leng Peck
 - (c) Mr Kwek Leng Kee
 - (d) Mr Christian Gautier de Charnace (appointed on 5 August 2020)

Detailed information on the Directors who are proposed to be elected/re-elected can be found under the sections on 'Board of Directors' and 'Additional Information on Directors Seeking Election/Re-election at the 61st Annual General Meeting' of the Annual Report 2020.

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 is 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 100% 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 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.

C) TO TRANSACT ANY OTHER ORDINARY BUSINESS

BY ORDER OF THE BOARD

Yeo Swee Gim, Joanne
Company Secretary
Singapore, 31 March 2021

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY NOTES:

1. With reference to item 2 of the Ordinary Business above, the Share Transfer Books and Register of Members will be closed from 5.00 p.m. on 10 May 2021 up to (and including) 11 May 2021. Registrable transfers received up to 5.00 p.m. on 10 May 2021 will be registered to determine shareholders' entitlement to the Final Dividend. If approved at the Meeting, it will be paid on 25 May 2021.
2. With reference to item 3 of the Ordinary Business above, the Directors' Fees of \$1,681,533 for FY 2020 will be payable upon approval of the shareholders at the Meeting. The structure of fees payable to Directors for FY 2020 can be found on page 47 of the Annual Report 2020.
3. With reference to item 4(a) above (under the heading "Ordinary Business"), Mr Kwek Leng Beng will, upon re-election as a Director of the Company, remain as Chairman of the Board, chairman of the Executive Committee ("Exco"), a member of the Board Risk Committee ("BRC") and the Nominating Committee ("NC"). Detailed information on Mr Kwek Leng Beng is found on pages 18 and 174 to 181 of the Annual Report 2020.
4. With reference to item 4(b) 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 as alternate to the chairman of the Exco, a member of the BRC and the Hong Leong Finance Share Option Scheme 2001 Committee. Detailed information on Mr Kwek Leng Peck is found on pages 19 and 174 to 181 of the Annual Report 2020.
5. Detailed information on Mr Kwek Leng Kee, who is seeking re-election as a Director of the Company under item 4(c) of the Ordinary Business above, is found on pages 20 and 174 to 181 of the Annual Report 2020.
6. Mr Raymond Lim Siang Keat who is also retiring from office in accordance with the Company's Constitution would not be seeking re-election as a Director of the Company and would retire from the Board upon the conclusion of the Meeting. Consequentially, he would also cease to be a member of the Exco and BRC.
7. With reference to item 4(d) above (under the heading "Ordinary Business"), Mr Christian Gautier de Charnace will, upon election as a Director of the Company, be appointed as a member of the BRC. Mr de Charnace is considered independent by the Board. Detailed information on Mr de Charnace is found on pages 25 and 174 to 181 of the Annual Report 2020.
8. 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.
9. 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 shares to be issued up to a number not exceeding 100% 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 that 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.

On 16 March 2021, SGX Regco announced an update to its news release issued on 8 April 2020 which allows Mainboard issuers to seek or renew a general mandate for an issue of shares and convertible securities of up to an aggregate of 100% of its issued shares (excluding treasury shares and subsidiary holdings), versus up to 50% previously (the "Enhanced Share Issue Limit"). In accordance with the updated announcement, the Enhanced Share Issue Limit will expire at the conclusion of the next AGM or on the date by which the next AGM is required by law or the Listing Manual of SGX-ST to be held, whichever is earlier and by which date any shares issued pursuant to the Enhanced Share Issue Limit must be listed, and no further shares may be issued under this limit.

NOTICE OF ANNUAL GENERAL MEETING

The Company is proposing to avail itself to the Enhanced Share Issue Limit and accordingly is seeking shareholders' approval for the same at the Meeting. The Board of Directors is of the view that it would be in the interests of the Company and its shareholders to do so in the event that circumstances evolve before the 2022 AGM amid the Covid-19 situation to such an extent that a 50% limit for *pro rata* issue of shares is not sufficient to meet the Company's needs. Under such circumstances, fund raising efforts would be unnecessarily hampered and compromised in view of the time needed to obtain shareholders' approval for the issue of shares above the 50% threshold.

10. 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 limit 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 a shareholder who is eligible to participate in the SOS (other than as a director and/or employee of Hong Leong Investment Holdings Pte. Ltd. and its subsidiaries (but not including the Company)) should abstain from voting at the Meeting in respect of the Ordinary Resolution set out in item 7 in relation to the SOS, and accordingly should not appoint the Chairman of the Meeting to vote on his/her/its behalf.

