



FOSTERING
GROWTH
OPPORTUNITIES

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PROXY FORM



At Hong Leong Finance, we value solid partnerships that stand the test of time. We understand the need to strengthen our relevance to customers and support their evolving needs, especially in an increasingly challenging economic environment. In doing so, we work closely with our business partners and adapt to change by pursuing new and innovative solutions that create mutually beneficial experiences. As 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.

LOANS
S\$10,091
MILLION

SHAREHOLDERS'
FUNDS
S\$1,688
MILLION

NET PROFIT
S\$72.9
MILLION

DEPOSITS
S\$11,444
MILLION

FIVE-YEAR FINANCIAL SUMMARY

		2015	2014	2013	2012	2011
Capital Employed						
Total assets	\$ million	13,287	12,262	11,675	11,794	9,505
Net equity	\$ million	1,688	1,659	1,646	1,625	1,598
Net assets per share	\$	3.80	3.74	3.72	3.68	3.63
Share Capital						
Number of shares in issue	million	443.8	443.5	442.7	441.2	440.5
Loans and Deposits						
Loans net of allowances	\$ million	10,091	9,583	9,088	8,896	7,452
Deposits	\$ million	11,444	10,469	9,906	10,046	7,761
Profit and Retained Earnings						
Profit before tax	\$ million	86.7	75.8	84.4	78.5	119.7
Profit after tax	\$ million	72.9	62.8	70.1	77.6	99.8
Interim/final dividend(s) declared in the year	\$ million	44.4	53.2	53.0	52.9	52.9
Earnings retained for the year	\$ million	28.5	9.6	17.1	24.7	46.9
Earnings Per Share and Dividends						
Earnings per share	cents	16.4	14.2	15.9	17.6	22.7
Dividend – tax exempt one-tier*	cents	11.0	10.0	12.0	12.0	12.0
Times covered*		1.5	1.4	1.3	1.5	1.9
Number of Employees						
		646	674	675	662	653

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

Dividend Policy

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

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

FINANCIAL
HIGHLIGHTS

Total Assets (\$ mil)	Loans Net Of Allowances (\$ mil)	Deposits (\$ mil)
FY 2015	FY 2015	FY 2015
13,287	10,091	11,444
FY 2014	FY 2014	FY 2014
12,262	9,583	10,469
Profit Before Tax (\$ mil)	Profit After Tax (\$ mil)	Interim/Final Dividend(s) Declared In The Year (\$ mil)
FY 2015	FY 2015	FY 2015
86.7	72.9	44.4
FY 2014	FY 2014	FY 2014
75.8	62.8	53.2
Earnings Per Share (cents)		
FY 2015		
16.4		
FY 2014		
14.2		

CHAIRMAN'S STATEMENT



“BESIDES PROVIDING SMES FINANCIAL SUPPORT, WE ALSO OFFERED ADVISORY SERVICES AND TOOK THE EXTRA MILE IN CONNECTING THEM WITH OUR WIDE NETWORK OF PARTNERS AND CUSTOMERS TO BUILD RELATIONSHIPS FOR MUTUALLY BENEFICIAL GAINS.”

ON BEHALF OF THE BOARD OF DIRECTORS, I AM PLEASED TO PRESENT THIS ANNUAL REPORT OF THE GROUP AND THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015.

FINANCIAL OVERVIEW

Group profit after tax attributable to shareholders for the year ended 31 December 2015 amounted to \$72.9 million, equivalent to 16.4 cents per share. The results for the year were arrived at after writing back provision/recoveries (net of top up of provision) amounting to \$3.6 million against an additional net charge of \$2.0 million in 2014.

The Group achieved steady growth in its core activities during the year. Loans and advances (before allowances) rose to \$10.20 billion from \$9.69 billion in 2014, an increase of 5.3% over the previous year. Deposits and balances of customers registered an increase of 9.3%, closing at \$11.44 billion as at 31 December 2015. There are no bank borrowings outstanding.

At the end of the financial year, Group shareholders' funds totalled \$1.69 billion, equivalent to \$3.80 per share. The Group continues to maintain a strong capital adequacy ratio of 15.1% as at 31 December 2015, higher than the prescribed requirement.

An interim dividend of 4 cents per share (tax exempt one-tier) was paid on 9 September 2015. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board is proposing the payment of a final dividend of 7 cents per share (tax exempt one-tier) in respect of 2015. The aggregate distribution for the year will amount to approximately \$49 million, compared to \$44 million for 2014.

OPERATING PERFORMANCE

While the advanced economies were recovering, the slowdown in emerging market economies, led by China, put a drag on the global economic output during the year.

Singapore was faced with additional domestic structural challenges including a tight labour market and negative inflation. This put pressure on growth in the Singapore economy which moderated from 2.7% (revised) in the first quarter to 1.7%, 1.8% (revised) and 1.8% in the subsequent three quarters. The softer economy

and labour constraints weighed down on businesses particularly those in manufacturing, wholesale and rig building activities as well as labour-intensive sectors. Many SMEs attempted to remodel and refocus their businesses to enhance cost efficiency and target higher growth niches.

Hong Leong Finance actively engaged and assisted these SMEs in their transitions. Besides providing them financial support, we also offered advisory services and took the extra mile in connecting them with our wide network of partners and customers to build relationships for mutually beneficial gains.

Continued rapid changes of business environment drove Hong Leong Finance to innovate and invest in infrastructure and technology to meet changing customer needs. With increased deployment of resources in expanding the SME Centre @ Hong Leong Finance network we have achieved excellent results. This year, we added two more SME Centres, bringing the count to ten to provide greater convenience of one-stop financial services to SMEs.

Hong Leong Finance also took customer engagement to a higher level with the unveiling of a modernised branch at Jurong East. The expanded branch was complete with a new digital space equipped with convenient self-service terminals for customers to make loan applications and related computations. To interact with customers more effectively during financial consultation, tablets were deployed for use by our relationship managers.

Further, a host system technology refresh initiative was launched to enhance the capacities and capabilities of our internal systems and processes to enable faster and more flexible ways of doing things.

The company website was also revamped to adopt a more responsive and interactive interface to target the busy and digitally-savvy customers. In addition to being mobile- and tablet-friendly, the new website offered intuitive suggestions to users based on the products or services they looked at. Predictive search function to help users learn more about Hong Leong Finance's products and services and state-of-the-art calculators to obtain real time deposit interest and loan instalment computation results were some of the latest features added.

On the vehicle market, sales were brisk in 2015 for new vehicles due to higher supply of COE following an increase in car deregistration. However competition

for car loan business intensified with new entrants such as credit companies. Our counter measure of building strong strategic alliances with our car dealer partners served us well in sustaining our pipeline of new car loans.

The unrelenting property cooling measures continued to negatively impact on property purchases. Lower numbers of new Singapore permanent residents (SPR) combined with tighter SPR eligibility criteria to purchase HDB homes caused a further drop in HDB purchasers. Increase in Build-To-Order launches and higher income ceiling eligibility for loans from HDB shifted some demand away from resale to new build HDB purchases. The proportion of new HDB purchasers taking up loans from HDB rose taking business away from financial institutions. We focused on encouraging HDB home loan borrowers at other financial institutions to refinance with us by offering fixed rate loans to protect against rising interest rate risk, and achieved good success with loans demand and acquisitions outpacing our expectations. For private home loans, we wrote loans selectively in view of the uncertain private residential market.

The volatile local capital market and weak sentiments led to fewer corporate listings. Hong Leong Finance remained committed in helping SMEs with listing potential. We provided advisory services to them and acted as their Catalyst Sponsor, Issue Manager, Underwriter and Placement Agent. Since entering the market with the first Catalyst Initial Public Offering on the Stock Exchange of Singapore three years ago, we have grown and now act as Continuing Sponsor for seven Catalyst companies.

"HONG LEONG FINANCE REMAINED
COMMITTED IN HELPING SMES WITH
LISTING POTENTIAL."

With the rising interest rate environment contributed by the US interest rate hike and ongoing implementation of the Basel III liquidity requirements, competition by banks for deposits to build up their bases has been keen. Issuance of retail corporate bonds and the launch of the government's Singapore Savings Bond in the second half of 2015 further added pressure on market liquidity and raised deposit interest rates. To defend our deposit portfolio and grow it in tandem to support our loan growth, Hong Leong Finance launched

CHAIRMAN'S STATEMENT

a series of deposits promotions with varied tenures to appeal to different customers, catering to their different needs. Loan-to-deposit ratio was carefully managed to optimise loan funding cost.

Our staff did us proud again with their exemplary customer service. At the Excellent Service Awards Ceremony organised by Spring Singapore and administered by the Association of Banks in Singapore, May Lim Guek Eng a customer services officer at our Jurong East branch was accorded the Service Excellence Silver Award.

Hong Leong Finance was also honoured to be bestowed the ASEAN Finance Company of the Year award for the second time at the Asian Banking and Finance Retail Banking Awards in recognition of our excellence and innovation in financial products and services.

OUTLOOK

We are cautious of the Singapore economy's growth prospects next year. There are several headwinds including the slowdown in global economies, increased tension in the Middle East and domestic structural challenges.

Our strategic priorities continue to expand selectively, deepen customer relationships, strengthen partnerships with our business alliances, increase interest and fee income and improve operating results. These are crucial in attaining sustainable growth and long-term value for our shareholders.

Our focus will be on specific high-yield products and robust growth sectors, to cultivate relationships we already enjoy with our existing customers in order to gain market share through cross-selling and to build on the strong connections that we have established with our business partners and grow the network for more referrals. The future is poised for even greater interdependence.

Amidst the increasingly demanding regulatory and compliance framework, Hong Leong Finance will continue to be prudent and responsible in all our lending. Achieving excellence in service delivery and customer experience remains our cornerstone to winning over and keeping our customers.

At the same time, we will take all necessary steps to keep the level of non-performing loans low by controlling

concentration and ensuring compliance with our internal credit processes.

CORPORATE RESPONSIBILITIES

Hong Leong Finance has zero tolerance towards bribery, fraud and corruption, regardless of the identity or position of the originator or recipient of the bribe. The Company expects all staff to conduct business in accordance with the highest standards of ethical behaviour and honesty. This also means that we are committed to the prevention, deterrence and detection of bribery, fraud and corruption.

All staff have to observe a Code of Conduct which sets out the principles and standards of behaviour when dealing with customers, business associates, regulators and colleagues. The principles covered in the Code of Conduct include areas like confidentiality, conflicts of interest, professional integrity, fair dealings with customers, whistle blowing and competency of staff.

To attract and retain good staff, Hong Leong Finance regularly reviews our employees' remuneration to ensure competitiveness and alignment with the marketplace. To draw young and promising talents, the company offers internship placements for selected students in polytechnics and universities to gain their mind share in the career choices upon graduation.

As an employer of choice, we are committed to the learning and career development of our employees. Besides sponsoring staff for professional courses that are related to their work, there are award incentives to those who pursue and complete courses of their own choice under our Professional Education Incentive Scheme. Furthermore, individuals and teams with outstanding achievements and contributions are recognised with Star Service Awards. We also understand the importance of work-life integration and employee relations. Employees who have strong family demands have the flexibility to work on a part-time basis, subject to exigencies of service.

Hong Leong Finance also has in-place policies on Fraud and Whistleblowing, which define the processes and procedures for the escalation, investigation and follow-up of any reported wrong-doing by staff, customer, vendor or third party. The policies provide for any individual to report in good faith, without fear of reprisal, any suspected wrongdoing to the Head of Internal

Audit, Head of Human Resources or Chairman of the Audit Committee.

All staff are required to read and acknowledge the Code of Conduct. Members of the public may also access the Whistleblowing policy on the company's website.

Hong Leong Finance has an established formal risk management framework to enable significant business risks to be identified, assessed, managed and reviewed regularly. More information can be found on pages 49 to 53 in this Annual Report.

In addition, Hong Leong Finance practises disciplined adherence to our credit risk policies and management. Deep understanding and knowledge of customers and their associated credit risk are established for every new customer relationship acquired. Strategy is also in place to strengthen existing relationships with customers who started with a single loan or deposit account but have come to trust us as their financial partners.

Hong Leong Finance integrates responsible financing practices into our business model. As a financier, we recognise that we play an important influential role towards our employees and customers to take responsible actions. Our practices are aligned with the guidelines issued by the Association of Banks in Singapore.

The company uses the Workplace Safety & Health Act framework to promote strong safety culture in the workplace. We provide a safe work environment for our people and actively promote awareness on workplace occupational health. During the haze crisis, preparedness measures were implemented to protect our staff and customers. Employees were advised to minimise outdoor activities and given N95 masks to use in case air quality reached hazardous level. Air filters were installed at all our customer touchpoints to ensure our customers' health safety.

For our efforts in reducing environment footprint by saving energy at our offices such as at the eco-friendly Tampines Grande, Hong Leong Finance was conferred BCA Green Mark Certified Award under BCA Green Mark for Office Interior Scheme.

At Hong Leong Finance, we believe in paying it forward as a company and as individuals. As an ardent promoter of entrepreneurship, we have been a Gold Sponsor for

"HONG LEONG FINANCE WAS BESTOWED THE ASEAN FINANCE COMPANY OF THE YEAR AWARD FOR THE SECOND TIME AT THE ASIAN BANKING AND FINANCE RETAIL BANKING AWARDS IN RECOGNITION OF OUR EXCELLENCE AND INNOVATION IN FINANCIAL PRODUCTS AND SERVICES."

the Annual SMEs Conference and Infocomm Commerce Conference year after year.

We also contributed to social causes relating to needy children, the elderly and disabled, and supported young adults to embrace the spirit of social responsibility and compassion. Our staff did their part as individuals by actively volunteering and serving the underprivileged through the charity activities organised by Hong Leong Foundation which touched the lives of many. More information can be found on page 10 in this Annual Report.

APPRECIATION

Our Board of Directors, management and employees were deeply saddened by the demise of Mr Kwek Leng Joo, non-Executive and non-Independent Director, in November 2015. The Board sincerely appreciates Mr Kwek's dedicated service over the years.

On behalf of the Board of Directors, I would like to convey our sincere gratitude to all our valued customers, shareholders and business partners for their continued support, trust and confidence in us. I would also like to express my appreciation and thanks to my fellow Directors for their invaluable advice and guidance during the year and to the management and staff for their commitment and efforts in 2015.

KWEK LENG BENG

Chairman

25 February 2016

STAYING RESILIENT IN CHANGING TIMES

From its humble beginnings as a Small & Medium Enterprise in 1961, Hong Leong Finance has grown into Singapore's largest finance company. Over the past five decades, our team of financial experts and SME specialists have provided innovative solutions that enable customers to unlock opportunities, maximise potential and achieve greater success. From being one of the first financial companies to offer factoring services in Singapore to establishing its first self-service digital space at the new Jurong East Branch, the company has evolved to stay relevant over the years whilst continuing to nurture mutually-beneficial relationships with its customers.





COMMUNITY CARE

As the largest finance company in Singapore, Hong Leong Finance recognises that our success is in part due to the support from the communities in which we operate in. Whether it is through nurturing the next generation of community leaders or raising funds for various charitable causes, Hong Leong Finance believes in effecting change, inspiring volunteerism and sharing in our success. In operating our business with a social purpose, we aim to show that it is possible to enrich lives while making sure that our products and services remain accessible to all.

JANUARY 2015

*Celebrating Jubilee Year with
Duck Tour for Elderly*



Hong Leong Foundation's Annual Charity Event saw Hong Leong Finance staff taking nearly 50 elderly beneficiaries from St. John's Home for Elderly Persons and St Andrew's Cathedral Home for the Aged on a Duck Tour through the city and the waters of Marina Bay. Cash giveaways of about \$580,000 were distributed to more than 5,000 needy recipients - the largest annual cash giveaway since 2006.

AUGUST 2015

*Fundraising Walkathon
for Children*



Hong Leong Group's Family Day was held together with the Hong Leong Foundation Annual Fundraising Walkathon by Singapore Children's Society, "Walk for Our Children". The event attracted nearly 6,000 participants and raised \$800,000 to further the Society's mission of bringing relief and happiness to needy. More than 1,420 staff and families formed the strong contingent from Hong Leong Group.

AUGUST 2015

*Giving back to the society and nurturing
the future generation*



Hong Leong Finance was one of the key sponsors for NTU Fest 2015, organised in conjunction with the SG50 celebration. The event provided a platform for students to contribute to the society and to spread the spirit of social responsibility and compassion amongst the student population.

SEPTEMBER 2015

*Biking and blading for
a good cause*



In bid to help the elderly and disabled in our community, Hong Leong Finance supported a fundraiser Charity Bike and Blade where a group of 100 cyclists cycled to and fro between Desaru and Mersing, raising more than \$420,000.

DIRECTORY OF SERVICES

SME LOANS

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

CORPORATE FINANCE

Catalist Full Sponsor

Equity Fund Raising

Initial Public Offering
 Secondary Fund Raising
 Underwriting of Shares

Corporate Advisory

Financial Advisory
 Mergers & Acquisitions
 Restructuring
 Independent Financial Advisory

DEPOSITS

Business Current Account
 Fixed Deposits
 Savings Accounts
 Savers Plus

PERSONAL LOANS

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

CORPORATE PROFILE



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

With over 50 years of experience in serving the SME community, Hong Leong Finance has supported many

local enterprises with customized financing solutions to enable them to operate successfully in the corporate world. To help our corporate customers gain greater business efficiency, Hong Leong Finance launched the Business Current Account in 2007 and became the only finance company here to offer chequeing account services. Hong Leong Finance is also a pioneer in the Local Enterprise Finance Scheme administered by Spring Singapore and the exclusive finance company in Singapore with full sponsorship status for the SGX Catalist Board, enabling us to provide financial advisory and fund raising services to SMEs aiming to list on Catalist. With our strong commitments towards the SMEs, Hong Leong Finance was twice



10 SME
CENTRES

NORTH, SOUTH,
EAST, WEST &
CENTRAL ZONES
OF SINGAPORE

28

BRANCHES
ACROSS
SINGAPORE

54
YEARS

SERVING THE
COMMUNITY

conferred the “Friends of Enterprise” award by the Spirit of Enterprise.

In our quest to maintain market leadership and deliver our services more efficiently to the SMEs, Hong Leong Finance’s strong SME Centre@Hong Leong Finance network further enhances our presence and brings us closer to the business community. There are currently ten centres across the north, south, east, west and central zones of Singapore, which have been reaching out to businesses in the vicinity.

At Hong Leong Finance, we are committed to providing complete financial solutions to both business enterprises

and retail customers. We remain close to the community we serve through our branch network and aspire to serve our customers by listening to their requests and tailoring our suite of products and services to best cater to their needs.

Whether it is a business entity striving to expand its company or an individual wishing to build a secure financial future, Hong Leong Finance will endeavour to cater to their every need. For that reason, Hong Leong Finance is honoured to receive the Asia Finance Company of the Year Award in 2007, the Singapore Finance Company of the Year Award for three consecutive years in 2011, 2012 and 2013 and the ASEAN Finance Company Award for 2014 and 2015 at the Asian Banking and Finance Retail Banking Awards.

We believe in maintaining the trust and confidence that our customers have in us by consistently developing and enhancing our capabilities to better serve our diverse customer base and be a financial partner of choice.

Through the years, we have established a solid customer base and grown with them. We thank them for their continued support and look forward to many more years of excellent service.