MEETING NOTES:

1. The Meeting is being convened, and will be held, by electronic means pursuant to the Covid-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of this Notice will not be sent to members, instead, this Notice will be made available to members by electronic means via publication on the Company's website at the URL <https://www.hlf.com.sg/investor-relations/agm.php>. This Notice will also be made available on the SGX website at the URL <https://www.sgx.com/securities/company-announcements>.
2. Alternative arrangements relating to the attendance at the Meeting via electronic means (including arrangements by which the Meeting can be electronically accessed via 'live' audio-visual webcast or 'live' audio-only stream), submission of questions to the Chairman of the Meeting in advance of the Meeting, addressing of substantial and relevant questions at the Meeting and voting by appointing the Chairman of the Meeting as proxy at the Meeting, are set out in the accompanying Company's announcement dated 31 March 2021. The announcement may be accessed at the Company's website at the URL <https://www.hlf.com.sg/investor-relations/agm.php> and will also be made available on the SGX website at the URL <https://www.sgx.com/securities/company-announcements>.
3. **Due to the current Covid-19 situation in Singapore, a member will not be able to attend the Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the Meeting if such member wishes to exercise his/her/its voting rights at the Meeting.** The accompanying Proxy Form for the Meeting may be downloaded from the Company's website at the URL <https://www.hlf.com.sg/investor-relations/agm.php>, and also from the SGX website at the URL <https://www.sgx.com/securities/company-announcements>.

Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to the voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.

CPF or SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 5.00 p.m. on 19 April 2021.

NOTICE OF ANNUAL GENERAL MEETING

4. The Chairman of the Meeting, as proxy, need not be a member of the Company.
5. The form appointing the Chairman of the Meeting as proxy must be submitted to the Company in the following manner:
 - (i) if submitted by post, be lodged with the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902; or
 - (ii) if submitted electronically, via email to the Company's Share Registrar at gpe@mnccsingapore.com, in either case, at least 72 hours before the time for holding the Meeting.

A member who wishes to submit an instrument of proxy must complete and sign the proxy form, before submitting it by post to the address provided above, or before scanning and sending it by email to the email address provided above.

Due to the current Covid-19 situation in Singapore, members are strongly encouraged to submit completed proxy forms electronically via email.
6. The Annual Report 2020 is available on the Company's website at the URL <https://www.hlf.com.sg/ar.html> and may also be accessed on the SGX website at the URL <https://www.sgx.com/securities/company-announcements>. Members may request for printed copy of the Annual Report 2020 by completing and submitting the Request Form.

PERSONAL DATA PRIVACY:

By (a) submitting a form appointing the Chairman of the Meeting as proxy to attend, speak and vote at the Meeting and/or any adjournment thereof, or (b) submitting details for the registration to observe the proceedings of the Meeting via a 'live' audio-visual webcast or a 'live' audio-only stream (via telephone) or (c) submitting any question prior to the Meeting in accordance with this Notice, a member of the Company consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the following purposes:

- (i) processing and administration by the Company (or its agents or service providers) of the appointment of the Chairman of the Meeting as proxy for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Meeting (including any adjournment thereof);
- (ii) processing of the registration for purpose of granting access to members (or their corporate representatives in the case of members which are legal entities) to observe the proceedings of the Meeting and providing them with any technical assistance where necessary;
- (iii) addressing relevant and substantial questions from members received before the Meeting and if necessary, following up with the relevant members in relation to such questions; and
- (iv) enabling the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines by the relevant authorities.