STRENGTHENING CUSTOMER RELATIONSHIPS

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



CORPORATE DIRECTORY

BOARD OF DIRECTORS

Executive Director

Kwek Leng Beng *Board Chairman & Managing Director*

Lead Independent Director

Po'ad bin Shaik Abu Bakar Mattar

Non-Executive Directors

Kwek Leng Peck

Kwek Leng Kee

Chng Beng Hua *Independent*

Cheng Shao Shiong @ Bertie Cheng *Independent*

Ter Kim Cheu *Independent*

Raymond Lim Siang Keat *Independent*

EXECUTIVE COMMITTEE

Kwek Leng Beng *Chairman*

Kwek Leng Peck *also as alternate to Chairman*

Cheng Shao Shiong @ Bertie Cheng

Ter Kim Cheu

Raymond Lim Siang Keat

AUDIT COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar *Chairman*

Chng Beng Hua

Ter Kim Cheu

RISK MANAGEMENT COMMITTEE

Cheng Shao Shiong @ Bertie Cheng *Chairman*

Kwek Leng Beng

Kwek Leng Peck

Raymond Lim Siang Keat

NOMINATING COMMITTEE

Cheng Shao Shiong @ Bertie Cheng *Chairman*

Kwek Leng Beng

Po'ad bin Shaik Abu Bakar Mattar

REMUNERATION COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar *Chairman*

Cheng Shao Shiong @ Bertie Cheng

Ter Kim Cheu

HONG LEONG FINANCE SHARE OPTION SCHEME 2001 COMMITTEE

Po'ad bin Shaik Abu Bakar Mattar *Chairman*

Kwek Leng Peck

Cheng Shao Shiong @ Bertie Cheng

Ter Kim Cheu

PRESIDENT

Ian Anthony Macdonald

(Please refer to page 34 of this Annual Report for information on the President)

DEPUTY PRESIDENT

Ang Tang Chor

(Please refer to page 34 of this Annual Report for information on the Deputy President)

SECRETARIES

Yeo Swee Gim, Joanne

Oh Su Chong

Che Chan Yu

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INVESTOR RELATIONS

T: 6428 9309 F: 6534 3060

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AUDITORS

KPMG LLP

Public Accountants and Chartered Accountants, Singapore

16 Raffles Quay #22-00, Hong Leong Building

Singapore 048581

(Partner-in-charge: Karen Lee Shu Pei, appointed from commencement of audit of financial statements for the financial year ended 31 December 2013)

BANKERS

Australia and New Zealand Banking Group Limited

Bank of America, N.A.

DBS Bank Ltd

Deutsche Bank AG

HL Bank

Malayan Banking Berhad

Mizuho Bank, Limited

Oversea-Chinese Banking Corporation Limited

Standard Chartered Bank

Sumitomo Mitsui Banking Corporation

The Bank of Nova Scotia

The Bank of Tokyo-Mitsubishi UFJ, Ltd

The Hongkong and Shanghai Banking Corporation Limited

United Overseas Bank Limited

TRIBUTE KWEK LENG JOO 1953 — 2015



MR KWEK LENG JOO

Director of Hong Leong Finance Limited

- prior to the merger (1982-2001)
- after the merger (2001-2015)

Mr Kwek Leng Joo first joined the board of Hong Leong Finance Limited (HLF) in February 1982. In 2001, the finance business undertakings of HLF and its subsidiary then, Singapore Finance Limited (SFL), were merged together and held solely under SFL, which became an enlarged finance company. Upon the merger in September 2001, Mr Kwek was appointed a Director of SFL, which was subsequently renamed Hong Leong Finance Limited to reflect the merged finance business undertakings.

Appointed as a Director of City Developments Limited (CDL) on 8 February 1980, Mr Kwek assumed the position of Deputy Managing Director in 1987 and held

the role of CDL's Managing Director from January 1995 until his appointment as Deputy Chairman of CDL on 17 February 2014.

Mr Kwek was an Executive Director of City e-Solutions and also a Director of Hong Leong Investment Holdings Private Limited, the holding company of CDL as well as Hong Leong Finance.

Mr Kwek's leadership, invaluable contribution and presence will be greatly missed by the Board, management and employees of Hong Leong Finance. He is fondly remembered as a property tycoon, a charitable philanthropist and an avid photographer.

BOARD OF DIRECTORS



KWEK LENG BENG

KWEK LENG PECK



KWEK LENG KEE

CHNG BENG HUA

CHENG SHAO SHIONG @ BERTIE CHENG



PO'AD BIN SHAIK ABU BAKAR MATTAR

TER KIM CHEU

RAYMOND LIM SIANG KEAT

KWEK LENG BENG, 75*Executive Director*

A Managing Director of Hong Leong Finance Limited ("HLF" or the "Company") since 1 March 1979, Mr Kwek was appointed the Chairman of the Company since 28 November 1984 and was last re-appointed as a Director on 23 April 2015 to hold office until the 2016 Annual General Meeting ("2016 AGM") pursuant to Section 153(6) of the Companies Act, Chapter 50 ("Section 153(6)"), which provision has since been repealed, and will be seeking appointment as a Director at the 2016 AGM. Mr Kwek is also the chairman of the Executive Committee ("Exco") and sits on the Risk Management Committee ("RMC") and Nominating Committee ("NC").

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

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

Mr Kwek's other appointments include being a member of the East Asia Council of INSEAD since its inception in 2003, a board member of the Singapore Hotel Association and a Fellow of the Singapore Institute of Directors. 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).

In February 2015, Mr Kwek was also presented the Singapore Chinese Chamber of Commerce and Industry SG50 Outstanding Chinese Business Pioneers Award. This award honours the Republic's outstanding Chinese business pioneers and their exemplary contributions to nation-building.

In March 2015, Mr Kwek was awarded "Best Singaporean Investor to Italy" by the Italian Chamber of Commerce in Singapore. This annual award is presented to business people who have made impactful investments in Italy and helped to boost bilateral ties between Italy and Singapore.

In October 2015, Hotel Investment Conference Asia Pacific conferred Mr Kwek with the prestigious Lifetime Achievement Award. This award is only presented to exceptional individuals who have distinguished themselves through their accomplishments and contributions to the hotel industry in the Asia Pacific region and the world. Mr Kwek is the first Singaporean to clinch this coveted award.

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

KWEK LENG PECK, 59*Non-Executive and Non-Independent Director*

Appointed a Director of HLF since 1 January 1998, Mr Kwek was last re-elected as a Director on 23 April 2015. Mr Kwek also sits on the Exco (also as alternate to the chairman), RMC and Hong Leong Finance Share Option Scheme 2001 Committee ("SOSC").

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

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

BOARD OF DIRECTORS

KWEK LENG KEE, 61

Non-Executive and Non-Independent Director

Appointed a Director of HLF on 1 September 2001, Mr Kwek was last re-elected as a Director on 23 April 2013. He will be seeking re-election as a Director at the 2016 AGM.

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

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

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

CHNG BENG HUA, 50

Non-Executive and Independent Director

Appointed a Director of HLF since 1 July 2000, Mr Chng was last re-elected as a Director on 23 April 2015. He also sits on the Audit Committee ("AC").

Mr Chng is an Executive Director and the Chief Executive Officer of Compact Metal Industries Ltd.

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

CHENG SHAO SHIONG @ BERTIE CHENG, 78

Non-Executive and Independent Director

Appointed a Director of HLF since 23 April 2004, Mr Cheng was last re-appointed as a Director on 23 April 2015 to hold office until the 2016 AGM pursuant to Section 153(6) which provision has since been repealed, and will be seeking appointment as a Director at the 2016 AGM. Mr Cheng also sits on the Exco, Remuneration Committee ("RC") and SOSC and is the chairman of the RMC and NC.

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

Other appointments include being Chairman of the Medifund Committee, Singapore General Hospital, Vice-Chairman of the Board of Trustees, Consumers Association of Singapore (CASE) Endowment Fund, Advisor to POSBank and Chairman of the Investment Panel of SPRING SEEDS Capital Pte. Ltd. He is also a Director of Baiduri Bank Bhd, Brunei.

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

PO'AD BIN SHAIK ABU BAKAR MATTAR, 68

Non-Executive and Lead Independent Director

Appointed a Director of HLF on 24 April 2009, Mr Mattar was last re-elected as a Director on 24 April 2014. He will be seeking re-election as a Director at the 2016 AGM. He is also the chairman of the AC, RC and SOSC and a member of the NC as well as the Lead Independent Director of the Company.

Mr Mattar sits on other bodies in both the private and public sectors. In the preceding 3-year period, he was a Director of Tiger Airways Holdings Limited until July 2014.

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

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

TER KIM CHEU, 69

Non-Executive and Independent Director

Appointed a Director of HLF on 1 September 2010, Mr Ter was last re-elected as a Director on 24 April 2014. He also sits on the Exco, AC, RC and SOSC.

Mr Ter retired from the Singapore Legal Service after over 30 years of service. Prior to his retirement in 2008, he was the Parliamentary Counsel and Principal Senior State Counsel (Legislation Division), Attorney-General's Chambers, Singapore and a Law Revision Commissioner of Singapore. He was also a member of the Securities Industry Council for two terms from 1993 to 1997.

Currently, Mr Ter provides legislative consultancy services in Singapore and overseas.

He is a member of the Strata Titles Board of Singapore and the Audit Committee of Singapore Sports Council.

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

RAYMOND LIM SIANG KEAT, 56

Non-Executive and Independent Director

Appointed a Director of HLF on 1 March 2012, Mr Lim was last re-elected as a Director on 23 April 2015. He also sits on the Exco and RMC.

Mr Lim is a former Cabinet Minister in the Singapore Government and a Member of Parliament since 2001.

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

Mr Lim is currently the Executive Chairman of APS Asset Management Pte Ltd. He is also a Senior Advisor to the Swire Group, a Hong Kong-based industrial conglomerate and a Director of several companies including GIC Private Limited, Insurance Australia Group Limited, Swire Properties Limited and Raffles Medical Group Limited. He is an Adjunct Professor of the Lee Kuan Yew School of Public Policy, National University of Singapore as well as the Nanyang Centre for Public Administration, Nanyang Technological University.

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.



DELIVERING GREATER VALUE

With a network of 28 branches and 10 SME Centres islandwide, Hong Leong Finance has become an integral part of the communities it serves, offering innovative products and services that bring value-added solutions to its customers. The company's offerings and its experienced professional team have played a key role in championing local businesses in Singapore.



OPERATING AND FINANCIAL REVIEW

COMPANY OVERVIEW, OBJECTIVES AND STRATEGIES

Hong Leong Finance Limited ("HLF" or the "Company"), incorporated in 1961, is listed on the Singapore Exchange Securities Trading Limited. It is the financial services arm of the Hong Leong Group Singapore. Today, HLF is Singapore's largest finance company with a network of 28 branches and 10 SME Centres island-wide, serving all walks of life encompassing the Small and Medium Enterprises ("SMEs") and retail customers. Its activities are principally governed by the Finance Companies Act (Chapter 108) and regulated by the Monetary Authority of Singapore ("MAS"). The principal activity of its subsidiaries is the provision of nominee services.

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

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

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

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

To maintain its competitive edge, HLF will remain steadfast in innovating and delivering customer-centric products and services to assist both the retail and corporate customers in fulfilling their aspirations and achieving their financial goals.

FINANCIAL ANALYSES

Analysis of Performance

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

	2015 \$mil	2014 \$mil	Variance* + / (-) %
Selected Profit and Loss Items			
Net interest income/hiring charges	162.1	149.0	8.8
Fee and commission income	12.5	12.3	1.6
Other operating income	0.3	0.2	89.4
Income before operating expenses	174.9	161.5	8.4
Less: Operating expenses	91.8	83.7	9.7
Profit from operations before allowances/provision	83.1	77.8	6.9
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products and impairment losses of other assets	3.6	(2.0)	(279.9)
Profit before tax	86.7	75.8	14.6
Profit after tax attributable to owners	72.9	62.8	16.0
Selected Balance Sheet Items			
Loans, advances and receivables (net of allowances)	10,091	9,583	5.3
Deposits and balances of customers	11,444	10,469	9.3
Total assets	13,287	12,262	8.4
Total liabilities	11,599	10,603	9.4
Total equity	1,688	1,659	1.8
Key Financial Ratios			
Net interest margin (%)	1.3	1.3	
Net interest income/total income (%)	92.6	92.3	
Non-interest income/total income (%)	7.4	7.7	
Cost/income ratio (%)	52.5	51.8	
Loans/deposits ratio (%)	88	92	
Non-performing loans ratio (%)			
- Secured by collateral	0.6	0.7	
- Unsecured and fully provided for	0.1	0.1	
Return on equity (%)	4.4	3.8	
Return on assets (%)	0.6	0.5	
Capital adequacy ratio (%)	15.1	16.4	
Earnings per share (cents)			
- per basic share	16.4	14.2	15.9
- per diluted share	16.4	14.1	16.0
Net assets per share (\$)			
- per basic share	3.80	3.74	1.6
- per diluted share	3.64	3.57	2.0

* Calculated based on actual figures before rounding.

OPERATING AND FINANCIAL REVIEW

	2015 cents	2014 cents
Dividend per share (tax exempt)		
- interim	4	4
- final	7	6
Total	<u>11</u>	<u>10</u>

(a) Results for the year

Pre-tax profit from operations before allowances/provision was \$83.1 million in 2015, an increase of 6.9% from \$77.8 million in 2014. The Group reported profit before tax of \$86.7 million for 2015, an increase of \$10.9 million or 14.6% over the previous year. The results were arrived at after writing back provision/recoveries (net of top up of provision) amounting to \$3.6 million against an additional net allowance of \$2.0 million in 2014. Group profit after tax for the year registered an increase of \$10.1 million or 16.0% over the previous year.

In December 2015, the Company through mediation reached a confidential settlement in respect of legal action it has commenced earlier in the United States. Accordingly, the legal action has since been withdrawn. The settlement together with provision for legal expenses in the matter no longer required has been included in allowances for/ reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products and impairment losses of other assets.

Net interest income/hiring charges increased by 8.8% to \$162.1 million mainly due to higher loan base and loan yield.

Non-interest income increased to \$12.8 million (2014 : \$12.5 million) or by 3.0% in 2015. Fee and commission income, the largest component of non-interest income, increased by 1.6% to \$12.5 million from \$12.3 million in 2014. Staff costs for the year rose by 6.1% due to salary increment and provision for bonus. Higher depreciation on computer equipment accounted for the increase in depreciation on property, plant and equipment with the successful implementation of a technology refresh of the host computer systems during the year. An increase of 14.2% in other operating expenses to \$22.0 million was due mainly to increased business promotion expenses and operating lease premises expenses. The cost to income ratio increased slightly to 52.5% from 51.8% a year ago.

(b) Loans and deposits

Loans, advances and receivables (net of allowances) increased by 5.3% in 2015 to \$10,091 million from \$9,583 million. The non-performing loans ("NPL") ratio decreased marginally to an aggregate of 0.7% after accounting for recoveries and write-offs. The NPL ratio comprised secured NPL of 0.6% (2014 : 0.7%), with the balance 0.1% (2014 : 0.1%) being the unsecured portion which is fully covered by specific allowances.

Deposits and balances of customers amounted to \$11,444 million as at 31 December 2015. The loans to deposits ratio stood at 88% (2014 : 92%).

(c) Shareholders' equity and dividends

Return on equity was 4.4% in 2015, up from 3.8% in 2014 and return on assets was 0.6% in 2015, up from 0.5% in 2014. This is attributable to higher profits in 2015. Net assets per share rose to \$3.80 in 2015 from \$3.74 in 2014.

As detailed in the Chairman's Statement, an interim dividend of 4 cents per share (tax exempt one-tier) was paid on 9 September 2015. With the proposed payment of a final dividend of 7 cents per share (tax exempt one-tier) in respect of the financial year ended 31 December 2015, subject to the approval of shareholders, the total distribution for 2015 will amount to approximately \$49 million, compared to \$44 million for 2014.

(d) No significant subsequent event

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

Net Interest Income

Net interest income includes hiring charges.

Overall, net interest income increased by 8.8% to \$162.1 million in 2015 from \$149.0 million in 2014 with a closing loans to deposits ratio of 88% in 2015 (2014 : 92%). The increase in net interest income was due to higher loan base and loan yield. Net interest income was the major source of income contributing 92.6% (2014 : 92.3%) to total income.

Net interest margin as a percentage of interest-bearing assets stood at 1.3% in 2015 (2014 : 1.3%).

	2015			2014		
	Average Balance \$mil	Interest \$mil	Average Rate %	Average Balance \$mil	Interest \$mil	Average Rate %
Interest-bearing Assets						
Loans, advances and receivables	9,941	268.9	2.7	9,429	232.8	2.5
Singapore Government securities	1,296	17.4	1.3	1,236	16.1	1.3
Other assets	1,124	10.1	0.9	1,157	5.7	0.5
Total	12,361	296.4	2.4	11,822	254.6	2.2
Interest-bearing Liabilities						
Deposits and balances of customers	10,667	134.2	1.3	10,094	105.5	1.0
Other liabilities	3	0.1	2.1	3	0.1	2.4
Total	10,670	134.3	1.3	10,097	105.6	1.0
Net interest income/margin as a percentage of interest-bearing assets	-	162.1	1.3	-	149.0	1.3

Volume and Rate Analysis

The table below analyses the changes in net interest income in 2015 over 2014 due to changes in volume and changes in rates.

	2015		
Increase/(decrease) due to change in	Volume \$mil	Rate \$mil	Total \$mil
Interest Income			
Loans, advances and receivables	12.6	23.5	36.1
Singapore Government securities	0.8	0.5	1.3
Other assets	(0.2)	4.6	4.4
Net	13.2	28.6	41.8
Interest Expense			
Deposits and balances of customers	6.0	22.7	28.7
Other liabilities	-	-	-
Net	6.0	22.7	28.7
Net interest income	7.2	5.9	13.1

OPERATING AND FINANCIAL REVIEW

Non-Interest Income

Non-interest income increased by 3.0% to \$12.8 million in 2015 (2014 : \$12.5 million). Fee and commission income which constituted 97.1% (2014 : 98.4%) of non-interest income was \$12.5 million in 2015 compared to \$12.3 million in 2014 due to higher fee income from some lending products offset by a decrease in non-lending fee income.

Total non-interest income for 2015 was 7.4% of total income, down from 7.7% for 2014, with the non-lending portion comprising 0.7% of total income (2014 : 1.5%).

	2015 \$mil	2014 \$mil	Variance* + / (-) %
Fee and Commission Income			
Loan related and other financing business	11.4	9.9	14.9
Non-lending business including corporate advisory services and other trailer fees	1.1	2.4	(52.6)
	12.5	12.3	1.6
Other Operating Income	0.3	0.2	89.4
Total	12.8	12.5	3.0

Operating Expenses

Total operating expenses increased by 9.7% to \$91.8 million in 2015 from \$83.7 million in 2014.

	2015 \$mil	2014 \$mil	Variance* + / (-) %
Staff costs			
- Short-term employee benefits	58.6	55.4	5.7
- Employer's CPF contributions to defined contribution plans	6.4	5.6	13.7
- Share-based payments	0.5	0.7	(25.1)
	65.5	61.7	6.1
Depreciation of property, plant and equipment	4.3	2.7	59.3
Other operating expenses			
- Operating lease expenses	6.8	5.2	31.1
- IT-related expenses	2.2	2.3	(2.9)
- Other operating expenses	13.0	11.8	10.2
	22.0	19.3	14.2
Total	91.8	83.7	9.7
Group staff strength – period end	646	674	(4.2)
Group staff strength – average	657	671	(2.1)

* Calculated based on actual figures before rounding.

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

Reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products net of allowances for doubtful debts and impairment losses of other assets was a net reversal/recovery of \$3.6 million in 2015, compared to a net charge of \$2.0 million in 2014.

The increase in the loan portfolio in 2015 entailed a higher charge in general allowance during the year in line with industry practice. Accordingly, general allowance for loans increased by \$5.1 million for 2015 (2014 : \$5.0 million). An additional specific allowance for loans of \$1.3 million was made in 2015 (2014 : \$1.5 million).

	2015 \$mil	2014 \$mil	Variance* + / (-) %
Allowances for loans and advances (net)	(6.4)	(6.5)	(1.4)
Other recoveries (net)	10.0	4.5	123.7
Total	3.6	(2.0)	(279.9)

Total Assets

Total assets were \$13,287 million as at 31 December 2015, representing an increase of 8.4% over the figure of \$12,262 million as at 31 December 2014.