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ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Beng	Kwek Leng Peck
Age	80	64
Date of appointment	1 March 1979	1 January 1998
Job Title	Chairman and Executive Director Chairman of the Executive Committee (“Exco”), and a member of the Board Risk Committee (“BRC”) and Nominating Committee (“NC”)	Non-Executive and Non-Independent Director Member, and also as alternate to the chairman of the Exco, member of BRC and Hong Leong Finance Share Option Scheme 2001 Committee (“SOSC”)
Date of last re-election as Director (if applicable)	26 April 2018	25 April 2019
Country of principal residence	Singapore	Singapore
Board of Directors’ (the “Board”) comments on the election/re-election (including rationale, selection criteria, and the search and nominating process)	The Board reviewed the recommendation of the NC on the election/re-election of Mr Kwek Leng Beng, Mr Kwek Leng Peck, Mr Kwek Leng Kee and Mr Christian Gautier de Charnace and took into account, <i>inter alia</i> , their skills set and contribution to the effectiveness of the Board (which includes their participation and candour at Board and Board Committee meetings, where applicable), their time commitment especially for Directors who have multiple board representations and/or other principal commitments as well as their confirmation that they continue to remain fit and proper for continued appointment on the Board.	
Whether appointment is executive, and if so, the area of responsibility	Yes	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Kwek Leng Kee	Christian Gautier de Charnace
66	71
1 September 2001	5 August 2020
Non-Executive and Non-Independent Director	Non-Executive and Independent Director
26 April 2018	Not applicable
Singapore	Thailand
<p>The Board recommends the election/re-election of Mr Kwek Leng Beng, Mr Kwek Leng Peck, Mr Kwek Leng Kee and Mr Christian Gautier de Charnace as Directors of the Company.</p> <p>For more details on the NC's evaluation process, please refer to Principle 4: Board Membership and Principle 5: Board Performance on pages 40 to 44 of the Corporate Governance Report.</p>	
No	No

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Beng	Kwek Leng Peck
Professional qualification, working experience and occupation(s) during the past 10 years	<p>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 Hong Leong Finance Limited). Also has vast experience in real estate business, having joined City Developments Limited (“CDL”) in the late 1960s and since then has contributed significantly to building CDL’s more than five decades of track record, growing the CDL group’s hospitality arm and has been actively involved in its development into Singapore’s largest international hotel group and one of the largest hotel owners and operators in the world. Also experienced in the trading and manufacturing sectors.</p> <p><u>March 1979 to Present</u> Managing Director of HLF</p> <p><u>November 1984 to Present</u> Chairman of HLF</p> <p><u>January 1995 to Present</u> Executive Chairman of CDL</p> <p><u>August 1990 to Present</u> Executive Chairman of Hong Leong Investment Holdings Pte. Ltd.</p> <p>Holds a law degree, LL.B. (London) and is also a fellow of The Institute of Chartered Secretaries and Administrators. 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).</p>	<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 as well as extensive involvement in Hong Leong Group real estate developments, investments and hotel operations.</p> <p><u>April 2017 to Present</u> Executive Chairman of Hong Leong Asia Ltd. (“HLA”)</p> <p><u>April 1998 to April 2017</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>
Shareholding interest in the Company and its subsidiaries	Please refer to the Directors' Statement on pages 96 to 98.	Please refer to the Directors' Statement on pages 96 to 97.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Kwek Leng Kee

Has more than 35 years of experience in property investment, property development and the building and construction materials business. As the Assistant Managing Director of Hong Leong Holdings Limited ("HLH"), he spearheaded the establishment, and oversees the operation, of its subsidiary in Chengdu, People's Republic of China since 2012. Prior to that, he also had many years of experience in a large Beijing project which was successfully completed in 1996. He continues to be a director of Beijing Hong Gong Garden Villa House Property Development Co., Ltd.

June 1982 to Present

Assistant Managing Director of HLH

May 1983 to Present

Director of Tripartite Developers Pte. Limited

Christian Gautier de Charnace

Has over 40 years of broad and diversified international banking experience in corporate and institutional banking and had held various executive management positions having responsibilities in the areas of corporate finance, investment banking, fund raising, capital markets and advisory transactions for clients.

November 2018 to Present

Director of Golden Agri-Resources Ltd

January 2018 to Present

Independent President
Commissioner of PT BNP Paribas Sekuritas Indonesia

1980 to 2017

BNP Paribas:

- CEO Investment Banking Asia Pacific (October 2013 to 2017)
- Managing Director and successively Head of Capital Markets and Corporate Finance for Asia Pacific (1993 to 2013)
- Various Management positions in BNP Paribas (1980 to 1990)

Graduated from Institut d'Etudes Politiques de Paris in Economy and Finance, and also holds a Bachelor's degree from the University of Law in Paris.

Please refer to the Directors' Statement on pages 96 to 98.