Assets Mix

	2015 \$mil	2014 \$mil	Variance* + / (-) %
Cash at banks and in hand	1,495	1,082	38.1
Statutory deposit with the Monetary Authority of Singapore	301	283	6.4
Singapore Government securities	1,333	1,259	5.9
Customer loans – net	10,091	9,583	5.3
Others	67	55	20.7
Total Assets	13,287	12,262	8.4

* Calculated based on actual figures before rounding.

OPERATING AND FINANCIAL REVIEW

Analysis of Gross Loan Portfolio

(a) Customer loans by product group

With an increase in the loan portfolio, property related loans made up 82% of the total loan portfolio as at 31 December 2015 (2014 : 82%), with property loans other than housing/HDB home loans taking the bigger share at 66% of total portfolio (2014 : 66%). The housing loans component stood at 16% of the total (2014 : 16%) inclusive of HDB home loans of 9% (2014 : 9%).

Hire purchase loans formed 13% of total loan portfolio as at 31 December 2015 (2014 : 12%). Whilst such loans are principally fixed rate in nature, the gross loans continue to be progressively reduced by monthly principal repayments and early redemptions.

	2015		2014	
	\$mil	%	\$mil	%
Housing and HDB Home Loans	1,604	16	1,536	16
Other Property Loans	6,782	66	6,375	66
Hire Purchase/Block Discounting	1,344	13	1,230	12
Share Loans	294	3	362	4
Others	176	2	185	2
Total	10,200	100	9,688	100

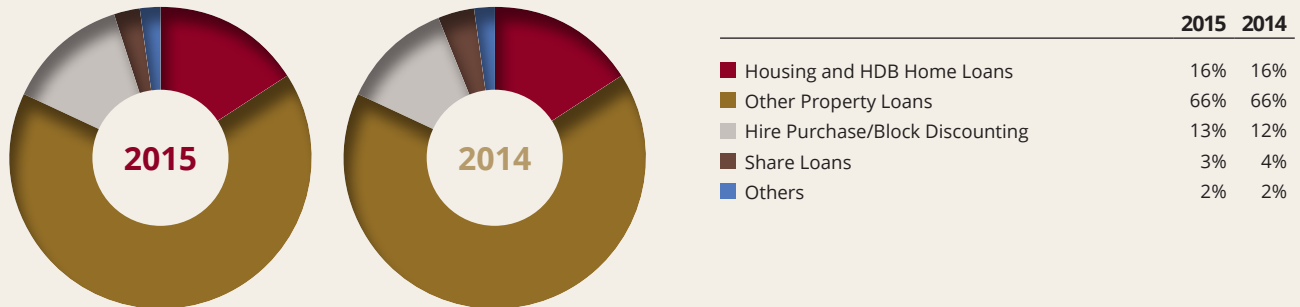
(b) Customer loans by industrial classification

	2015		2014	
	\$mil	%	\$mil	%
Hire purchase/block discounting	1,344	13	1,230	12
Housing loans secured by property under finance	1,304	13	1,304	13
Other loans and advances:				
Manufacturing	87	1	75	1
Building and construction	4,234	42	4,126	43
General commerce	99	1	88	1
Transport, storage and communication	84	1	83	1
Investment and holding companies	854	8	830	9
Professional and private individuals	449	4	477	5
Others (including hotels, associations and charitable organisations)	1,745	17	1,475	15
Total	10,200	100	9,688	100

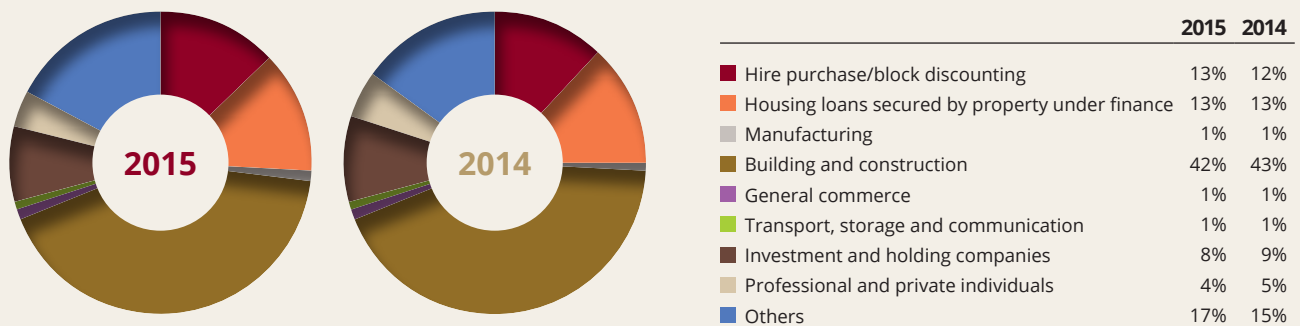
(c) Customer loans by remaining contractual maturity

	2015		2014	
	\$mil	%	\$mil	%
Reviewable/due within 1 year	3,078	30	2,641	27
Due after 1 year but within 3 years	2,631	26	2,977	31
Due after 3 years but within 5 years	1,360	13	1,040	11
Over 5 years	3,131	31	3,030	31
Total	10,200	100	9,688	100

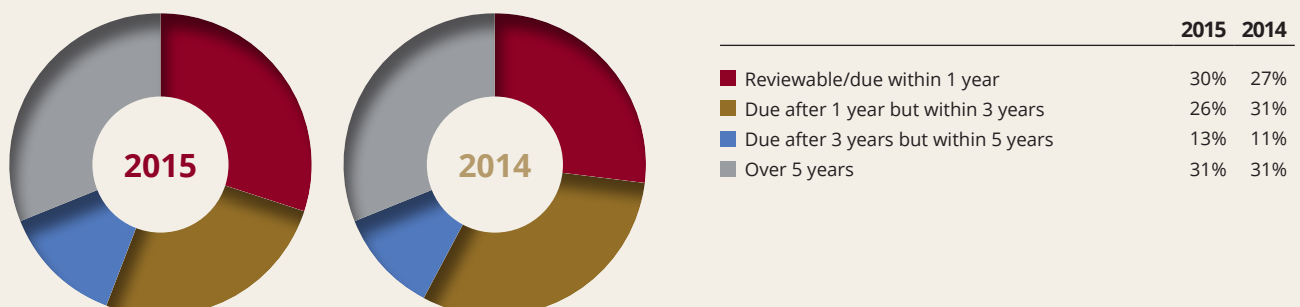
(a) Customer loans by product group



(b) Customer loans by industrial classification



(c) Customer loans by remaining contractual maturity



OPERATING AND FINANCIAL REVIEW

(d) Non-performing loans

The loan portfolio includes secured non-performing loans of 0.6% of the portfolio in 2015 (2014 : 0.7%) together with unsecured non-performing loans of 0.1% of the portfolio in 2015 (2014 : 0.1%). The Group currently maintains full specific allowances for all non-performing loans where the net outstanding debt is not covered by the value of the collateral held.

There are no loans and advances graded as doubtful as at 31 December 2015 and 2014.

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

	2015 \$mil	2014 \$mil	Variance* + / (-) %
Substandard	66.9	65.2	2.5
Loss	6.6	8.5	(21.2)
Total	73.5	73.7	(0.2)
(i) Secured non-performing loans ("NPLs")	66.9	65.2	2.5
Secured NPLs as % of total NPLs	91.0	88.6	+2.4%pt
(ii) Unsecured NPLs	6.6	8.5	(21.2)
Specific allowances for NPLs	6.6	8.5	(21.2)
(iii) Specific allowances as % of total NPLs	9.0	11.4	(2.4%pt)

* Calculated based on actual figures before rounding.

Funding Sources

Total funding (including total equity) increased by 8.4% in 2015 to \$13,287 million from \$12,262 million in 2014. Customers' deposits remained the main funding source contributing 86.1% (2014 : 85.4%) of total funds. This funding source was \$975 million or 9.3% higher in 2015 closing at \$11,444 million from \$10,469 million in 2014. There are no bank borrowings outstanding.

	2015 \$mil	2014 \$mil	Variance* + / (-) %
Fixed deposits	11,138	10,118	10.1
Savings deposits and other balances of customers	300	345	(13.2)
Current accounts and other deposits	6	6	17.8
Total customer deposits	11,444	10,469	9.3
Other liabilities	155	134	14.9
Total shareholders' equity	1,688	1,659	1.8
Total	13,287	12,262	8.4
Customer deposits by remaining contractual maturity			
On demand/up to 1 year	9,774	9,205	6.2
Over 1 year to 3 years	1,670	1,264	32.2
Total customer deposits	11,444	10,469	9.3

Capital Adequacy

The Group's capital adequacy ratio is higher than the minimum regulatory requirement. With the increase in the loan portfolio, as at 31 December 2015, the capital adequacy ratio was 15.1% compared to 16.4% as at 31 December 2014.

	2015 \$mil	2014 \$mil
Share capital	879	879
Reserves	736	780
Regulatory capital	1,615	1,659
Risk-weighted assets	10,725	10,099
Ratio	15.1%	16.4%

The Group has adopted the enhanced risk-based capital framework with effect from 1 January 2015, under which the capital adequacy ratio for FY2014 translates to 16.2%. The capital adequacy ratio is marginally lower under this framework due to additional capital set aside for operational risk, partially offset by reduction in risk weight for loans to certain individuals and small businesses classified under regulatory retail asset class.

* Calculated based on actual figures before rounding.

OPERATING AND FINANCIAL REVIEW

OTHER INFORMATION

A review of the outlook for the Company's business can be found in the Chairman's Statement. Information on the background of the Directors is presented in the section on the Board of Directors, whilst information on the background of other key management personnel is set out below. Details of the Company's risk management policies and processes have been included in the corporate governance section of this Annual Report 2015.

The President, Ian Macdonald

The President joined the Company in February 2002. He has extensive experience in the financial industry, having worked in Barclays Bank Australia for 13 years and with Australian Guarantee Corporation Ltd, Sydney ("AGC") from 1994 to January 2002. His last held appointment with AGC was as National Manager, Business Finance. He is currently the Chairman of the Finance Houses Association of Singapore (appointed since 2014).

The Deputy President, Ang Tang Chor

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

Date: 16 March 2016

CORPORATE GOVERNANCE REPORT

Hong Leong Finance Limited ("HLF" or the "Company") is committed to maintaining high standards of business integrity, professionalism and governance in its business dealings. The Company has complied with the principles and guidelines of the Code of Corporate Governance 2012 ("2012 Code") and where the Company's practices differ from the 2012 Code, the Company's position in respect of such differences is explained in this report.

BOARD MATTERS

Principle 1: The Board's Conduct of Affairs

Primary Functions of the Board

The Board oversees the Company's business and its performance. Its primary functions are to provide leadership, set broad policies, provide guidance on and approve strategic objectives, ensure that necessary financial and human resources are in place for the Company to meet its objectives, review the Company's performance, satisfy itself as to the adequacy and effectiveness of the framework and processes for internal controls (including financial, operational, compliance and information technology ("IT") controls) and risk management for the safeguarding of shareholders' interests and the Company's assets, and assume responsibility for good corporate governance including setting corporate values and ethical standards.

For an overview of the Company, its objectives and strategies, please refer to the Operating and Financial Review on page 24 and the Chairman's Statement on page 4 of this Annual Report ("AR").

The Chairman's Statement identifies various stakeholder groups who impact the Company's strategy, growth and reputation in the marketplace, particularly lending customers, business partners, deposit customers, staff and shareholders. It provides an overview of profitability and sustainability as an integral part of the Company's business strategy together with a statement of appreciation of these stakeholder groups.

Independent Judgement

All Directors are required to objectively discharge their duties and responsibilities in the interests of the Company. Directors, who are in anyway, directly or indirectly, interested in a transaction or proposed transaction declare the nature of their interests in accordance with the provisions of the Companies Act, Chapter 50 and the Finance Companies Act, Chapter 108, where applicable, and also voluntarily abstain from deliberation on the same. The Board has established the Nominating Committee ("NC") which recommends to the Board the appointments/re-appointments to the Board and Board Committees and assesses the independence of Directors. When assessing the independence of Directors, the NC takes into account the individual Director's objectivity, independent thinking and judgement.

Delegation by the Board

The primary functions of the Board are either carried out directly by the Board or through committees established by the Board, namely, the Executive Committee ("Exco"), the Risk Management Committee ("RMC"), the Audit Committee ("AC"), the NC, the Remuneration Committee ("RC") and the Hong Leong Finance Share Option Scheme 2001 ("SOS") Committee ("SOSC"), all collectively referred to hereafter as the Board Committees. The Board has also placed its members, including independent non-executive Directors ("NEDs"), from time to time on management committees such as the Loan Sub-Committee and Management Sub-Committees to provide independent review and as a check and balance on the work of those committees involved in the approval of loan and credit proposals. Specific written terms of reference for these Board Committees, which set out the duties, authority and accountability of each of these Board Committees, are approved by the Board and reviewed periodically to ensure their continued relevance. The powers and authorisation limits of the relevant management committees are also approved by the Board. The composition of each Board Committee can be found under the 'Corporate Directory' section of the AR.

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The delegation of authority by the Board to the Board Committees and management committees enables the Board to achieve operational efficiency by empowering these committees to decide on matters within their respective terms of reference and/or limits of delegated authority, and yet without abdicating its responsibility. Please refer to the sections on Principles 4, 5, 7, 8, 11, 12 and 13 in this report for further information on the activities of the NC, RC, RMC and AC. Information on the activities of the Exco can be found under Principle 1 in this report while those of the SOSC's can be found in the Directors' Statement on pages 65 to 67 and in the Financial Statements on pages 91 to 95 of the AR.

Board Processes

Board and Board Committee meetings are held regularly, with the Board meeting no less than four times a year. A meeting of the NEDs, chaired by the Lead Independent Director ("Lead ID") is also held at least once a year and as often as may be warranted by circumstances. 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 (previously known as the Company's Memorandum and Articles of Association) allow for the meetings of its Board and the Board Committees to be held *via* teleconferencing. The Board and Board Committees may also make decisions by way of circulating written resolutions.

The attendance of the Directors at meetings of the Board and the Board Committees, as well as the frequency of such meetings during 2015, 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 meetings of the Board and/or the Board Committees. A Director's contribution also extends beyond the confines of the formal environment of such meetings, through the sharing of views, advice, experience and through strategic networking relationships which would further the interests of the Company.

Directors' Attendance at Board and Board Committee Meetings in 2015

	Board	Exco	AC	NC	RC	SOSC	RMC
Number of meetings held in 2015:	4	2	6	3	2	1	2
Name of Directors	Number of meetings attended in 2015						
Kwek Leng Beng	4	2	N.A.	3	N.A.	N.A.	2
Kwek Leng Joo*	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Kwek Leng Peck	3	1	N.A.	N.A.	N.A.	1	2
Kwek Leng Kee	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Chng Beng Hua	4	N.A.	6	N.A.	N.A.	N.A.	N.A.
Cheng Shao Shiong @ Bertie Cheng	4	2	N.A.	3	2	1	2
Po'ad bin Shaik Abu Bakar Mattar	4	N.A.	6	3	2	1	N.A.
Ter Kim Cheu	3	2	6	N.A.	2	1	N.A.
Raymond Lim Siang Keat	4	2	N.A.	N.A.	N.A.	N.A.	2

* Mr Kwek Leng Joo ceased to be a Director of the Company upon his demise on 16 November 2015.

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Board Approval

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

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

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

Board Orientation and Training

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

The Company also conducts a comprehensive induction programme for newly appointed Directors and for existing Directors pursuant to their appointments to any of the Board Committees, which seeks to familiarise Directors with the Company's business, board processes, internal controls and governance practices. The induction programme includes meetings with various key executives of the Management and briefings on key areas of the Company's operations.

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

The Directors are also provided with updates and/or briefings from time to time by professional advisers, auditors, Management and the Company Secretary in areas such as directors' duties and responsibilities, corporate governance practices, relevant legislation, risk management and financial reporting standards. The Directors are regularly kept informed by the Company Secretary of the availability of appropriate courses, conferences and seminars such as those run by the SID and the Directors are encouraged to attend such training at the Company's expense.

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Four in-house seminars were conducted by invited speakers in 2015, on topics relating to transfer pricing, cyber security and big data analytics for companies, integrating sustainability for greater business value, financial reporting surveillance program by the Accounting & Corporate Regulatory Authority, tax transparency and corporate governance updates. In 2015, the Directors were also briefed by the Head of the Company's Compliance department on amendments to Monetary Authority of Singapore Notice 824 to Finance Companies relating to the Prevention of Money Laundering and Countering the Financing of Terrorism ("AML/CFT") – Finance Companies, and also received specific update on technology risks and cyber security by the Company's external IT consultants. 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.

Senior Management and Management Team

The Board through the NC reviews the appointments and reasons for resignations and terminations of the Senior Management team which currently comprises the Managing Director ("MD"), the President, Mr Ian Macdonald, the Deputy President, Mr Ang Tang Chor and the Executive Vice President (Finance & Corporate Services/Group Financial Controller), Mrs Soon Yee Christie.

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

Principle 2: Board Composition and Guidance

Board Independence

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

When determining the independence of the 5 IDs, the NC has considered their other directorships, annual declarations regarding their independence, disclosures of interests in transactions in which they have a direct/indirect interest, their ability to avoid any apparent conflicts of interests especially by abstaining from deliberation on such transactions, and their ability to maintain objectivity in their conduct as Directors of the Company. The 5 IDs are Mr Chng Beng Hua, Mr Bertie Cheng, Mr Po'ad Mattar, Mr Ter Kim Cheu and Mr Raymond Lim.

In determining the independence of Mr Chng Beng Hua and Mr Bertie Cheng, both of whom have served on the Board for more than nine years, the NC and the Board have given due consideration to the recommendation under Guideline 2.4 of the 2012 Code that the independence of any director who has served on the Board beyond nine years be subject to particularly rigorous review. The Board members had provided their views on the independence of Mr Chng and Mr Cheng by taking into consideration factors such as whether they have expressed their individual viewpoints and debated issues constructively during meetings of the Board and Board Committees, whether they have constructively challenged and sought clarification from Management as and when necessary and whether they have avoided apparent conflicts of interest by abstaining from deliberation on matters in which they have an interest in. Having considered the feedback from the Board members, the other directorships of Mr Chng and Mr Cheng and their annual declaration on independence, the Board (with Mr Chng and Mr Cheng abstaining respectively in respect of the deliberation over their own independence) concurred with the NC's determination that both Mr Chng and Mr Cheng are independent.

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notwithstanding they have served on the Board beyond nine years as they have continued to demonstrate strong independence in character and judgement in the discharge of their responsibilities as Directors of the Company. They had also avoided apparent conflicts of interests especially by abstaining from deliberation on transactions in which they had a direct/indirect interest, and were able to maintain objectivity in their conduct as Directors of the Company. They have objectively raised issues and sought clarification as and when necessary from the Board, Management and the Group's external advisors on matters pertaining to their area of responsibilities whether on the Board or on the Board Committees. The Company has also benefitted from their years of experience in their respective fields of expertise.

Board Composition and Size

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

NEDs' Participation

NEDs are encouraged to participate actively in Board meetings in the development of the Company's strategic plans and direction, and in the review and monitoring of Management's performance against targets. To facilitate this, they are kept informed of the Company's businesses and performance through monthly and quarterly reports from Management, and have unrestricted access to Management. They also sit on various Board Committees 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 independent director, a meeting of the NEDs was convened in 2015 without the presence of Management and the Board Chairman.

Principle 3: Chairman and Chief Executive Officer

Role of Chairman and the Chief Executive Officer

The Board Chairman, Mr Kwek Leng Beng, is also the MD. Mr Kwek Leng Beng plays an instrumental role in providing the Company with strong leadership and vision, assisting the Board to develop policies and strategies, and ensuring that these are implemented effectively. As Board Chairman, he bears primary responsibility for the workings of the Board, by ensuring effectiveness in all aspects of its role including setting agenda for Board meetings with input from Management, ensuring sufficient allocation of time for thorough discussion of each agenda item, promoting an open environment for debate, ensuring that NEDs are able 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 annual general meetings and other shareholder meetings, he plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management. As MD, he is the most senior executive in the Company and bears executive responsibility for the Company's business. He is assisted by the President, the Deputy President, the Executive Vice President (Finance & Corporate Services/Group Financial Controller) and other members of the Management team. Both the President and the Deputy President have extensive working experience in the banking and finance sector. They have also been with the Company for more than ten years. Please refer to the Operating and Financial Review on page 34 of the AR for additional information on the President and the Deputy President.

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Lead Independent Director

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

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

Taking cognizance of the non-separation of the roles of Board Chairman and MD, the Board has appointed Mr Po'ad Mattar as Lead ID to serve as a sounding board for the Board Chairman and also as an intermediary between the NEDs and the Board Chairman. The role of the Lead ID is set out under the written terms of reference of the Lead ID, which has been approved by the Board. The Lead ID is available to shareholders where they have concerns and for which contact through the normal channels of the Chairman or the Senior Management team has failed to resolve or is inappropriate. No query or request on any matter which requires the Lead ID's attention was received from the shareholders in 2015. Under the chairmanship of the Lead ID, a meeting of the NEDs was convened in 2015 without the presence of Management or the Board Chairman.

Principle 4: Board Membership

NC Composition and Role

Two out of the three members of the NC, including the NC chairman, are independent. The Lead ID is one of the independent members of the NC. Please refer to the 'Corporate Directory' section on page 16 of the AR, for the composition of the NC.

The NC's responsibilities as set out in its written terms of reference approved by the Board, is to review all Board and Board Committees composition and membership, board succession plans for the Directors, 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 resignations of the Senior Management team and review Directors' training and continuous professional development programme. The Company Secretary maintains records of all NC meetings including records of discussions on key deliberations and decisions taken.

For the financial year under review, the NC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("NC Self-Assessment Checklist").

The NC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the NC under its terms of reference, and considered also the contribution of NC members to the deliberation and decision making process at NC meetings.

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

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Re-nomination of Directors

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

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

In accordance with the Constitution of the Company, Mr Kwek Leng Kee and Mr Po'ad Mattar will be retiring at the forthcoming AGM ("2016 AGM") and being eligible have offered themselves for re-election.

Mr Kwek Leng Beng and Mr Bertie Cheng who were re-appointed as Directors to hold office until the 2016 AGM under section 153(6) of the Companies Act, Chapter 50, which provision has since been repealed, have also offered themselves for appointment as Directors at the 2016 AGM.

Criteria and Process for Nomination and Selection of New Directors

Searches for candidates are discreet and may be considered from various sources including nomination by any Director. The NC interviews shortlisted candidates before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees.

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

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

Directors' Time Commitments

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

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

- each Independent Director did not exceed 3; and
- each non-Independent Director did not exceed 5, all being representations on the boards of related companies of the Company.

Having considered this issue, the NC does not recommend setting a maximum number of listed company board representations that a Director may hold. The Board considers an assessment of the individual Directors' participation as described above to be more effective for the Company than to prescribe a numerical limit on the number of listed company directorships that a Director may hold. It would not wish to omit from consideration suitable individuals who, despite the demands on their time, have the capacity to participate and contribute as members of the Board.

In addition, 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 principal commitments or listed company board 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 ensure that his independence would not be affected.

Key Information on Directors

Please refer to the 'Board of Directors' section in the AR for key information on the Directors, and additional information in the notice of AGM for Directors proposed for re-election and appointment at the 2016 AGM.

Succession Planning for the Board and the MD

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

Board Development

The NC reviews the training and development of the Directors to ensure that Directors receive appropriate development on a continuing basis, to perform their roles on the Board and where applicable, the Board Committees. The Directors are provided with updates and/or briefings to assist them to properly discharge their duties. The briefings are conducted either internally with invited speakers, or externally, at the Company's expense. 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 2015 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.

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Principle 5: Board Performance

Board Evaluation Process

The Company has in place a formal process for assessment of the effectiveness of the Board as a whole, the various Board Committees and the contribution by each Director to the effectiveness of the Board and the Board Committees, where applicable. No external facilitator has been used. The NC assesses the Board's performance as a whole annually using objective and appropriate quantitative and qualitative criteria which were recommended by the NC and approved by the Board. When assessing the overall Board performance, the NC takes into consideration the feedback from individual Directors on areas relating to the Board's competencies and effectiveness. The results of the overall evaluation of the Board by the NC including its recommendation, if any, for improvements are presented to the Board.

The NC's assessment of the performance of the Board Committees is assisted by the self-assessment checklists of the NC, RC, RMC and the AC as well as reports provided by the chairmen of the Exco and SOSC.

The annual evaluation process for each individual Director's performance comprises three parts: (a) background information concerning the Director including his attendance records at Board and Board Committee meetings; (b) questionnaire for completion by each individual Board member; and (c) NC's evaluation based on certain assessment parameters. The questionnaires and the assessment parameters were recommended by the NC and approved by the Board. The completed questionnaires are then reviewed by the NC before the NC completes its evaluation of the individual Directors.

When deliberating on the performance of a particular Director who is also a member of the NC, that member abstains from the discussions in order to avoid any conflict of interests.

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

Board Evaluation Criteria

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

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 performance of the Company and comparable industry players for the corresponding period.

Individual Director Evaluation Criteria

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

CORPORATE GOVERNANCE REPORT

Principle 6: Access to Information

Complete, Adequate and Timely Information and Access to Management

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

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

Company Secretary

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

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

Independent Professional Advice

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

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

RC Composition and Role

The RC comprises three NEDs, all of whom including the chairman of the RC are independent. The RC's principal responsibilities as set out in its written terms of reference approved by the Board are to review and recommend, for the endorsement of the Board, a framework of remuneration and the specific remuneration packages for each Board member and the Company's key management personnel ("KMP").

The Company has in place a remuneration framework (which covers all aspects of remuneration) for the Directors and the KMP. The Company currently identifies its MD who is the only Executive Director of the Company, the President and the Deputy President as its KMP. The KMP's contracts of service which have been reviewed by the RC do not contain any unfair or unreasonable termination clauses.

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All the members of the RC also sit on the SOSC and the chairman of the RC is also the chairman of the SOSC. The RC has access to appropriate advice from the Company's Head of Human Resources ("HR Head"), who attends all RC 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 2015. For the financial year under review, the RC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("RC Self-Assessment Checklist").

The RC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the RC under its terms of reference, and considered also the contribution of RC members to the deliberation and decision making process at RC meetings.

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

Principle 8: Level and Mix of Remuneration

Remuneration of Directors and KMP

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

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

The compensation packages for the KMP comprise a fixed component (in the form of a base salary and fixed allowances), a variable component (which would normally comprise short-term incentives in the form of year-end and variable bonuses and long-term incentives in the form of the grant of share options subject to a vesting schedule) and benefits-in-kind, if any. The variable components take into account amongst other factors, the KMP's performance, the Company's performance and industry practices.

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

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When reviewing the structure and level of Directors' fees, the RC takes into consideration the Directors' respective roles and responsibilities in the Board and Board Committees and the changes in the business, corporate governance practices and regulatory rules. The RC also compares the Company's fee structure against industry practices. Other factors taken into consideration in the fee review includes frequency of Board and Board Committee meetings, corporate performance for the financial year under review as well as the corporate and economic outlook in the new financial year, and the interval since the last fee review. No Director is involved in deciding his own remuneration.

As one of the objectives for the implementation of the SOS including the extension thereof is to make the total compensation of the participants more attractive and competitive in order for the Company to attract, retain and motivate good employees, the Company does not require the KMP to continue to hold their shares upon exercise of the options after the vesting period. Options granted under the SOS to KMP vest progressively over a period of three years. To-date, the Company has granted only Market Price (as defined in the SOS) options. Information on the SOS is set out in the Directors' Statement on pages 65 to 67 and the Financial Statements on pages 91 to 95 of the AR.

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

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

Principle 9: Disclosure of Remuneration

Disclosure of Remuneration

There were no changes in the KMP in 2015. The Company's remuneration policies, level and mix of remuneration, as well as the link between the remuneration paid to Directors and the KMP, and performance is as set out under Principle 8 above. Information on the SOS is set out in the Directors' Statement on pages 65 to 67 and the Financial Statements on pages 91 to 95 of the AR.

CORPORATE GOVERNANCE REPORT

Director's Remuneration for FY 2015

The remuneration of each Director including a breakdown (in percentage terms) earned through base salary, variable bonuses/allowances, fees, share option grants and other benefits for FY 2015, 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)	2,084	47	41	8	2	2	100
Non-executive Directors							
2. Kwek Leng Joo ⁽⁴⁾	53	-	-	100	-	-	100
3. Kwek Leng Peck	123	-	-	100	-	-	100
4. Kwek Leng Kee	60	-	-	100	-	-	100
5. Chng Beng Hua	100	-	-	100	-	-	100
6. Cheng Shao Shiong @ Bertie Cheng	235	-	-	99	-	1	100
7. Po'ad bin Shaik Abu Bakar Mattar	164	-	-	100	-	-	100
8. Ter Kim Cheu	135	-	-	100	-	-	100
9. Raymond Lim Siang Keat	120	-	-	100	-	-	100

Notes:

- (1) The salary and variable bonuses/allowances are inclusive of employer's central provident fund contributions.
- (2) These fees comprise Board and Board Committee fees (excluding AC and RMC fees) for FY 2015, which are subject to approval by shareholders as a lump sum at the 2016 AGM as well as the AC and RMC fees for FY 2015 that have already been approved by shareholders at the 2015 AGM.
- (3) These relate to options granted during FY 2015. The fair value of the options as at the date of grant is \$0.3076 for each share under option taking into account the vesting schedule using the Black-Scholes Option Pricing Formula.
- (4) Mr Kwek Leng Joo ceased to be a Director of the Company upon his demise on 16 November 2015.

CORPORATE GOVERNANCE REPORT

Each of the Directors receives a base Director's fee, with the MD receiving an additional fee for serving as the Board Chairman. The Lead ID also receives an additional fee to reflect his expanded responsibility. Directors who serve on the various Board Committees also receive additional fees in respect of each Board Committee that they serve on, with the chairmen of the Board Committees receiving a higher fee in respect of their service as chairman of the respective committees. The structure of fees paid or payable to Directors of the Company for FY 2015 is as follows:

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

Remuneration of Key Management Personnel (not being a Director or Chief Executive Officer) for FY 2015

The Board does not believe it is in the interest of the Company to disclose the FY 2015 remuneration of its President and Deputy President, being currently identified as the Company's KMP (not being a Director), nor the aggregate remuneration paid to its KMP for FY 2015, having regard to the highly competitive human resource environment.

Remuneration of Director's Immediate Family Member for FY 2015

The annual remuneration of Ms Kwek Lay Yong, sister of Mr Kwek Leng Peck who is a NED of the Company, was in the band of \$100,000 to below \$150,000 for FY 2015.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

Accountability of Board and Management

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

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

Principle 11: Risk Management and Internal Controls

The Company believes that effective risk management is of primary importance to the Company's overall operations, and business success. The approach to risk is based on an effective control framework and a strong risk management culture which guides how the Company's employees approach their work, the way they behave and the decisions they make. The amount and type of risk that the Company is prepared to seek, accept or tolerate, otherwise known as risk appetite, works in tandem with the strategy and is approved by the Board's RMC. The Company's risk appetite is then embedded within policies, authorities and limits across the Company. The Company ensures that it has the functional capability to manage risks in new and existing businesses, and that business plans are consistent with risk appetite. There is in place an independent and centralised risk management function which serves to broaden the Company's existing risk management framework to include additional capabilities and approaches in line with modern risk management practice. This integrated risk management framework identifies, assesses, manages and reports risks on a consistent and reliable basis. With the enhanced and formalised risk management function in place, the Company aims to:

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

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

CORPORATE GOVERNANCE REPORT

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

During the year, the RMC did a self-assessment of its performance based on the self-assessment checklist ("RMC Self-Assessment Checklist"). The RMC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the RMC under its terms of reference. Based on the self-assessment, the RMC was of the view that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

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

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

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

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

The Company recognises that the risk management process is an 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.

CORPORATE GOVERNANCE REPORT

Strategic Risk

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

Credit Risk

Credit risk is the risk of loss resulting from the failure of borrowers and/or counterparties to meet their debt or contractual obligations. The risk is managed to achieve sustainable and superior risk-reward performance whilst maintaining exposures within acceptable risk appetite parameters. This is achieved through the combination of governance, policies, systems and controls, underpinned by sound judgement. The failure to effectively manage credit risk across the Company and all products, services and activities can have a direct, immediate and material impact on the Company's earnings and reputation. Credit risk is undertaken that meets internal underwriting standards. This ensures that risks are commensurate with potential returns that enhance shareholder value.

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

Credit risk analysis focuses on ensuring that credit risks are identified in order that a balanced assessment can be made accordingly. Loans and advances to customers provide the principal source of credit risk to the Company. The value of outstanding loans and advances balances, their risk profile, and potential concentrations within them can therefore have a considerable influence on the level of credit risk. The Company addresses credit risk concentration by setting a credit portfolio mix limit and monitoring the limit on a regular basis. Management periodically reviews the loans portfolio and concentration risk reports to monitor for undue credit concentrations. More details on credit risk could be found in the Financial Statements on pages 108 to 111 of the AR.

Market Risk

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

The objective of balance sheet interest rate risk management is to secure stable and optimal net interest income over both the short and long term. Interest rate risk arises primarily from the fact that financial assets and liabilities typically reprice at different points in time. In liquidity risk management, the Company ensures that cash flow requirements of depositors and borrowers, as well as the Company's operating cash needs are met taking into account all on and off-balance sheet funding demands. Liquidity risk management also includes ensuring cash flow needs are met at a reasonable cost. The liquidity funding requirements are integrated into the liquidity risk management policy with its aim to ensure that the Company has a stable diversified funding base without over-reliance on any one market segment. Liquidity contingency funding

CORPORATE GOVERNANCE REPORT

plans are in place to identify potential liquidity crises using early warning indicators and to handle unexpected liquidity disruptions. Crisis escalation procedures, decision making authorities and various strategies including funding, communication and courses of action to be taken have been developed to minimise the impact of any liquidity crunch. The Assets and Liabilities Committee, comprising Management, reviews policies, strategies and limits in the management of market risk. The RMC assists the Board in ensuring the effective management of the market risk process.

Analyses of cash flow, re-pricing mismatches, present value of a basis point impact of assets and liabilities and simulation modelling are performed to determine the net funding requirements as well as the interest rate risk profile. Tolerance tenor limits on the mismatches of liquidity and interest rates as well as risk ratios are established and monitored periodically. These limits serve to control the overall extent and composition of respective liquidity and interest rate risks taken. Liquidity stress testing is performed to assess and plan for the impact of various scenarios which may put the Company's liquidity at risk. The Company implements the Asset and Liability Management and Funds Transfer Pricing ("FTP") software systems to enhance market risk management. Interest rate risk sensitivity analyses are performed under various interest rate scenarios using dynamic simulation modelling. The FTP system, being an internal management pricing system, allows for the monitoring of net interest margin. It complements the performance measurement process by incorporating cost of funds dimension to the balance sheet. More details on liquidity and interest rate risks could be found in the Financial Statements on pages 112 to 118 of the AR.

Operational Risk

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

The Company has put in place an operational risk framework that assists all departments to achieve their objectives through the effective identification, assessment, measurement, control and mitigation of their risks. The framework protects the Company from potential financial loss or damage to its reputation, its customers or staff and ensures that it meets the necessary regulatory and legal requirements. The daily management of operational risk exposures is through a comprehensive system of internal controls to ensure that operational policies and procedures are being adhered to at different levels throughout the Company. The Company's operational risk self-assessment framework incorporates the mapping of risks into risk categories, monitoring of key risk indicators and loss events reporting. Action plans are formulated based on the severity of the assessed residual risks after considering mitigating controls. This is augmented through the use of a system that supports the operational risk management framework. Every department performs this regular self-assessment and ensures a proper control environment, which includes technology risk and data loss prevention. The internal audit function checks the system of internal controls through regular and on-going audit procedures and reports on the effectiveness of internal controls to Management and the AC.

The Company strives to mitigate risks of business disruptions in the event of unforeseen disasters through the planning and building of business resilience in the Company. This program includes identification of key business processes and systems through a "Business Impact Analysis" and the documentation and maintenance of Business Continuity Plans ("BCP"). Simulation exercises are conducted to test the BCP and crisis management protocol. The BCP objectives are targeted at minimizing the impact of business disruptions arising from severe loss scenarios and to ensure the availability of critical business functions until business operations are back to normal. The crisis management structure includes incident management, escalation, and activation of the crisis management and recovery teams. On an annual basis, Management provides an attestation to the RMC on the state of Business Continuity Management and the extent of alignment of Business Continuity Practices to regulatory guidelines and disclosure of residual risk.

CORPORATE GOVERNANCE REPORT

The Company's reputation and financial soundness are of fundamental importance to the Company and to its customers, shareholders and employees. Managing reputation risk is an essential role of Management as it has the potential to impact earnings, ability to maintain existing or establish new business relationships and access to sources of funding. The Company seeks to manage and minimize reputation risk through its corporate governance structure and operational risk management framework.

Internal Controls

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

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

The Board has received written assurance from the Senior Management team that:

- (a) the Company's financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and
- (b) the Company's risk management and internal control systems in place were adequate and effective to address in all material aspects the financial, operational, compliance and information technology risks in the context of the current scope of the Company's business operations.

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

Based on the work performed by Internal Audit ("IA"), and the statutory audit by KPMG LLP ("KPMG"), as well as the assurances from the Senior Management team, the Board with the concurrence of the AC, is satisfied that the system of risk management and internal controls in place as at 31 December 2015 to address in all material aspects the financial, operational, compliance and information technology risks, is adequate and effective in the context of the current scope of the Company's business operations.

Principle 12: Audit Committee

Composition of AC

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

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

CORPORATE GOVERNANCE REPORT

Powers and Duties of the AC

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

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

- to review with Management and, where appropriate, with the external auditors the quarterly and full year financial statements before their submission to the Board to ensure their completeness, consistency and fairness;
- to monitor the integrity of the financial statements of the Company to be announced or reported and any other formal announcements relating to the Company's financial performance;
- to monitor and assess the role and effectiveness of the IA function in the overall context of the Company's internal controls and risk management systems;
- to review and approve the annual audit plans of the external and internal auditors;
- to review, on an annual basis, the scope and results of the external audit and its cost-effectiveness and the independence and objectivity of the external auditors; and also to review on a periodic basis the nature and extent of any non-audit services provided by the external auditors to the Company;
- to review annually with Management, the internal and external auditors the results of their review and evaluation of the Company's internal controls, including financial, operational, compliance and IT controls, and risk management policies and systems and report to the Board annually on the adequacy and effectiveness of such internal controls;
- to make recommendations to the Board on the nomination for the appointment, re-appointment and removal of external auditors, and to approve the remuneration and terms of engagement of the external auditors;
- to approve the appointment, resignation or dismissal of the Head of IA;
- to review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual; and
- to review the Company's whistleblowing policy and arrangements put in place for raising concerns about possible improprieties in matters of financial reporting or any other matters.

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

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For the financial year under review, the AC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities. The assessment was facilitated through the use of a self-assessment checklist ("AC Self-Assessment Checklist").

The AC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the AC under its terms of reference, and also considered the contribution of AC members to the AC's deliberation and decision making process.