Nil

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Beng	Kwek Leng Peck
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 Peck and Mr Kwek Leng Kee, and uncle of Mr Kevin Hangchi.</p> <p>Director and shareholder of Hong Realty (Private) Limited (“HR”) and Hong Leong Investment Holdings Pte. Ltd. (“HLIH”) and Kwek Holdings Pte Ltd, all of which are substantial shareholders of the Company. HR and HLIH are also related corporations of the Company.</p> <p>Please refer to the Directors’ Statement on pages 96 to 98 on his shareholding interests in HR and HLIH.</p>	<p>Cousin of Mr Kwek Leng Beng (Chairman/Managing Director) and Mr Kwek Leng Kee, and uncle of Mr Kevin Hangchi,</p> <p>Director and shareholder of Hong Realty (Private) Limited (“HR”) and Hong Leong Investment Holdings Pte. Ltd. (“HLIH”), both of which are substantial shareholders and related corporations of the Company.</p> <p>Please refer to the Directors’ Statement on pages 96 and 97 on his shareholding interests in HR and HLIH.</p>
Conflict of interest (including any competing business)	Nil	Nil
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to Hong Leong Finance Limited (“HLF”)	Yes	Yes
Other Principal Commitments including directorships	<u>Principal Commitments:</u> Please see information under segment “Professional qualification, working experience and occupation(s) during the past 10 years”	<u>Principal Commitments:</u> Please see information under segment “Professional qualification, working experience and occupation(s) during the past 10 years”
<u>Directorships:</u> Past (for the last 5 years):	<ul style="list-style-type: none"> • 11 subsidiaries of City Developments Limited* • Hong Leong Asia Ltd.* and 1 subsidiary • Hong Leong Corporation Holdings Pte Ltd and 1 subsidiary • 1 subsidiary of Hong Leong Investment Holdings Pte. Ltd. • Secura Singapore Pte. Ltd. 	<ul style="list-style-type: none"> • City Developments Limited* and 16 of its subsidiaries • 4 subsidiaries of Hong Leong Asia Ltd.* • 1 subsidiary of Hong Leong Corporation Holdings Pte Ltd • 5 subsidiaries of Hong Leong Investment Holdings Pte. Ltd.

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Kwek Leng Kee	Christian Gautier de Charnace
Cousin of Mr Kwek Leng Beng (Chairman/Managing Director) and Mr Kwek Leng Peck, and uncle of Mr Kevin Hangchi.	Nil
Director and shareholder of Hong Realty (Private) Limited (“HR”), Hong Leong Investment Holdings Pte. Ltd. (“HLIH”) and Davos Investment Holdings Private Limited, all of which are substantial shareholders of the Company. HR and HLIH are also related corporations of the Company.	
Please refer to the Directors’ Statement on pages 96 to 98 on his shareholding interests in HR and HLIH.	
Nil	Nil
Yes	Yes

Principal Commitments:	Principal Commitments:
Please see information under segment “Professional qualification, working experience and occupation(s) during the past 10 years”	Please see information under segment “Professional qualification, working experience and occupation(s) during the past 10 years”
<ul style="list-style-type: none"> • 1 associated company of City Developments Limited* • 1 subsidiary of Hong Leong Holdings Limited 	<ul style="list-style-type: none"> • 1 subsidiary of City Developments Limited* • The Hong Kong Country Club

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Name of Director	Kwek Leng Beng	Kwek Leng Peck
Present:	<ul style="list-style-type: none"> • HLF* and its 2 subsidiaries • City Developments Limited* and 27 of its subsidiaries and associated companies • Hong Leong Holdings Limited and 3 of its subsidiaries • Hong Realty (Private) Limited and 3 of its subsidiaries and associated company • Hong Leong Investment Holdings Pte. Ltd. and 4 of its subsidiaries and associated company • Hong Leong Company (Malaysia) Berhad and 2 of its subsidiaries • Singapore Cement Manufacturing Company (Private) Limited • Fairmont Limited • Guan Hong Plantation Private Limited • Hong Leong Foundation** • Hong Leong Nominees (Private) Limited • Kwek Holdings Pte Ltd • Kwek Hong Png Investment Pte. Ltd. <p><u>Other Appointments</u></p> <ul style="list-style-type: none"> • Singapore Hotel Association (Member) • Singapore Institute of Directors (Fellow) 	<ul style="list-style-type: none"> • HLF* and its 2 subsidiaries • China Yuchai International Limited* and 1 subsidiary • Hong Leong Asia Ltd.* and 25 of its subsidiaries and associated company • Hong Leong Company (Malaysia) Berhad • Hong Leong Corporation Holdings Pte Ltd and 9 of its subsidiaries • Hong Leong Holdings Limited and 2 of its subsidiaries • Hong Leong Investment Holdings Pte. Ltd. and 7 of its subsidiaries • Hong Realty (Private) Limited and 3 of its subsidiaries • Tasek Corporation Berhad and 2 of its subsidiaries • Hong Leong Foundation** • Hong Leong Nominees (Private) Limited • Kwek Hong Png Investment Pte. Ltd.
Responses to questions (a) to (k) under Appendix 7.4.1 of the SGX Listing Manual	Negative confirmation	Negative confirmation