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

External Auditors

Taking cognizance that the external auditors should be free from any business or other relationships with the Company that could materially interfere with their ability to act with integrity and objectivity, the AC undertook a review of the independence of KPMG and gave careful consideration to the Company's relationships with them during 2015. In determining the independence of KPMG, the AC reviewed all aspects of the Company's relationships with them including the processes, policies and safeguards adopted by the Company and KPMG relating to audit independence. The AC also considered the nature of the provision of the non-audit services in 2015 and the corresponding fees and ensured that such non-audit fees did not impair or threaten the audit independence. Based on the review, the AC is of the opinion that KPMG is, and is perceived to be, independent for the purpose of the Company's statutory financial audit. For details of the fees paid and/or payable to KPMG in respect of audit and non-audit services for FY 2015, please refer to note 21 of the Notes to the Financial Statements on page 104.

In reviewing the nomination of KPMG for re-appointment for the financial year ending 31 December 2016, the AC considered the adequacy of the resources, experience and competence of KPMG including its Audit Quality Indicators information. Consideration was also given to the engagement partner and key team members' overall business acumen, knowledge and experience in the financial services industry. The size and complexity of the audit of the Company and the level of audit fee were further taken into account. The AC also considered the audit team's ability to work in a co-operative manner with Management whilst maintaining integrity and objectivity and to deliver their services professionally and within agreed time-lines. The AC also appreciated the candour of the external auditors in discussions on audit issues with the AC, both in a private session and during meetings.

KPMG has confirmed that they are registered with the Accounting and Corporate Regulatory Authority. The Company is thus in compliance with Rule 712 and Rule 715 of the SGX-ST Listing Manual in relation to the appointment of the auditors of the Company and its subsidiaries.

On the basis of the above, the AC has recommended to the Board the nomination of KPMG for re-appointment as external auditors at the 2016 AGM.

Review of Related Party and Interested Person Transactions

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

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

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

Name of Interested Person	Aggregate value of all interested person transactions in FY 2015 (excluding transactions less than \$100,000 and transactions conducted under any shareholders' mandate pursuant to Rule 920) (\$'000)	Aggregate value of all interested person transactions conducted in FY 2015 under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) (\$'000)
Hong Leong Investment Holdings Pte. Ltd. group of companies		
– Lease of office premises – Receipt of corporate secretarial services	961* 352	Not applicable** Not applicable**

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

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

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

Whistleblowing Policy

HLF has in place a whistleblowing policy where staff of the Company or other persons can raise in confidence, whether anonymously or otherwise, concerns on possible improprieties relating to accounting, financial reporting, internal controls and auditing matters or other matters without fear of reprisals in any form. The AC has the responsibility of overseeing this policy which is administered by the Head of IA. Under these procedures, arrangements are in place for independent investigation of such matters raised and for appropriate follow up action to be taken. For more details on the said policy including the procedures for raising concerns, please refer to the Company's website at www.hlf.com.sg.

Principle 13: Internal Audit

Reporting Line and Qualifications

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

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

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.

CORPORATE GOVERNANCE REPORT

Role and Activities of IA

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

The AC approved the annual IA plan in January 2015 and received regular reports during 2015 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, 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.

The external assessor appointed by the Company to provide an independent review of the IA function had issued its report in May 2015 with certain recommendations to further improve IA's effectiveness. The AC and Management have considered the report by the external assessor and accepted their recommendations as well as IA action plan to the extent as appropriate. IA is in the midst of implementing those recommendations.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholder Rights

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

All shareholders are entitled to attend and vote at general meetings in person or by proxy. The rules including the voting procedures are set out in the notice of general meetings. Shareholders may appoint one or two proxies each to attend and vote at general meetings in their absence. In the case of shareholders who are relevant intermediaries, more than two proxies each may be appointed. In accordance with the Company's Constitution, the proxy forms must be deposited with the Company not less than forty-eight (48) hours before the time set for the general meetings.

Principle 15: Communication with Shareholders

The Company ensures that shareholders are notified of all material information in an accurate and timely manner. The Company notifies its investors in advance of the date of release of its financial results *via* SGXNET. The Company's quarterly and full year results are announced within the mandatory period. The financial statements and other presentation materials presented at the Company's general meetings including material and price-sensitive information are disseminated and publicly released *via* SGXNET on a timely basis. All shareholders of the Company receive the annual report of the Company and the notice of AGM, which notice is also advertised in the press and released *via* SGXNET.

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As part of the Company's investor relations policy, shareholders and investors can contact the Company or access information on the Company at its website at www.hlf.com.sg which provides, *inter alia*, corporate announcements, press releases and the latest financial results as released by the Company on SGXNET, together with a feedback form which they can complete, and contact details of its Investors Relations given in the AR.

Shareholders are also encouraged to attend the Company's general meetings where the Board Chairman and the chairmen of the respective Board Committees will be present to engage Shareholders and to address their queries.

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

Principle 16: Conduct of Shareholder Meetings

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

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

To allow for a more efficient voting system, the Company had introduced electronic poll voting since its 2012 AGM and would continue to do so at the 2016 AGM. With electronic poll voting, shareholders present in person or represented by proxy at the 2016 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 2016 AGM. The rules including voting procedures that govern general meetings of shareholders are set out within the notice of 2016 AGM.

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

Corporate Values and Conduct of Business

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

The Company also has in place policies and procedures on AML/CFT based on MAS Notice 824 to Finance Companies, the prevention, detection, reporting and investigation of fraud based on MAS Notice 828 to Finance Companies, personal data protection to provide guidance to employees on matters related to the Personal Data Protection Act 2012, as well as other relevant policies and procedures to facilitate the Company's compliance with all applicable legislation.

CORPORATE GOVERNANCE REPORT

Internal Code on Dealing in Securities

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

Complaint Handling Procedures

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

Date: 16 March 2016

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DIRECTORS' STATEMENT

Year ended 31 December 2015

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 2015.

In our opinion:-

- (a) the consolidated financial statements of the Group set out on pages 71 to 129 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 2015 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

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

Kwek Leng Beng
Kwek Leng Peck
Kwek Leng Kee
Chng Beng Hua
Cheng Shao Shiong @ Bertie Cheng
Po'ad bin Shaik Abu Bakar Mattar
Ter Kim Cheu
Raymond Lim Siang Keat

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 related corporations, either at the beginning or at the end of the financial year. The directors consider Hong Leong Investment Holdings Pte. Ltd. ("HLIH") to be the immediate and ultimate holding company of the Company.

According to the register of directors' shareholdings kept by the Company under Section 164 of the Act, particulars of interests of directors who held office at the end of the financial year (including those of their spouses and children below 18 years of age) in shares and/or share options in the Company and in related corporations are as follows:-

DIRECTORS' STATEMENT

Year ended 31 December 2015

	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	5,603,567	5,603,567
Kwek Leng Peck	517,359	517,359
Kwek Leng Kee	1,595,079	1,595,079
Options to subscribe for shares under the Hong Leong Finance Share Option Scheme 2001		
Kwek Leng Beng	3,136,000	2,920,000
<u>Immediate and Ultimate Holding Company</u>		
Hong Leong Investment Holdings Pte. Ltd. Ordinary Shares		
Kwek Leng Beng	2,320	2,320
Kwek Leng Peck	10,921	10,921
<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

DIRECTORS' STATEMENT

Year ended 31 December 2015

	Holdings in which the director, his spouse and children below 18 years of age have a direct interest	
	At beginning of the year	At end of the year
Related Corporations (continued)		
City Developments Limited		
Ordinary Shares		
Kwek Leng Beng	397,226	397,226
Kwek Leng Peck	43,758	43,758
Preference Shares		
Kwek Leng Beng	144,445	144,445
Hong Realty (Private) Limited		
Ordinary Shares		
Kwek Leng Beng	1,110	1,110
Kwek Leng Peck	150	150
Kwek Leng Kee	300	300
Hong Leong Asia Ltd.		
Ordinary Shares		
Kwek Leng Beng	660,000	660,000
Kwek Leng Peck	1,680,000	1,913,300
Kwek Leng Kee	150,000	150,000
Options to subscribe for ordinary shares under the Hong Leong Asia Share Option Scheme 2000		
Kwek Leng Peck	470,000	470,000

DIRECTORS' STATEMENT

Year ended 31 December 2015

	Holdings in which the director, his spouse and children below 18 years of age have a direct interest	
	At beginning of the year	At end of the year
Related Corporations (continued)		
City e-Solutions Limited		
Ordinary Shares of HK\$1.00 each		
Kwek Leng Beng	3,286,980	3,286,980
Kwek Leng Peck	2,082,200	2,082,200
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 2015 remained unchanged as at 21 January 2016.

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 2015

Share Options

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

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

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

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

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

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

DIRECTORS' STATEMENT

Year ended 31 December 2015

(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
23.9.2015	23.9.2016 to 22.9.2025	1,859,000 (net of options not accepted)	\$2.34

- (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	144,000	4,640,000	1,000,000	720,000	2,920,000

- (ii) None of the participants were regarded by the Directors as controlling shareholders of the Company.
- (iii) None of the other participants were granted options representing 5% or more of the total number of Shares under option available under the Share Option Scheme.
- (iv) None of the Parent Group Employees were granted options representing 5% or more of the total number of Shares under option available under the Share Option Scheme to all Parent Group Employees and Parent Group Non-Executive Directors. A total of 250,000 Shares under option were granted to Parent Group Employees since the commencement of the Share Option Scheme to the end of the financial year under review.
- (v) Except for options granted to persons in their capacity as Group Employees and/or Parent Group Employees, no other options have been granted by the Company to any other categories of persons since the commencement of the Share Option Scheme.

DIRECTORS' STATEMENT

Year ended 31 December 2015

- (vi) The options granted to certain participants of executive rank (including those granted to an Executive Director of the Company) since the commencement of the Share Option Scheme are subject to a vesting schedule as follows:-
- (1) one year after the date of grant for up to 33% of the Shares over which the options are exercisable;
 - (2) two years after the date of grant for up to 66% (including (1) above) of the Shares over which the options are exercisable; and
 - (3) three years after the date of grant for up to 100% (including (1) and (2) above) of the Shares over which the options are exercisable.
- (vii) The persons to whom options have been granted do not have any right to participate by virtue of these options in any share issue of any other company.

(c) Unissued Shares under option

There were a total of 22,429,395 unissued Shares under option granted pursuant to the Share Option Scheme at the end of the financial year. Details of the options to subscribe for Shares (including those granted to an Executive Director) are as disclosed in the accompanying financial statements.

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

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

Audit Committee

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

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

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

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

DIRECTORS' STATEMENT

Year ended 31 December 2015

The Audit Committee also reviewed the following:

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

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

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 2016

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

INDEPENDENT AUDITORS' REPORT

To the Members of Hong Leong Finance Limited

Report on the financial statements

We have audited the accompanying financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 71 to 129.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 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.

INDEPENDENT AUDITORS' REPORT

To the Members of Hong Leong Finance Limited

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.

KPMG LLP

Public Accountants and
Chartered Accountants

Singapore

25 February 2016

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2015

		Group		Company	
	Note	2015	2014	2015	2014
Number of shares in issue	4	443,784,033	443,546,503	443,784,033	443,546,503
		\$'000	\$'000	\$'000	\$'000
Share capital	4	879,279	878,664	879,279	878,664
Reserves	4	629,821	611,892	629,821	611,892
Accumulated profits		179,011	168,012	175,979	165,081
Equity attributable to owners of the Company		1,688,111	1,658,568	1,685,079	1,655,637
Liabilities					
Deposits and balances of customers	6	11,443,999	10,468,530	11,448,002	10,472,491
Trade and other payables	7	139,848	118,680	138,540	117,385
Current tax payable		15,171	16,269	15,165	16,262
Total liabilities		11,599,018	10,603,479	11,601,707	10,606,138
Total equity and liabilities		13,287,129	12,262,047	13,286,786	12,261,775
Assets					
Cash at banks and in hand	9	1,495,006	1,082,543	1,494,129	1,081,737
Statutory deposit with the Monetary Authority of Singapore	9	300,979	282,905	300,979	282,905
Singapore Government securities	10	1,333,205	1,258,688	1,333,205	1,258,688
Loans, advances and receivables	11	10,091,093	9,582,540	10,091,093	9,582,540
Other receivables, deposits and prepayments	12	37,478	23,686	37,477	23,685
Subsidiaries	13	-	-	535	535
Investments (long term)	14	546	546	546	546
Property, plant and equipment	15	27,897	27,553	27,897	27,553
Deferred tax assets	8	925	3,586	925	3,586
Total assets		13,287,129	12,262,047	13,286,786	12,261,775
Acceptances, guarantees and other obligations on behalf of customers	16	14,026	11,174	14,026	11,174

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

		Group	
		2015	2014
	Note	\$'000	\$'000
Profit and loss account:			
Interest on loans		235,175	196,729
Hiring charges		33,686	36,056
Other interest income		27,509	21,858
Interest income/hiring charges		296,370	254,643
Less: Interest expense		134,266	105,652
Net interest income/hiring charges	17	162,104	148,991
Fee and commission income	18	12,490	12,293
Other operating income	19	377	199
Income before operating expenses		174,971	161,483
Less: Staff costs	20	65,454	61,695
Depreciation of property, plant and equipment	15	4,344	2,727
Other operating expenses	21	22,037	19,291
Profit from operations before allowances/provision		83,136	77,770
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products and impairment losses of other assets	7, 11, 12, 15	3,642	(2,024)
Profit before income tax		86,778	75,746
Less: Income tax expense	22	13,922	12,949
Profit for the year/Comprehensive income attributable to owners of the Company		72,856	62,797
Earnings per share (cents)	23		
Basic		16.42	14.17
Diluted		16.41	14.15

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total equity \$'000
Group						
At 1 January 2014	876,389	586,109	2,307	7,484	173,982	1,646,271
Issue of shares under share option scheme	2,017					2,017
Value of employee services received for issue of share options				685		685
Value of employee services transferred for share options exercised or lapsed	258			(393)	135	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2014					(17,742)	(17,742)
Comprehensive income for the year					62,797	62,797
Transfer to Statutory reserve		15,700			(15,700)	-
At 31 December 2014	878,664	601,809	2,307	7,776	168,012	1,658,568
At 1 January 2015	878,664	601,809	2,307	7,776	168,012	1,658,568
Issue of shares under share option scheme	548					548
Value of employee services received for issue of share options				513		513
Value of employee services transferred for share options exercised or lapsed	67			(799)	732	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2015					(17,751)	(17,751)
Comprehensive income for the year					72,856	72,856
Transfer to Statutory reserve		18,215			(18,215)	-
At 31 December 2015	879,279	620,024	2,307	7,490	179,011	1,688,111

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

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total equity \$'000
Company						
At 1 January 2014	876,389	586,109	2,307	7,484	171,161	1,643,450
Issue of shares under share option scheme	2,017					2,017
Value of employee services received for issue of share options				685		685
Value of employee services transferred for share options exercised or lapsed	258			(393)	135	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2014					(17,742)	(17,742)
Comprehensive income for the year					62,687	62,687
Transfer to Statutory reserve		15,700			(15,700)	-
At 31 December 2014	878,664	601,809	2,307	7,776	165,081	1,655,637
At 1 January 2015	878,664	601,809	2,307	7,776	165,081	1,655,637
Issue of shares under share option scheme	548					548
Value of employee services received for issue of share options				513		513
Value of employee services transferred for share options exercised or lapsed	67			(799)	732	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2015					(17,751)	(17,751)
Comprehensive income for the year					72,755	72,755
Transfer to Statutory reserve		18,215			(18,215)	-
At 31 December 2015	879,279	620,024	2,307	7,490	175,979	1,685,079

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
Operating activities			
Profit for the year		72,856	62,797
Adjustments for:-			
Impact of accrual of interest income		(821)	1,198
Impact of accrual of interest expense		26,727	5,517
Allowances for doubtful debts and receivables		6,438	6,530
Depreciation of property, plant and equipment		4,344	2,727
(Gain)/loss on disposal of property, plant and equipment		(155)	23
Impairment losses of other assets		-	186
Value of employee services received for issue of share options		513	685
Income tax expense	22	13,922	12,949
		123,824	92,612
Changes in working capital:-			
Loans, advances and receivables		(515,023)	(501,072)
Other receivables, deposits and prepayments		(12,939)	(4,428)
Singapore Government securities		(74,517)	(57,037)
Deposits and balances of customers		975,469	562,730
Trade and other payables		(5,559)	4,240
Cash generated from operations		491,255	97,045
Income taxes paid		(12,359)	(11,143)
Cash flows from operating activities		478,896	85,902
Investing activities			
Purchase of property, plant and equipment		(4,699)	(12,371)
Proceeds from disposal of property, plant and equipment		166	1
Cash flows used in investing activities		(4,533)	(12,370)
Financing activities			
Proceeds from exercise of share options		548	2,017
Dividends paid		(44,374)	(53,202)
Cash flows used in financing activities		(43,826)	(51,185)
Net increase in cash and cash equivalents		430,537	22,347
Cash and cash equivalents at beginning of year		1,365,448	1,343,101
Cash and cash equivalents at end of year	9	1,795,985	1,365,448

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

These notes form an integral part of the financial statements.

The financial statements for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 25 February 2016.

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 2015 relate to the Company and its subsidiaries (together referred to as the "Group").

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

2. Basis of Preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies

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

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

(a) Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(b) Foreign currency transactions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(c) Financial instruments

(i) Fair value measurement

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

(ii) Non-derivative financial assets

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or when it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred assets. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial assets (continued)

Loans and receivables

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

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

Available-for-sale financial assets

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

Available-for-sale financial assets comprise equity securities.

(iii) Non-derivative financial liabilities

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(iv) Share capital

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

(v) Derivative financial instruments, including hedge accounting

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

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

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

Fair value hedges

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

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

Cash flow hedges

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

When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Separable embedded derivatives

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

Other non-trading derivatives

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

(vi) Financial guarantees

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of self-constructed assets includes cost of materials and direct labour, other costs directly attributable to bringing the assets to a working condition for their intended use, estimated reinstatement costs when the Group has an obligation to remove the asset or restore the site and capitalised borrowing costs. Property, plant and equipment acquired through finance leases are carried at cost, less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The carrying amounts of material land and properties are reviewed annually to determine whether they are in excess of their recoverable amounts at the reporting date. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower value.

The gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

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

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

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

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

(e) Leased assets

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

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

(f) Impairment

(i) Non-derivative financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

Loans and receivables and held-to-maturity investment securities

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

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

(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 2015

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(g) Employee benefits (continued)

(iii) Share-based payment transactions (continued)

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

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

(h) Provisions

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

(i) Recognition of income and expense

(i) Interest

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(i) Recognition of income and expense (continued)

(i) Interest (continued)

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

Income earned on hire purchase and leasing

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

Income earned on loans

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

Income earned on trade finance and factoring accounts

Interest is charged principally on a monthly rest basis.

Income from debt securities

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

Income from bank deposits

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

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

Interest expense is accrued on a time-apportioned basis.

(ii) Fee and commission

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

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

(iii) Dividend income

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

(iv) Offsetting

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

(j) Government grants

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(k) Lease payments

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

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

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

Determining whether an arrangement contains a lease

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

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

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

(l) Income tax

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. Significant Accounting Policies (continued)

(l) Income tax (continued)

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

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

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

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

(m) Earnings per share

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

(n) Segment reporting

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

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards or interpretations are effective for the annual period beginning 1 January 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

4. Capital and Reserves

Share capital

	Note	Company	
		2015 Number of shares	2014 Number of shares
Fully paid shares, with no par value:-			
At 1 January		443,546,503	442,700,193
Issue of shares under share option scheme	5	237,530	846,310
At 31 December		443,784,033	443,546,503

In 2015, 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	
	2015 Number of shares	2014 Number of shares
Exercise price		
\$2.28	217,530	335,310
\$2.45	-	511,000
\$2.56	20,000	-
	237,530	846,310

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	
	2015 \$'000	2014 \$'000
Statutory reserve	620,024	601,809
Capital reserve	2,307	2,307
Share option reserve	7,490	7,776
	629,821	611,892

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

4. Capital and Reserves (continued)

Reserves (continued)

Dividends

After the reporting date, the Directors proposed a final dividend of 7 cents per share, tax exempt one-tier, amounting to \$31,065,000 (2014: 6 cents per share, tax exempt one-tier, amounting to \$26,623,000) when estimated based on the number of shares in issue as at the reporting date. The dividend has not been recognised in the financial statements. The proposed final dividend is in addition to an interim dividend of 4 cents per share, tax exempt one-tier, amounting to \$17,751,000 (2014: 4 cents per share, tax exempt one-tier, amounting to \$17,742,000) paid on 9 September 2015 (2014: 15 September 2014).

5. Employee Share Options

The Share Option Scheme was approved and adopted by members at an Extraordinary General Meeting held on 31 January 2001 for an initial duration of 10 years (from 31 January 2001 to 30 January 2011). At the Annual General Meeting of the Company held on 23 April 2010, the shareholders approved the extension of the duration of the Share Option Scheme for a further period of 10 years from 31 January 2011 to 30 January 2021. Other than the extension of the duration of the Share Option Scheme, all other rules of the Share Option Scheme remain unchanged. The Share Option Scheme is administered by the Company's Share Option Scheme Committee which comprised the following directors as at 31 December 2015:-

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

Information regarding the Share Option Scheme is as follows:-

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

5. Employee Share Options (continued)

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2015	2015	2014	2014
	\$	'000	\$	'000
At 1 January	2.97	23,108	2.97	22,718
Granted	2.34	1,885	2.66	2,053
Not accepted	2.34	(26)	2.66	(38)
Lapsed	3.70	(2,300)	2.84	(779)
Exercised	2.30	(238)	2.38	(846)
At 31 December	2.85	22,429	2.97	23,108
Exercisable at 31 December	2.91	20,021	3.02	20,436

The options outstanding at 31 December 2015 have an exercise price in the range of \$2.28 to \$3.62 (2014: \$2.28 to \$3.82) and a weighted average remaining contractual life of 5.0 years (2014: 5.2 years).

The weighted average share price at the date of exercise for share options exercised in 2015 was \$2.30 (2014: \$2.38).

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 2015

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	28.9.2005	28.9.2006	19.9.2007	30.9.2008	29.9.2009	28.9.2010	29.9.2011	14.9.2012	25.9.2013	25.9.2014	23.9.2015
Fair value at grant date	\$0.31	\$0.23	\$0.39	\$0.26	\$0.53	\$0.49	\$0.28	\$0.31	\$0.36	\$0.29	\$0.17
Share price	\$3.78	\$3.24	\$3.68	\$2.95	\$2.76	\$3.09	\$2.29	\$2.45	\$2.60	\$2.67	\$2.30
Exercise price	\$3.82	\$3.22	\$3.62	\$3.06	\$2.74	\$3.10	\$2.28	\$2.45	\$2.56	\$2.66	\$2.34
Expected volatility	18.4%	16.4%	21.3%	21.3%	28.3%	28.1%	27.2%	26.7%	25.7%	20.5%	15.0%
Expected option life	2.4 to 10 years	2.7 to 10 years	2.9 to 10 years	3.4 to 10 years	4.2 to 10 years	4.4 to 10 years	4.9 to 10 years	5.5 to 10 years	5.6 to 10 years	5.8 to 10 years	5.9 to 10 years
Expected dividend yield	4.8%	5.6%	4.9%	5.1%	2.9%	3.9%	5.2%	4.9%	4.6%	4.5%	4.4%
Risk-free interest rate (based on government bonds)	2.4 to 2.9%	3.0 to 3.2%	2.2 to 2.7%	1.5 to 3.2%	1.2 to 2.5%	0.8 to 2.0%	0.5 to 1.7%	0.5 to 1.5%	1.1 to 2.4%	1.7 to 2.5%	2.3 to 2.7%

Employee expenses:-

	2015 \$'000	2014 \$'000
Share options granted in		
2011	-	26
2012	21	59
2013	43	466
2014	380	134
2015	69	-
Total expense recognised as employee costs	513	685

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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	28.9.2005	28.9.2006	19.9.2007	30.9.2008	29.9.2009	28.9.2010
Expiry date	27.9.2015	27.9.2016	18.9.2017	29.9.2018	28.9.2019	27.9.2020
Exercise price	\$3.82	\$3.22	\$3.62	\$3.06	\$2.74	\$3.10
Number of options outstanding at 1.1.2015	1,970,530	1,396,135	2,766,500	3,017,000	2,690,500	3,293,100
Options lapsed	1,970,530	36,500	50,000	52,500	40,000	32,400
Options exercised (1.1.2015 to 31.12.2015)	-	-	-	-	-	-
Number of options outstanding at 31.12.2015	-	1,359,635	2,716,500	2,964,500	2,650,500	3,260,700
Number of options exercisable at 1.1.2015	1,970,530	1,396,135	2,766,500	3,017,000	2,690,500	3,293,100
Number of options exercisable at 31.12.2015	-	1,359,635	2,716,500	2,964,500	2,650,500	3,260,700
Option exercise period of options outstanding at 31.12.2015						
28.9.2007 to 27.9.2016	vested on 28.9.2007	789,800				
	vested on 28.9.2008	280,665				
	vested on 28.9.2009	289,170				
19.9.2008 to 18.9.2017	vested on 19.9.2008		1,967,105			
	vested on 19.9.2009		369,105			
	vested on 19.9.2010		380,290			
30.9.2009 to 29.9.2018	vested on 30.9.2009			2,149,110		
	vested on 30.9.2010			401,610		
	vested on 30.9.2011			413,780		
29.9.2010 to 28.9.2019	vested on 29.9.2010				1,861,910	
	vested on 29.9.2011				388,410	
	vested on 29.9.2012				400,180	
28.9.2011 to 27.9.2020	vested on 28.9.2011					2,391,911
	vested on 28.9.2012					427,911
	vested on 28.9.2013					440,878

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

5. Employee Share Options (continued)

	(7)	(8)	(9)	(10)	(11)
Date of grant of options	29.9.2011	14.9.2012	25.9.2013	25.9.2014	23.9.2015
Expiry date	28.9.2021	13.9.2022	24.9.2023	24.9.2024	22.9.2025
Exercise price	\$2.28	\$2.45	\$2.56	\$2.66	\$2.34
Number of options outstanding at 1.1.2015	1,876,190	2,204,000	1,878,500	2,015,500	–
Options granted	–	–	–	–	1,884,500
Options not accepted	–	–	–	–	25,500
Options lapsed	9,600	17,000	40,000	50,000	1,500
Options exercised (1.1.2015 to 31.12.2015)	217,530	–	20,000	–	–
Number of options outstanding at 31.12.2015	1,649,060	2,187,000	1,818,500	1,965,500	1,857,500
Number of options exercisable at 1.1.2015	1,876,190	1,897,490	1,528,090	–	–
Number of options exercisable at 31.12.2015	1,649,060	2,187,000	1,640,680	1,592,310	–
Option exercise period of options outstanding at 31.12.2015					
29.9.2012 to 28.9.2021	vested on 29.9.2012	1,029,600			
	vested on 29.9.2013	286,940			
	vested on 29.9.2014	332,520			
14.9.2013 to 13.9.2022	vested on 14.9.2013		1,582,995		
	vested on 14.9.2014		297,495		
	vested on 14.9.2015		306,510		
25.9.2014 to 24.9.2023	vested on 25.9.2014		1,468,090		
	vested on 25.9.2015		172,590		
	vesting on 25.9.2016		177,820		
25.9.2015 to 24.9.2024	vested on 25.9.2015			1,592,310	
	vesting on 25.9.2016			183,810	
	vesting on 25.9.2017			189,380	
23.9.2016 to 22.9.2025	vesting on 23.9.2016				1,531,880
	vesting on 23.9.2017				160,380
	vesting on 23.9.2018				165,240

6. Deposits and Balances of Customers

	Group		Company	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Fixed deposits	11,137,643	10,117,683	11,141,646	10,121,644
Savings deposits and other balances of customers	299,896	345,363	299,896	345,363
Current accounts and other deposits	6,460	5,484	6,460	5,484
Total deposits and balances of customers	11,443,999	10,468,530	11,448,002	10,472,491

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

7. Trade and Other Payables

	Group		Company	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Due after 12 months				
Amount due to SPRING Singapore	1,068	1,598	1,068	1,598
Due within 12 months				
Amount due to SPRING Singapore	1,189	1,158	1,189	1,158
Interest payable	90,047	63,320	90,064	63,334
Other trade payables and accrued operating expenses	46,034	50,950	44,808	49,738
Other payables	1,510	1,654	1,411	1,557
	138,780	117,082	137,472	115,787
Total trade and other payables	139,848	118,680	138,540	117,385

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

Included in other trade payables and accrued operating expenses is a provision for settlements and costs relating to distribution of wealth management products in respect of which a confidential settlement was reached in the case of legal action commenced earlier in the United States. The settlement together with provision for legal expenses in the matter no longer required has been reversed.

During the financial year, reversal of provision for settlements and legal and other costs relating to distribution of wealth management products amounted to \$8.1 million (2014: \$1.1 million).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

8. Deferred Tax

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

Group and Company					
	At 1 January 2014 \$'000	Recognised in profit or loss (Note 22) \$'000	At 31 December 2014 \$'000	Recognised in profit or loss (Note 22) \$'000	At 31 December 2015 \$'000
Deferred tax assets					
Trade and other payables	(994)	251	(743)	515	(228)
Loans, advances and receivables	(2,789)	(847)	(3,636)	1,918	(1,718)
	(3,783)	(596)	(4,379)	2,433	(1,946)
Deferred tax liabilities					
Property, plant and equipment	484	272	756	189	945
Other items	24	13	37	39	76
	508	285	793	228	1,021
Net deferred tax assets	(3,275)	(311)	(3,586)	2,661	(925)

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

9. Cash and Cash Equivalents

	Group	
	2015 \$'000	2014 \$'000
Cash at banks and in hand	1,495,006	1,082,543
Statutory deposit with the Monetary Authority of Singapore	300,979	282,905
Cash and cash equivalents in the consolidated statement of cash flows	1,795,985	1,365,448

10. Singapore Government Securities

Group and Company		
	2015 \$'000	2014 \$'000
Singapore Government securities, held to maturity at amortised cost		
– Within 12 months	81,717	85,025
– After 12 months	1,251,488	1,173,663
	1,333,205	1,258,688
Market value	1,318,199	1,245,813

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

11. Loans, Advances and Receivables

		Group and Company	
		2015	2014
		\$'000	\$'000
(a) Loans, advances and receivables at amortised cost			
Due after 12 months			
Loans, advances and hire purchase receivables	7,158,048	7,086,610	
Less: Unearned charges and interest	36,756	39,567	
	7,121,292	7,047,043	
Less: Allowances for doubtful debts			
– Loans and advances	63,018	62,699	
– Hire purchase receivables	12,651	13,518	
	75,669	76,217	
	7,045,623	6,970,826	
Due within 12 months			
Loans, advances, factoring receivables and hire purchase receivables	3,108,255	2,669,859	
Less: Unearned charges and interest	29,897	29,140	
	3,078,358	2,640,719	
Less: Allowances for doubtful debts			
– Loans, advances and factoring receivables	26,772	22,742	
– Hire purchase receivables	6,116	6,263	
	32,888	29,005	
	3,045,470	2,611,714	
Total loans, advances and receivables	10,091,093	9,582,540	
(b) Allowances for doubtful debts			
Specific allowances			
At 1 January	8,432	8,895	
Net allowances made during the year	1,350	1,520	
Receivables written off against allowances	(3,135)	(1,983)	
At 31 December	6,647	8,432	
Collective allowances			
At 1 January	96,790	91,806	
Allowances made during the year	5,120	4,984	
At 31 December	101,910	96,790	
Total allowances for doubtful debts	108,557	105,222	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

11. Loans, Advances and Receivables (continued)

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

	Group and Company					
	← 2015 →	← 2015 →	← 2015 →	← 2014 →	← 2014 →	← 2014 →
	Receivables \$'000	Interest \$'000	Principal \$'000	Receivables \$'000	Interest \$'000	Principal \$'000
Due within 1 year	465,799	28,011	437,788	416,855	27,481	389,374
Due after 1 year but within 5 years	904,384	35,082	869,302	812,705	36,928	775,777
Due after 5 years	37,056	783	36,273	66,521	1,808	64,713
Total	1,407,239	63,876	1,343,363	1,296,081	66,217	1,229,864

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

12. Other Receivables, Deposits and Prepayments

	Group		Company	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Interest receivables	10,337	9,516	10,337	9,516
Deposits	1,925	1,446	1,925	1,446
Prepayments	1,579	1,518	1,578	1,517
Other receivables	23,637	11,238	23,637	11,238
Less:				
Allowances for doubtful receivables:-				
At 1 January	32	6	32	6
Allowances (reversed)/made during the year	(32)	26	(32)	26
At 31 December	-	32	-	32
Net receivables	23,637	11,206	23,637	11,206
Total	37,478	23,686	37,477	23,685

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

13. Subsidiaries

	Company	
	2015	2014
	\$'000	\$'000

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

Name of Subsidiary	Country of incorporation	Effective equity held by the Group	
		2015	2014
		%	%
Hong Leong Finance Nominees Pte Ltd	Singapore	100	100
Singapore Nominees Private Limited	Singapore	100	100

KPMG LLP Singapore is the auditor of the subsidiaries.

14. Investments (long term)

	Group and Company	
	2015	2014
	\$'000	\$'000
Available for sale unquoted equity securities, at cost	558	558
Less: Impairment losses at 1 January and 31 December	12	12
Net investments	546	546

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

15. Property, Plant and Equipment

	Group and Company						
	Freehold land \$'000	Freehold buildings \$'000	Leasehold buildings \$'000	Office equipment, fixtures and fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost							
At 1 January 2014	50	2,938	18,372	13,028	9,141	1,220	44,749
Additions	-	-	8,824	768	2,779	-	12,371
Disposals	-	-	-	(696)	(195)	-	(891)
At 31 December 2014	50	2,938	27,196	13,100	11,725	1,220	56,229
Additions	-	-	-	1,087	3,612	-	4,699
Disposals	-	-	-	(377)	(93)	(261)	(731)
At 31 December 2015	50	2,938	27,196	13,810	15,244	959	60,197
Accumulated depreciation and impairment losses							
At 1 January 2014	-	1,361	6,797	9,979	8,153	340	26,630
Depreciation charge for the year	-	59	558	1,240	644	226	2,727
Impairment loss for the year	-	-	186	-	-	-	186
Disposals	-	-	-	(672)	(195)	-	(867)
At 31 December 2014	-	1,420	7,541	10,547	8,602	566	28,676
Depreciation charge for the year	-	60	616	1,360	2,117	191	4,344
Disposals	-	-	-	(366)	(93)	(261)	(720)
At 31 December 2015	-	1,480	8,157	11,541	10,626	496	32,300
Carrying amount							
At 1 January 2014	50	1,577	11,575	3,049	988	880	18,119
At 31 December 2014	50	1,518	19,655	2,553	3,123	654	27,553
At 31 December 2015	50	1,458	19,039	2,269	4,618	463	27,897

The carrying amount of property, plant and equipment of the Group and the Company includes amounts totalling \$19,039,000 (2014: \$19,655,000) in respect of leasehold buildings held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

15. Property, Plant and Equipment (continued)

Properties held at 31 December are as follows:-

		Group and Company	
		2015	2014
		\$'000	\$'000
Freehold Land and Buildings			
(1)	Property with carrying amount exceeding \$1,000,000 comprises a shop unit at 288 Balestier Road #01-02, Singapore, comprising 1,281 sq. ft. on freehold land held as branch premises.	1,000	1,027
(2)	Properties with carrying amounts up to \$500,000 each comprise 2 shop units held as branch premises.	508	541
	Total	1,508	1,568
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.	1,366	1,418
(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.	1,685	1,742
(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.	1,509	1,551
(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.	8,030	8,206
(2)	Properties with carrying amounts more than \$500,000 to \$1,000,000 each comprise 4 shop units held as branch premises.	3,273	3,382
(3)	Properties with carrying amounts up to \$500,000 each comprise 6 shop units held as branch premises and 4 industrial units used as warehousing facilities.	3,176	3,356
	Total	19,039	19,655

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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	
	2015	2014
	\$'000	\$'000
Letters of credit	942	270
Guarantees	13,084	10,904
Total	14,026	11,174

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

17. Net Interest Income/Hiring Charges

	Group	
	2015	2014
	\$'000	\$'000
<i>Interest income/hiring charges</i>		
Loans, advances and receivables	268,861	232,785
Deposits placed	10,150	5,745
Singapore Government securities and other liquid assets	17,359	16,113
Total interest income/hiring charges	296,370	254,643
<i>Interest expense</i>		
Deposits and balances of customers	134,210	105,578
Others	56	74
Total interest expense	134,266	105,652
Net interest income/hiring charges	162,104	148,991

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

18. Fee and Commission Income

	Group	
	2015	2014
	\$'000	\$'000
Fee and commission income arising from:-		
Loans and advances	11,280	9,801
Non-lending activities	1,148	2,423
Others	62	69
Total	12,490	12,293

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

19. Other Operating Income

	Group	
	2015	2014
	\$'000	\$'000
Gain/(loss) on disposal of plant and equipment	155	(23)
Other operating income	222	222
Total	377	199

20. Staff Costs

	Group	
	2015	2014
	\$'000	\$'000
Short-term employee benefits	58,587	55,420
CPF contributions to defined contribution plans	6,354	5,590
Share-based payments	513	685
Total	65,454	61,695

21. Other Operating Expenses

	Group	
	2015	2014
	\$'000	\$'000
Audit fees to auditors	402	391
Non-audit fees to auditors	44	31
Operating lease expenses	6,797	5,184
IT-related expenses	2,241	2,307
Other expenses	12,553	11,378
Total	22,037	19,291

Included in other expenses are fee and commission expenses arising from loans, advances and receivables amounting to \$2,269,000 (2014: \$1,665,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

22. Income Tax Expense

		Group	
		2015	2014
	Note	\$'000	\$'000
Current tax expense			
Current year		14,278	13,260
Adjustment for prior years		(3,017)	-
		11,261	13,260
Deferred tax expense			
Origination and reversal of temporary differences		(128)	(311)
Adjustment for prior years		2,789	-
	8	2,661	(311)
Income tax expense		13,922	12,949
Current year		14,150	12,949
Adjustment for prior years		(228)	-
Income tax expense		13,922	12,949
Reconciliation of income tax expense			
		Group	
		2015	2014
		\$'000	\$'000
Profit after tax for the year		72,856	62,797
Income tax expense		13,922	12,949
Profit before income tax		86,778	75,746
Tax calculated using Singapore tax rate of 17% (2014: 17%)		14,752	12,877
Tax effect of:-			
Exempt income not taxable for tax purposes		(36)	(37)
Enhanced tax deductions		(624)	(33)
Bad debts recovered not subject to tax		(2)	(8)
Income taxed at a 10% concessionary tax rate		(340)	(341)
Expenses not deductible for tax purposes		388	498
Others		12	(7)
		14,150	12,949
Adjustment for prior years		(228)	-
Income tax expense		13,922	12,949

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

23. Earnings Per Share

(a) Basic earnings per share

	Group	
	2015	2014
	\$'000	\$'000

Basic earnings per share is based on:-

Profit after tax for the year attributable to owners of the Company	72,856	62,797
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	2015	2014
	Number	Number
	of shares	of shares
	'000	'000

Issued shares at 1 January	443,546	442,700
Effect of share options exercised	158	549
Weighted average number of shares during the year	443,704	443,249

(b) Diluted earnings per share

	Group	
	2015	2014
	\$'000	\$'000

Diluted earnings per share is based on:-

Profit after tax for the year attributable to owners of the Company	72,856	62,797
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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	
	2015	2014
	Number	Number
	of shares	of shares
	'000	'000

Weighted average number of:-

shares used in the calculation of basic earnings per share	443,704	443,249
potential shares issuable under share options	232	605
Weighted average number of issued and potential shares assuming full conversion	443,936	443,854

Outstanding share options that were not included in the computation of diluted earnings per share because the share options were anti-dilutive amounted to 17,108,975 at \$2.54 to \$3.62 as at 31 December 2015 (2014: 17,327,085 at \$2.74 to \$3.82).