* Listed company

** Public company limited by guarantee

Information as at 25 February 2021

ADDITIONAL INFORMATION ON DIRECTORS SEEKING ELECTION/RE-ELECTION

AT THE 61ST ANNUAL GENERAL MEETING

Kwek Leng Kee	Christian Gautier de Charnace
<ul style="list-style-type: none"> • HLF* • 6 subsidiaries of City Developments Limited* • Hong Leong Corporation Holdings Pte Ltd and 1 subsidiary • Hong Leong Holdings Limited and 36 of its subsidiaries • Hong Leong Investment Holdings Pte. Ltd. and 12 of its subsidiaries • Hong Realty (Private) Limited and 1 subsidiary • Davos Investment Holdings Private Limited • Guan Hong Plantation Private Limited 	<ul style="list-style-type: none"> • HLF* • Golden Agri-Resources Ltd* • PT BNP Paribas Sekuritas Indonesia

Negative Confirmation

Negative Confirmation

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HONG LEONG FINANCE LIMITED

Co. Reg. No. 196100003D

(Incorporated in the Republic of Singapore)

PROXY FORM FOR 61ST ANNUAL GENERAL MEETING

IMPORTANT:

Alternative Arrangements for Annual General Meeting ("Meeting")

1. The Meeting is being convened, and will be held, by electronic means pursuant to the Covid-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of the Notice of Meeting will not be sent to members. Instead, the Notice of Meeting will be made available to members by electronic means via publication on the Company's website at the URL <https://www.hlf.com.sg/investor-relations/agm.php>. The Notice of Meeting will also be made available on the SGX website at the URL <https://www.sgx.com/securities/company-announcements>.
2. Alternative arrangements relating to attendance at the Meeting via electronic means (including arrangements by which the Meeting can be electronically accessed via 'live' audio-visual webcast or 'live' audio-only stream), submission of questions to the Chairman of the Meeting in advance of the Meeting, addressing of substantial and relevant questions at the Meeting and voting by appointing the Chairman of the Meeting as proxy at the Meeting, are set out in the accompanying Company's announcement dated 31 March 2021. The announcement may be accessed at the Company's website at the URL <https://www.hlf.com.sg/investor-relations/agm.php>, and will also be made available on the SGX website at the URL <https://www.sgx.com/securities/company-announcements>.
3. Due to the current Covid-19 situation in Singapore, a member will not be able to attend the Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the Meeting if such member wishes to exercise his/her/its voting rights at the Meeting.
4. Please read the notes overleaf which contain instructions on, *inter alia*, the appointment of the Chairman of the Meeting as a member's proxy to attend, speak and vote on his/her/its behalf at the Meeting.

CPF/SRS Investors

5. CPF/SRS Investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks/SRS Operators to submit their votes by 5.00 p.m. on 19 April 2021.

Personal Data

6. By submitting a form appointing the Chairman of the Meeting as proxy, the member accepts and agrees to the personal data privacy terms set out in the Notice of Meeting dated 31 March 2021.

I/We, (name) _____ with NRIC/Passport/Company Registration Number _____

of (address) _____

being a member/members of HONG LEONG FINANCE LIMITED (the "Company"), hereby appoint the Chairman of the Meeting as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Sixty-First Annual General Meeting of the Company (the "Meeting") to be convened and held by way of electronic means on Thursday, 29 April 2021 at 11.00 a.m. and at any adjournment thereof.

I/We have indicated with an "X" in the appropriate box against each item below how I/we wish the Chairman of the Meeting as my/our proxy to vote, or to abstain from voting.

NOTE: Voting on all resolutions will be conducted by poll. If you wish the Chairman of the Meeting as your proxy to cast all your votes "For" or "Against" a resolution, please indicate with an "X" in the "For" or "Against" box provided in respect of that resolution. Alternatively, please indicate the number of votes "For" or "Against" in the "For" or "Against" box provided in respect of that resolution. If you wish the Chairman of the Meeting as your proxy to abstain from voting on a resolution, please indicate with an "X" in the "Abstain" box provided in respect of that resolution. Alternatively, please indicate the number of shares that the Chairman of the Meeting as your proxy is directed to abstain from voting in the "Abstain" box provided in respect of that resolution. **In the absence of specific directions in respect of a resolution, the appointment of the Chairman of the Meeting as your proxy for that resolution will be treated as invalid.**

No.	Resolutions	For	Against	Abstain
A)	ORDINARY BUSINESS:			
1.	Receipt 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.	Election/Re-election of Directors:	(a) Mr Kwek Leng Beng (b) Mr Kwek Leng Peck (c) Mr Kwek Leng Kee (d) Mr Christian Gautier de Charnace		
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 _____ 2021

Total No. of Shares Held

Signature(s) or Common Seal of Member(s)

NOTES: SEE OVERLEAF

Notes:

1. 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.
2. **Due to the current Covid-19 situation in Singapore, a member will not be able to attend the Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the Meeting if such member wishes to exercise his/her/its voting rights at the Meeting.** This proxy form may be downloaded from the Company's website at the URL <https://www.hlf.com.sg/investor-relations/agm.php>, and also from the SGX website at the URL <https://www.sgx.com/securities/company-announcements>. Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.

CPF/SRS investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 5.00 p.m. on 19 April 2021.

3. The Chairman of the Meeting, as proxy, need not be a member of the Company.
4. The form appointing the Chairman of the Meeting as proxy must be submitted to the Company in the following manner:
 - (a) if submitted by post, be deposited at the office of the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902; or
 - (b) if submitted electronically, be submitted via email to the Company's Share Registrar at gpe@mncsingapore.comin either case not less than 72 hours before the time appointed for holding the Meeting.

A member who wishes to submit a form of proxy must first download, complete and sign the proxy form, before submitting it by post to the address provided above, or before scanning and sending it by email to the email address provided above.

Due to the current Covid-19 situation in Singapore, members are strongly encouraged to submit completed proxy forms electronically via email.

5. The form appointing the Chairman of the Meeting as proxy must be signed by the appointor or his attorney duly authorized in writing. Where the form appointing the Chairman of the Meeting as proxy is executed by a corporation, it must be executed either under its seal or signed by a director or an officer or an attorney duly authorized.
6. 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 a member whose shares are 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 Meeting, as certified by The Central Depository (Pte) Limited to the Company.

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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
T : 6415 9118
F : 6222 8790

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

Balestier Branch
288 Balestier Road
#01-02 Balestier 288
Singapore 329731
T : 6250 1083
F : 6254 8801

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

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

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

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

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

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

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

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

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

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

Joo Chiat Branch
278 Joo Chiat Road
Singapore 427532
T : 6344 8842
F : 6440 2864

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

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

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

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

Potong Pasir Branch
51 Upper Serangoon Road
#01-60/61 The Poiz Centre
Singapore 347697
T : 6214 9462
F : 6214 9463

Redhill (Jin Tiong) Branch
Blk 75D Redhill Road
#01-100
Singapore 154075
T : 6479 0277
F : 6479 0218

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

Serangoon Garden Branch
8 Kensington Park Road
Serangoon Garden Estate
Singapore 557260
T : 6280 5665
F : 6285 2195

Tampines Grande Branch
9 Tampines Grande
#01-12
Singapore 528735
T : 6784 7326
F : 6784 9057

Toa Payoh Branch
Blk 520 Lorong 6 Toa Payoh
#02-54 HDB Hub
Singapore 310520
T : 6253 4821
F : 6256 5676

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

Upper Thomson Branch
219 Upper Thomson Road
Singapore 574351
T : 6453 3266
F : 6454 1913

Woodlands Branch
Blk 306 Woodlands Street 31
#01-43
Singapore 730306
T : 6368 7928
F : 6368 1448

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

SME CENTRE @ HONG LEONG FINANCE

Balestier
288 Balestier Road
#01-02 Balestier 288
Singapore 329731
T : 6397 4946
F : 6254 8801

Bedok
Blk 203 Bedok North Street 1
#01-451
Singapore 460203
T : 6446 7320
F : 6444 3827

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

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

City Square
180 Kitchener Road
#B2-41 City Square Mall
Singapore 208539
T : 6634 4087
F : 6834 3280

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

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

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

Jurong East
Blk 134 Jurong Gateway Road
#01-313
Singapore 600134
T : 6665 1950
F : 6564 3787

Potong Pasir
51 Upper Serangoon Road
#01-60/61 The Poiz Centre
Singapore 347697
T : 6214 9473
F : 6214 9463

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

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



HONG LEONG FINANCE

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