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management

(a) Overview

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

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

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

Risk management framework

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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	
	2015	2014
	\$'000	\$'000
Performing accounts that are		
– neither past due nor impaired	9,975,104	9,447,086
– past due but not impaired	151,015	167,021
Gross amount	10,126,119	9,614,107
Collective allowances	(101,910)	(96,790)
Carrying amount	10,024,209	9,517,317
Individually impaired		
– Substandard (payment not kept current for 90 days but fully secured)	66,884	65,223
– Loss (fully provided for)	6,647	8,432
Gross amount	73,531	73,655
Specific allowances	(6,647)	(8,432)
Carrying amount	66,884	65,223
Total carrying amount	10,091,093	9,582,540

There are no loans and advances graded as doubtful as at 31 December 2015 and 2014.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management (continued)

(b) Credit risk (continued)

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

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

	Gross amount \$'000	Amount net of individual allowances \$'000
31 December 2015		
Substandard	66,884	66,884
Loss	6,647	-
Total	73,531	66,884
31 December 2014		
Substandard	65,223	65,223
Loss	8,432	-
Total	73,655	65,223

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 \$10,030,799,000 (2014: \$9,477,363,000). The Group's claim against such collateral has been limited to the obligations of the respective obligors.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management (continued)

(b) Credit risk (continued)

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

	Group and Company	
	2015	2014
	\$'000	\$'000
Motor vehicles	422	174
Equipment	112	–
Property	269	–
Total	803	174

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	
	2015	2014
	\$'000	\$'000
Gross carrying amount	10,199,650	9,687,762
Concentration by sector		
Hire purchase/block discounting	1,343,363	1,229,864
Housing loans secured by property under finance	1,304,197	1,304,478
Other loans and advances:-		
Manufacturing	86,594	74,566
Building and construction	4,233,856	4,125,737
General commerce	99,223	87,864
Transport, storage and communication	84,065	82,579
Investment and holding companies	854,321	829,625
Professional and private individuals	449,095	477,518
Others (including hotels, associations and charitable organisations)	1,744,936	1,475,531
Total	10,199,650	9,687,762

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

Financial guarantees comprising guarantees issued by the Company to third parties on behalf of customers amounted to \$13,084,000 as at 31 December 2015 (2014: \$10,904,000). 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 2015

24. Financial Risk Management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations and commitments resulting from its financial liabilities, or can only access these cash flow needs at excessive cost. The most common sources of liquidity risk arise from mismatches in the timing and value of cash inflows and outflows from the Group's statement of financial position exposures.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is established to meet the Group's current and prospective commitments in normal business conditions, and to maintain soundness in times of stress.

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

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

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

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

Exposure to liquidity risk

The Company monitors the liquidity limit, being a ratio of liquid assets (comprising cash balances with the Monetary Authority of Singapore ("MAS") and reserve assets principally comprising Singapore Government securities) to net liabilities (computed in accordance with MAS Notice 806) as at the reporting date and during the reporting period. Details of the ratio of liquid assets to net liabilities at the reporting date and during the reporting period were as follows:-

	Company	
	2015	2014
At 31 December	16.38%	16.39%
Average for the period	16.45%	16.70%
Maximum for the period	16.74%	18.13%
Minimum for the period	16.23%	16.31%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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 2015							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	11,443,999	(11,534,019)	(2,513,251)	(1,815,169)	(5,521,643)	(1,683,956)	-
Amount due to SPRING Singapore	2,257	(2,284)	(316)	(169)	(719)	(1,080)	-
Other liabilities	38,426	(38,426)	(19,333)	(468)	(17,793)	(75)	(757)
	11,484,682	(11,574,729)	(2,532,900)	(1,815,806)	(5,540,155)	(1,685,111)	(757)
Financial guarantees	-	(13,084)	(13,084)	-	-	-	-
	11,484,682	(11,587,813)	(2,545,984)	(1,815,806)	(5,540,155)	(1,685,111)	(757)
Undrawn loan commitments	-	(1,897,632)	(1,755,286)	(142,346)	-	-	-
	11,484,682	(13,485,445)	(4,301,270)	(1,958,152)	(5,540,155)	(1,685,111)	(757)
31 December 2014							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	10,468,530	(10,531,822)	(2,653,863)	(1,532,344)	(5,074,341)	(1,271,274)	-
Amount due to SPRING Singapore	2,756	(2,784)	(298)	(172)	(700)	(1,614)	-
Other liabilities	43,979	(43,979)	(22,161)	(488)	(20,251)	(194)	(885)
	10,515,265	(10,578,585)	(2,676,322)	(1,533,004)	(5,095,292)	(1,273,082)	(885)
Financial guarantees	-	(10,904)	(10,904)	-	-	-	-
	10,515,265	(10,589,489)	(2,687,226)	(1,533,004)	(5,095,292)	(1,273,082)	(885)
Undrawn loan commitments	-	(2,197,692)	(1,835,225)	(362,467)	-	-	-
	10,515,265	(12,787,181)	(4,522,451)	(1,895,471)	(5,095,292)	(1,273,082)	(885)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management (continued)

(c) Liquidity risk (continued)

	Carrying amount \$'000	Gross nominal outflow \$'000	Up to 1 month \$'000	Over 1 month to 3 months \$'000	Over 3 months to 1 year \$'000	Over 1 year to 5 years \$'000	More than 5 years \$'000
Company							
31 December 2015							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	11,448,002	(11,538,039)	(2,513,571)	(1,815,169)	(5,525,343)	(1,683,956)	-
Amount due to SPRING Singapore	2,257	(2,284)	(316)	(169)	(719)	(1,080)	-
Other liabilities	37,101	(37,101)	(18,032)	(461)	(17,776)	(75)	(757)
	11,487,360	(11,577,424)	(2,531,919)	(1,815,799)	(5,543,838)	(1,685,111)	(757)
Financial guarantees	-	(13,084)	(13,084)	-	-	-	-
	11,487,360	(11,590,508)	(2,545,003)	(1,815,799)	(5,543,838)	(1,685,111)	(757)
Undrawn loan commitments	-	(1,897,632)	(1,755,286)	(142,346)	-	-	-
	11,487,360	(13,488,140)	(4,300,289)	(1,958,145)	(5,543,838)	(1,685,111)	(757)
31 December 2014							
<i>Non-derivative financial liabilities</i>							
Deposits and balances of customers	10,472,491	(10,535,797)	(2,654,180)	(1,532,344)	(5,077,999)	(1,271,274)	-
Amount due to SPRING Singapore	2,756	(2,784)	(298)	(172)	(700)	(1,614)	-
Other liabilities	42,670	(42,670)	(20,876)	(481)	(20,234)	(194)	(885)
	10,517,917	(10,581,251)	(2,675,354)	(1,532,997)	(5,098,933)	(1,273,082)	(885)
Financial guarantees	-	(10,904)	(10,904)	-	-	-	-
	10,517,917	(10,592,155)	(2,686,258)	(1,532,997)	(5,098,933)	(1,273,082)	(885)
Undrawn loan commitments	-	(2,197,692)	(1,835,225)	(362,467)	-	-	-
	10,517,917	(12,789,847)	(4,521,483)	(1,895,464)	(5,098,933)	(1,273,082)	(885)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management (continued)

(d) Interest rate risk

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

Management of interest rate risk

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

Exposure to interest rate risk

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

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

Repricing analysis

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

		Group				
	Note	Carrying amount \$'000	Up to 1 year \$'000	Over 1 to 5 years \$'000	After 5 years \$'000	Non- interest bearing \$'000
31 December 2015						
Financial assets						
Loans, advances and receivables	11	10,091,093	8,386,727	1,661,920	42,446	-
Singapore Government securities	10	1,333,205	81,717	958,681	292,807	-
Cash at banks and in hand	9	1,495,006	1,483,204	-	-	11,802
Statutory deposit with the Monetary Authority of Singapore	9	300,979	-	-	-	300,979
Other assets		35,899	-	-	-	35,899
Investments (long term)	14	546	-	-	-	546
Financial liabilities						
Deposits and balances of customers	6	11,443,999	9,641,162	1,670,457	-	132,380
Amount due to SPRING Singapore	7	2,257	1,189	1,068	-	-
Other liabilities	7	137,591	-	-	-	137,591
31 December 2014						
Financial assets						
Loans, advances and receivables	11	9,582,540	8,066,769	1,444,197	71,574	-
Singapore Government securities	10	1,258,688	85,025	636,049	537,614	-
Cash at banks and in hand	9	1,082,543	1,071,391	-	-	11,152
Statutory deposit with the Monetary Authority of Singapore	9	282,905	-	-	-	282,905
Other assets		22,168	-	-	-	22,168
Investments (long term)	14	546	-	-	-	546
Financial liabilities						
Deposits and balances of customers	6	10,468,530	9,048,484	1,263,372	-	156,674
Amount due to SPRING Singapore	7	2,756	1,158	1,598	-	-
Other liabilities	7	115,924	-	-	-	115,924

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management (continued)

(d) Interest rate risk (continued)

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

31 December 2015

Financial assets

Loans, advances and receivables	11	10,091,093	8,386,727	1,661,920	42,446	-
Singapore Government securities	10	1,333,205	81,717	958,681	292,807	-
Cash at banks and in hand		1,494,129	1,482,327	-	-	11,802
Statutory deposit with the Monetary Authority of Singapore		300,979	-	-	-	300,979
Other assets		35,899	-	-	-	35,899
Investments (long term)	14	546	-	-	-	546

Financial liabilities

Deposits and balances of customers	6	11,448,002	9,645,165	1,670,457	-	132,380
Amount due to SPRING Singapore	7	2,257	1,189	1,068	-	-
Other liabilities	7	136,283	-	-	-	136,283

31 December 2014

Financial assets

Loans, advances and receivables	11	9,582,540	8,066,769	1,444,197	71,574	-
Singapore Government securities	10	1,258,688	85,025	636,049	537,614	-
Cash at banks and in hand		1,081,737	1,070,585	-	-	11,152
Statutory deposit with the Monetary Authority of Singapore		282,905	-	-	-	282,905
Other assets		22,168	-	-	-	22,168
Investments (long term)	14	546	-	-	-	546

Financial liabilities

Deposits and balances of customers	6	10,472,491	9,052,445	1,263,372	-	156,674
Amount due to SPRING Singapore	7	2,756	1,158	1,598	-	-
Other liabilities	7	114,629	-	-	-	114,629

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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	
	2015	2014
	\$'000	\$'000
+ 100 basis points parallel shift in yield curves	25,609	28,111
- 100 basis points parallel shift in yield curves	(34,483)	(16,431)

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

(e) Capital management

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

Regulatory capital

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

24. Financial Risk Management (continued)

(e) Capital management (continued)

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

	2015 \$'000	2014 \$'000
Share capital	879,279	878,664
Accumulated profits	123,638	168,012
Statutory reserve	601,809	601,809
Capital reserve	2,307	2,307
Share option reserve	7,776	7,776
Regulatory capital	1,614,809	1,658,568
 Risk-weighted assets	 10,725,395	 10,098,506
 Capital adequacy ratio	 15.1%	 16.4%

The capital adequacy ratio for 2015 is computed based on MAS Notice 832, Notice on Risk Based Capital Adequacy Requirements for Finance Companies Incorporated in Singapore effective 1 January 2015.

25. Financial Instruments

Accounting classifications and fair values

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

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

(b) Singapore Government securities

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

(c) Other financial assets and financial liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

25. Financial Instruments (continued)

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

		Group			
		Carrying amount 2015 \$'000	Fair value 2015 \$'000	Carrying amount 2014 \$'000	Fair value 2014 \$'000
	Note				
Financial assets					
Loans, advances and receivables	11	10,091,093	10,080,629	9,582,540	9,590,931
Singapore Government securities	10	1,333,205	1,318,199	1,258,688	1,245,813
		11,424,298	11,398,828	10,841,228	10,836,744

Financial liabilities

Deposits and balances of customers	6	(11,443,999)	(11,479,348)	(10,468,530)	(10,501,946)
Net financial assets/(liabilities)		(19,701)	(80,520)	372,698	334,798
Unrecognised loss			(60,819)		(37,900)

		Company			
		Carrying amount 2015 \$'000	Fair Value 2015 \$'000	Carrying amount 2014 \$'000	Fair value 2014 \$'000
	Note				

Financial assets

Loans, advances and receivables	11	10,091,093	10,080,629	9,582,540	9,590,931
Singapore Government securities	10	1,333,205	1,318,199	1,258,688	1,245,813
		11,424,298	11,398,828	10,841,228	10,836,744

Financial liabilities

Deposits and balances of customers	6	(11,448,002)	(11,483,358)	(10,472,491)	(10,505,921)
Net financial assets/(liabilities)		(23,704)	(84,530)	368,737	330,823
Unrecognised loss			(60,826)		(37,914)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

25. Financial Instruments (continued)

Fair value hierarchy

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

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

*Group financial assets and financial liabilities not carried at fair value but for which fair values are disclosed**

The fair value of the portion of loans, advances and receivables being Level 3 instruments amounts to \$2.65 billion (2014: \$2.17 billion) against a carrying value of \$2.662 billion (2014: \$2.166 billion). Singapore Government securities are Level 1 instruments with fair value of \$1.32 billion (2014: \$1.25 billion). The portion of deposits and balances of customers being Level 2 instruments have a fair value of \$9.25 billion (2014: \$8.49 billion) against a carrying value of \$9.22 billion (2014: \$8.46 billion).

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

26. Commitments

(a) Operating lease commitments

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

	Group and Company	
	2015	2014
	\$'000	\$'000
Within 1 year	7,209	6,638
After 1 year but within 5 years	12,245	17,633
After 5 years	107	266
	19,561	24,537

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

26. Commitments (continued)

(b) Capital commitments

At 31 December, the Group and the Company had outstanding capital commitments in respect of contracts to purchase property, plant and equipment amounting to \$6,000 (2014: \$2,037,000).

(c) Undrawn loan commitments

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

At 31 December, the Group and the Company had undrawn loan commitments amounting to \$1,897,632,000 (2014: \$2,197,692,000).

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	
	2015	2014
	\$'000	\$'000
Short-term employee benefits	3,187	2,593
CPF contributions to defined contribution plans	13	6
Depreciation of motor vehicles	37	10
Other operating expenses including principally directors' fees	1,256	1,129
Share-based payments	69	74
	4,562	3,812

Directors' remuneration (inclusive of fees) included in key management personnel compensation amounted to \$3,074,000 (2014: \$2,944,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

27. Related Party Transactions (continued)

Key management personnel of the Company participate in the Share Option Scheme as described in Note 5. During the year, options to 255,500 (2014: 205,000) 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:-

	2015	2014
Granted on		
28.9.2005	-	661,000
28.9.2006	486,600	486,600
19.9.2007	694,500	694,500
30.9.2008	732,000	732,000
29.9.2009	687,000	687,000
28.9.2010	762,000	762,000
29.9.2011	574,590	663,190
14.9.2012	511,000	511,000
25.9.2013	281,000	281,000
25.9.2014	281,000	281,000
23.9.2015	255,500	-

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

	2015	2014
Granted on		
28.9.2005	-	360,000
28.9.2006	324,000	324,000
19.9.2007	378,000	378,000
30.9.2008	378,000	378,000
29.9.2009	360,000	360,000
28.9.2010	400,000	400,000
29.9.2011	360,000	360,000
14.9.2012	256,000	256,000
25.9.2013	160,000	160,000
25.9.2014	160,000	160,000
23.9.2015	144,000	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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	
		Fellow Subsidiaries and Associates of Holding Company	Key Management Personnel*
	Holding Company \$'000	\$'000	\$'000
(a) Secured loans, advances and hire purchase receivables			
Outstanding balances:			
As at 1 January 2014	-	4,239	197,605
Increase	-	1,220	514
(Decrease)	-	(1,179)	(9,324)
As at 31 December 2014	-	4,280	188,795
Increase	-	3,265	784
(Decrease)	-	(1,450)	(40,443)
As at 31 December 2015	-	6,095	149,136
Undrawn loan commitments:			
As at 1 January 2014	20,000	-	105,293
Increase	-	4,729	449
(Decrease)	-	-	(28,039)
As at 31 December 2014	20,000	4,729	77,703
Increase	-	3,293	-
(Decrease)	-	(4,729)	(743)
As at 31 December 2015	20,000	3,293	76,960
(b) Specific allowances for doubtful debts			
As at 31 December 2014	-	-	-
As at 31 December 2015	-	-	-
(c) Other receivables, deposits and prepayment			
Outstanding balances:			
As at 1 January 2014	-	1,037	-
Increase	-	254	-
(Decrease)	-	(179)	-
As at 31 December 2014	-	1,112	-
Increase	-	680	-
(Decrease)	-	(198)	-
As at 31 December 2015	-	1,594	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

27. Related Party Transactions (continued)

		Group		
		Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000
(d)	Deposits and balances of customers			
	Outstanding balances:			
	As at 1 January 2014	99,924	273,969	49,533
	Increase	39,896	88,069	4,896
	(Decrease)	-	(23,504)	(7,143)
	As at 31 December 2014	139,820	338,534	47,286
	Increase	-	158,079	2,110
	(Decrease)	(27,731)	(68,033)	(5,534)
	As at 31 December 2015	112,089	428,580	43,862
(e)	Trade and other payables			
	Outstanding balances:			
	As at 1 January 2014	243	947	151
	Increase	24	166	48
	(Decrease)	-	(290)	(97)
	As at 31 December 2014	267	823	102
	Increase	110	797	96
	(Decrease)	-	(51)	(12)
	As at 31 December 2015	377	1,569	186
(f)	Lease commitments			
	Operating lease commitments			
	As at 31 December 2014	-	21,930	-
	As at 31 December 2015	-	17,151	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

27. Related Party Transactions (continued)

		Group	
		Fellow Subsidiaries and Associates of Holding Company	Key Management Personnel*
	Holding Company \$'000	\$'000	\$'000
(g) Profit and loss transactions			
Year ended 31 December 2015			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	-	133	4,097
- Interest expense on deposits	(1,516)	(4,056)	(482)
- Fee, commission and other income	3	-	383
- Other operating expenses	-	(6,623)	-
- Specific allowances for bad and doubtful debts	-	-	-
Year ended 31 December 2014			
- Interest income on loans and advances and hiring charges in respect of hire purchase receivables	-	111	4,009
- Interest expense on deposits	(1,198)	(2,913)	(409)
- Fee, commission and other income	2	-	59
- Other operating expenses	-	(4,960)	-
- Specific allowances for bad and doubtful debts	-	-	-
(h) Expenses incurred on account of customers for professional services			
Year ended 31 December 2015	-	-	(1)
Year ended 31 December 2014	-	-	(6)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

27. Related Party Transactions (continued)

	Company			
	Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000	Subsidiaries \$'000
(a) Secured loans, advances and hire purchase receivables				
Outstanding balances:				
As at 1 January 2014	-	4,239	197,605	-
Increase	-	1,220	514	-
(Decrease)	-	(1,179)	(9,324)	-
As at 31 December 2014	-	4,280	188,795	-
Increase	-	3,265	784	-
(Decrease)	-	(1,450)	(40,443)	-
As at 31 December 2015	-	6,095	149,136	-
Undrawn loan commitments:				
As at 1 January 2014	20,000	-	105,293	-
Increase	-	4,729	449	-
(Decrease)	-	-	(28,039)	-
As at 31 December 2014	20,000	4,729	77,703	-
Increase	-	3,293	-	-
(Decrease)	-	(4,729)	(743)	-
As at 31 December 2015	20,000	3,293	76,960	-
(b) Specific allowances for doubtful debts				
As at 31 December 2014	-	-	-	-
As at 31 December 2015	-	-	-	-
(c) Other receivables, deposits and prepayment				
Outstanding balances:				
As at 1 January 2014	-	1,037	-	-
Increase	-	254	-	-
(Decrease)	-	(179)	-	-
As at 31 December 2014	-	1,112	-	-
Increase	-	680	-	-
(Decrease)	-	(198)	-	-
As at 31 December 2015	-	1,594	-	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

27. Related Party Transactions (continued)

		Company			
		Holding Company \$'000	Fellow Subsidiaries and Associates of Holding Company \$'000	Key Management Personnel* \$'000	Subsidiaries \$'000
(d)	Deposits and balances of customers				
	Outstanding balances:				
	As at 1 January 2014	99,924	273,969	49,533	3,916
	Increase	39,896	88,069	4,896	45
	(Decrease)	-	(23,504)	(7,143)	-
	As at 31 December 2014	139,820	338,534	47,286	3,961
	Increase	-	158,079	2,110	42
	(Decrease)	(27,731)	(68,033)	(5,534)	-
	As at 31 December 2015	112,089	428,580	43,862	4,003
(e)	Trade and other payables				
	Outstanding balances:				
	As at 1 January 2014	243	939	151	32
	Increase	24	166	48	-
	(Decrease)	-	(290)	(97)	(4)
	As at 31 December 2014	267	815	102	28
	Increase	110	798	96	3
	(Decrease)	-	(51)	(12)	-
	As at 31 December 2015	377	1,562	186	31
(f)	Lease commitments				
	Operating lease commitments				
	As at 31 December 2014	-	21,930	-	-
	As at 31 December 2015	-	17,151	-	-

* 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 2015

28. Use of Accounting Estimates and Judgements

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

Key sources of estimation uncertainty

(a) Impairment losses on loans, advances and receivables

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

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

(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity. In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets to maturity. The Group does not classify any financial assets as held to maturity if during the current financial year or during the two preceding financial years, it sold or reclassified more than an insignificant amount of held-to-maturity investments before and not close to their maturity. If the conditions are not complied with, the investments will be reclassified as available-for-sale and measured at fair value. As at the end of the current financial year, had the held-to-maturity investments been classified as available-for-sale, the fair value would have decreased by \$15,006,000 (2014: \$12,875,000), with a corresponding entry in the fair value reserve in equity.

ANALYSIS OF SHAREHOLDINGS

As at 7 March 2016

Number of Shares in Issue : 443,784,033
 Class of Shares : Ordinary shares
 Number of Shareholders : 11,279
 Voting Rights : 1 vote for 1 share

Range of Shareholdings	No. of Shareholders	%	No. of Shares Held	%
1 – 99	326	2.89	13,639	0.00
100 – 1,000	1,791	15.88	1,223,151	0.28
1,001 – 10,000	7,019	62.23	30,819,398	6.94
10,001 – 1,000,000	2,117	18.77	103,691,026	23.37
1,000,001 and above	26	0.23	308,036,819	69.41
	11,279	100.00	443,784,033	100.00

Based on the information available to the Company as at 7 March 2016, approximately 44.81% of the total number of issued shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by Singapore Exchange Securities Trading Limited is complied with.

Major Shareholders List - Top 20 as at 7 March 2016

No.	Name	No. of Shares Held	% *
1.	Hong Leong Investment Holdings Pte. Ltd.	99,608,176	22.45
2.	Hong Realty (Private) Limited	23,271,370	5.24
3.	DBS Nominees Pte Ltd	19,935,991	4.49
4.	Hong Leong Corporation Holdings Pte Ltd	19,685,812	4.44
5.	SGL Investment Holdings Pte Ltd	16,899,187	3.81
6.	Garden Estates (Pte.) Limited	16,710,670	3.77
7.	BNP Paribas Securities Services	15,654,933	3.53
8.	Hong Leong Foundation	13,854,823	3.12
9.	Citibank Nominees Singapore Pte Ltd	13,623,739	3.07
10.	United Overseas Bank Nominees Pte Ltd	12,606,059	2.84
11.	City Developments Limited	9,149,817	2.06
12.	HSBC (Singapore) Nominees Pte Ltd	7,652,660	1.72
13.	Tudor Court Gallery Pte Ltd	6,517,000	1.47
14.	Chng Gim Huat	5,590,000	1.26
15.	Hong Leong Holdings Limited	5,460,422	1.23
16.	Hong Leong Enterprises Pte. Ltd.	4,485,047	1.01
17.	DBSN Services Pte Ltd	3,386,288	0.76
18.	Raffles Nominees (Pte) Ltd	2,220,770	0.50
19.	HL Bank Nominees (S) Pte Ltd	2,067,000	0.46
20.	OCBC Nominees Singapore Private Limited	1,771,361	0.40
		300,151,125	67.63

* The percentage of shares held is based on the total number of issued shares of the Company as at 7 March 2016.

ANALYSIS OF SHAREHOLDINGS

As at 7 March 2016

Substantial Shareholders

	No. of Shares			
	Direct Interest	Deemed Interest	Total Interest	% *
Hong Realty (Private) Limited	23,271,370	23,678,335 ⁽¹⁾	46,949,705	10.58
Hong Leong Enterprises Pte. Ltd.	4,485,047	19,968,812 ⁽²⁾	24,453,859	5.51
Hong Leong Investment Holdings Pte. Ltd.	99,608,176	106,252,582 ⁽³⁾	205,860,758	46.39
Davos Investment Holdings Private Limited	–	205,860,758 ⁽⁴⁾	205,860,758	46.39
Kwek Holdings Pte Ltd	–	205,860,758 ⁽⁴⁾	205,860,758	46.39

* The percentage of shares held is based on the total number of issued shares of the Company as at 7 March 2016.

Notes:

- (1) Hong Realty (Private) Limited ("HR") is deemed under Section 4 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA") to have an interest in the 23,678,335 shares held directly by companies in which it is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof.
- (2) Hong Leong Enterprises Pte. Ltd. ("HLE") is deemed under Section 4 of the SFA to have an interest in the 19,968,812 shares held directly and/or indirectly by companies in which it is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof.
- (3) Hong Leong Investment Holdings Pte. Ltd. ("HLIH") is deemed under Section 4 of the SFA to have an interest in the 106,252,582 shares held directly and/or indirectly by companies in which it is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof, which includes (i) the 46,949,705 shares held directly and indirectly by HR and (ii) the 24,453,859 shares held directly and indirectly by HLE.
- (4) Davos Investment Holdings Private Limited and Kwek Holdings Pte Ltd are deemed under Section 4 of the SFA, to have interests in the 205,860,758 shares held directly and/or indirectly by HLIH in which each of them is entitled to exercise or control the exercise of not less than 20% of the votes attached to the voting shares thereof.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-Sixth Annual General Meeting (the "Meeting") of HONG LEONG FINANCE LIMITED (the "Company") will be held at M Hotel Singapore, Banquet Suite, Level 10, 81 Anson Road, Singapore 079908, on Thursday, 21 April 2016 at 3.00 p.m. for the following purposes:

A) Ordinary Business:

1. To receive and adopt the Directors' Statement and Audited Financial Statements for the year ended 31 December ("FY") 2015 and the Auditors' Report thereon.
2. To declare a final one-tier tax exempt dividend of 7 cents per share for FY 2015 ("Final Dividend").
3. To approve Directors' Fees of \$769,603 for FY 2015 (FY 2014: \$777,000), Fees to the Audit Committee of \$140,000 for FY 2016 (FY 2015: \$140,000) and Fees to the Risk Management Committee of \$240,000 for FY 2016 (FY 2015: \$240,000).
4. To re-elect the following Directors retiring in accordance with the Company's Constitution and who, being eligible, offer themselves for re-election:
 - (a) Mr Kwek Leng Kee
 - (b) Mr Po'ad bin Shaik Abu Bakar Mattar
5. To appoint the following Directors who were re-appointed at the Company's Fifty-Fifth Annual General Meeting to hold office until this Meeting pursuant to Section 153(6) of the Companies Act, Chapter 50 of Singapore, which provision has since been repealed:
 - (a) Mr Kwek Leng Beng
 - (b) Mr Cheng Shao Shiong @ Bertie Cheng
6. To re-appoint KPMG LLP as Auditors and to authorise the Directors to fix their remuneration.

B) Special Business:

To consider and, if thought fit, to pass, with or without any modifications, the following resolutions, of which Resolutions 7 and 8 will be proposed as Ordinary Resolutions and Resolution 9 will be proposed as a Special Resolution:

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

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

NOTICE OF ANNUAL GENERAL MEETING

provided that:

- (1) the aggregate number of shares to be issued pursuant to this Ordinary Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Ordinary Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument), does not exceed 50% of the total number of issued shares of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Ordinary Resolution but excluding shares which may be issued pursuant to any adjustments effected under any relevant Instrument) does not exceed 20% of the total number of issued shares 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.
8. That approval be and is hereby given to the Directors to offer and grant options in accordance with the provisions of the Hong Leong Finance Share Option Scheme 2001 (the "SOS") to eligible participants under the SOS other than Parent Group Employees and Parent Group Non-Executive Directors (each as defined under the terms of the SOS) and to allot and issue from time to time such number of shares of the Company as may be required to be issued pursuant to the exercise of the options granted under the SOS, provided that:
- (a) the aggregate number of shares to be issued pursuant to the SOS shall not exceed 15% of the total number of issued shares of the Company from time to time; and
 - (b) the aggregate number of shares to be issued during the entire operation of the SOS (subject to adjustments, if any, made under the SOS) shall not exceed such limits or (as the case may be) sub-limits as may be prescribed in the SOS.
9. That the new Constitution of the Company submitted to this Meeting and, for the purpose of identification, subscribed to by the Company Secretary be approved and adopted as the new Constitution of the Company in substitution for, and to the exclusion of, the existing Constitution.

NOTICE OF ANNUAL GENERAL MEETING

C) To Transact Any Other Ordinary Business

BY ORDER OF THE BOARD

Yeo Swee Gim, Joanne
Company Secretary
Singapore, 29 March 2016

Books Closure Date and Payment Date for Final Dividend

Subject to the approval of the shareholders at the Meeting for the payment of the Final Dividend, the Share Transfer Books and Register of Members of the Company will be closed on 6 May 2016. Duly completed registrable transfers received by the Company's Share Registrar, M & C Services Private Limited of 112 Robinson Road #05-01, Singapore 068902 up to 5.00 p.m. on 5 May 2016 will be registered to determine shareholders' entitlement to the Final Dividend.

The Final Dividend, if approved by the shareholders at the Meeting, will be paid on 23 May 2016.

Explanatory Notes:

1. With reference to item 3 of the Ordinary Business above, the Directors' Fees of \$769,603 for FY 2015 exclude the fees of \$140,000 and \$240,000 paid to the Audit Committee ("AC") and the Risk Management Committee ("RMC") respectively for FY 2015, which had been approved by shareholders at the 2015 AGM of the Company. The payment of the fees to the AC and RMC for FY 2016 shall be made on a quarterly basis in arrears at the end of each calendar quarter (except for the first quarter of 2016 which shall be made upon the approval by the shareholders at the Meeting). The structure of fees paid or payable to Directors for FY 2015 can be found on page 48 of the Annual Report.
2. Key information on Mr Kwek Leng Kee, who is seeking re-election as a Director of the Company under item 4(a) of the Ordinary Business above, is found on page 20 of the Annual Report. Mr Kwek Leng Kee is a non-executive non-independent Director of the Company. He is the cousin of Mr Kwek Leng Beng and Mr Kwek Leng Peck. Details of his share interest in the Company and its related corporations can be found on pages 61 to 64 of the Annual Report. Mr Kwek Leng Kee is also the Assistant Managing Director and a shareholder of Hong Leong Holdings Limited, a director and a shareholder of Hong Realty (Private) Limited ("HR"), Hong Leong Investment Holdings Pte. Ltd. ("HLIH") and Davos Investment Holdings Pte Ltd ("Davos"). Each of HR, HLIH and Davos holds more than 10% direct and/or deemed interest in the Company.
3. With reference to item 4(b) of the Ordinary Business above, Mr Po'ad Mattar will, upon re-election as a Director of the Company, remain as the Lead Independent Director, the chairman of the AC, Remuneration Committee ("RC") and the Hong Leong Finance Share Option Scheme 2001 Committee ("SOSC"), and a member of the Nominating Committee ("NC").

Key information on Mr Mattar is found on pages 20 and 21 of the Annual Report. Mr Mattar has no shareholdings in the Company and its related corporations, and has no relationships with the Company, its related corporations, its 10% shareholders or its Directors that could interfere, or be reasonably perceived to interfere, with the exercise of his independent business judgement with a view to the best interests of the Company.

NOTICE OF ANNUAL GENERAL MEETING

4. With reference to item 5(a) of the Ordinary Business above, Mr Kwek Leng Beng will, upon appointment as a Director of the Company, remain as Chairman of the Board, chairman of the Executive Committee ("Exco"), and a member of the NC and the RMC. Mr Kwek Leng Beng is an executive Director of the Company.

Key information on Mr Kwek Leng Beng is found on page 19 of the Annual Report. Mr Kwek Leng Beng is the cousin of Mr Kwek Leng Peck and Mr Kwek Leng Kee. Details of Mr Kwek Leng Beng's share interest in the Company and its related corporations can be found on pages 61 to 64 of the Annual Report. Mr Kwek Leng Beng is also a director and a shareholder of HR, HLIH and Kwek Holdings Pte Ltd, each of which holds more than 10% direct and/or deemed interest in the Company.

5. With reference to item 5(b) of the Ordinary Business above, Mr Bertie Cheng will, upon appointment as a Director of the Company, remain as chairman of the NC and RMC and also as a member of the Exco, RC and SOS. Mr Cheng is considered an independent Director.

Key information on Mr Cheng is found on page 20 of the Annual Report. Mr Cheng has no shareholdings in the Company and its related corporations, and has no relationships with the Company, its related corporations, its 10% shareholders or its Directors that could interfere, or be reasonably perceived to interfere, with the exercise of his independent business judgement with a view to the best interests of the Company.

6. The Ordinary Resolution set out in item 7 of the Special Business above, if passed, will empower the Directors of the Company from the date of the Meeting until the next AGM (unless such authority is revoked or varied at a general meeting) to issue shares and/or make or grant Instruments that might require new shares to be issued up to a number not exceeding 50% of the Company's total number of issued shares, of which up to 20% may be issued other than on a *pro rata* basis to shareholders. The aggregate number of shares which may be issued under this Ordinary Resolution will be calculated based on the total number of issued shares of the Company at the time this Ordinary Resolution is passed, after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options which are outstanding or subsisting at the time this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.
7. The Ordinary Resolution set out in item 8 of the Special Business above, if passed, will empower the Directors to offer and grant options in accordance with the SOS to eligible participants under the SOS other than Parent Group Employees and Parent Group Non-Executive Directors (each as defined under the terms of the SOS) and to issue from time to time such number of shares of the Company pursuant to the exercise of such options under the SOS subject to such limits or sub-limits as prescribed in the SOS. (*see note below on voting restrictions*)

Voting restrictions pursuant to Rule 859 of the Listing Manual of SGX-ST:

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

8. The Special Resolution set out in item 9 of the Special Business above is to adopt a new Constitution for the Company following the wide-ranging changes to the Companies Act, Chapter 50 of Singapore (the "Companies Act") introduced pursuant to the Companies (Amendment) Act 2014 (the "Amendment Act"). The new Constitution will consist of the memorandum and articles of association of the Company which were in force immediately before 3 January 2016, and incorporate amendments to, *inter alia*, take into account the changes to the Companies Act introduced pursuant to the Amendment Act. Please refer to the Letter to Shareholders for more details on the new Constitution.

NOTICE OF ANNUAL GENERAL MEETING

Meeting Notes:

1. (i) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.
- (ii) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

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

2. A proxy need not be a member of the Company.
3. The form of proxy must be deposited at the office of the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902, not less than 48 hours before the time appointed for holding the Meeting.
4. Completion and return of the form of proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the Meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under this form of proxy to the Meeting.
5. Pursuant to Rule 730(A)(2) of the Listing Manual of SGX-ST, all resolutions at the Meeting shall be voted on by way of a poll.
6. Polling will be done by way of an electronic poll voting system and members present in person or represented by proxy at the Meeting will be entitled to vote on a 'one-share, one-vote' basis. The detailed procedures for the electronic poll voting will be explained at the Meeting.

Personal Data Privacy:

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

- (a) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable legislation, the Listing Manual of SGX-ST and/or other regulatory guidelines (collectively, the "Purposes");
- (b) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and
- (c) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

HONG LEONG FINANCE LIMITED

Co. Reg. No. 196100003D

(Incorporated in the Republic of Singapore)

PROXY FORM

for 56th Annual General Meeting

IMPORTANT:

1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50 of Singapore) may appoint more than two proxies to attend, speak and vote at the AGM.
2. This Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by CPF/SRS investors who hold shares through their CPF/SRS funds. CPF/SRS investors should contact their respective Agent Banks/SRS operators if they have any queries regarding their appointment as proxies.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 29 March 2016.

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

of _____

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

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

* and/or

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

as *my/our *proxy/proxies to attend, speak and vote for *me/us on *my/our behalf at the 56th Annual General Meeting of the Company (the "AGM") to be held at M Hotel Singapore, Banquet Suite, Level 10, 81 Anson Road, Singapore 079908 on Thursday, 21 April 2016 at 3.00 p.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the AGM (of which Resolution Nos. 1 to 8 will be proposed as Ordinary Resolutions and Resolution No. 9 will be proposed as a Special Resolution) as indicated with an "X" in the spaces provided hereunder. If no specific direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/their discretion, as *he/they will on any other matter arising at the AGM.

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

Note: Voting will be conducted by poll.

Dated this _____ day of _____ 2016

Total No. of Shares Held

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

* Delete accordingly

NOTES: SEE OVERLEAF

Notes:

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

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

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

2. A proxy need not be a member of the Company.
3. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (maintained by the Central Depository (Pte) Limited), you should insert that number of shares. If you have shares registered in your name in the Register of Members (maintained by or on behalf of the Company), you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
4. This form of proxy must be signed by the appointor or his attorney duly authorised in writing. Where the form of proxy is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer. Where a form of proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the form of proxy, failing which the form of proxy may be treated as invalid.
5. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM in accordance with its Constitution and Section 179 of the Companies Act, Chapter 50 of Singapore.
6. Completion and return of this form of proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under this form of proxy to the AGM.
7. This form of proxy must be deposited at the office of the Company's Share Registrar, M & C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902, not less than 48 hours before the time fixed for holding the AGM.
8. The Company shall be entitled to reject the form of proxy if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the form of proxy (including any related attachment). In addition, in the case of shares entered in the Depository Register, the Company may reject any form of proxy lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.

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PROXY FORM

Affix
Postage
Stamp

HONG LEONG FINANCE LIMITED

c/o M & C Services Private Limited

112 Robinson Road, #05-01

Singapore 068902

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BRANCHES

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F: 6454 3524

Ang Mo Kio Ave 4

Blk 157 Ang Mo Kio Ave 4
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Singapore 560157
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F: 6458 8186

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288 Balestier Road
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F: 6254 8801

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#01-451
Singapore 460203
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F: 6444 3827

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F: 6564 9643

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F: 6272 7158

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F: 6748 2422

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#B2-41 City Square Mall
Singapore 208539
T: 6509 8200
F: 6509 8100

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T: 6778 6271
F: 6775 2751

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F: 6468 3273

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F: 6564 3787

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F: 6346 2035

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F: 6479 0218

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F: 6489 0503

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F: 6285 2195

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F: 6784 9057

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F: 6468 4181

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T: 6453 3266
F: 6454 1913

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F: 6368 1448

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F: 6753 5001

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Produced By
Group Corporate Affairs, Hong Leong Group Singapore



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