



HONG LEONG FINANCE

Full Year Financial Statements And Related Announcement

Full year financial statements on consolidated results for the year ended 31 December 2019. These figures have been audited in accordance with Singapore Standards on Auditing.

1(a). Audited Group Statement of Comprehensive Income for the Year Ended 31 December 2019

	Ref	2019	2018	+ / (-)
		\$'000	\$'000	%
Profit and loss account:				
Interest on loans		292,664	259,537	12.8
Hiring charges		57,200	53,247	7.4
Other interest income		46,492	37,158	25.1
Interest income/hiring charges		396,356	349,942	13.3
Less: Interest expense	1(b)(i)	194,652	137,823	41.2
Net interest income/hiring charges		201,704	212,119	(4.9)
Fee and commission income		13,714	15,337	(10.6)
Other operating income	1(b)(iv)	324	614	(47.2)
Income before operating expenses		215,742	228,070	(5.4)
Less: Staff costs		67,675	66,933	1.1
Depreciation of property, plant and equipment	1(b)(ii)	8,071	1,955	312.8
Other operating expenses	1(b)(iii)	14,460	19,321	(25.2)
Total operating expenses		90,206	88,209	2.3
Profit from operations before allowances		125,536	139,861	(10.2)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and other financial assets		(1,578)	2,276	(169.3)
Profit before tax		123,958	142,137	(12.8)
Less: Income tax expense		20,873	23,794	(12.3)
Profit for the year/Comprehensive income attributable to owners of the Company		103,085	118,343	(12.9)
Earnings per share (cents)				
- Basic		23.09	26.56	
- Diluted		23.05	26.52	

1(b). Other information in relation to the Group Statement of Comprehensive Income

As more fully described under “Accounting Policies” in Note 9, the Group adopted SFRS(I) 16 Leases effective 1 January 2019 using the modified retrospective approach. On adoption, right-of-use (“ROU”) assets and lease liabilities were recognised on the balance sheet of the Group. Depreciation charge on “ROU” assets and interest expense on lease liabilities were recognised, replacing the rental expense in the Statement of Comprehensive Income.

For the year ended 31 December:

	2019	2018
	\$'mil	\$'mil
(i) Interest expense on lease liabilities	0.8	-
(ii) Depreciation on “ROU” assets	6.4	-
(iii) Rental expenses (included in “Other operating expenses”)	-	6.9
	7.2	6.9

(iv) Other operating income includes gain on disposal of plant and equipment amounting to \$62,000 (2018: \$296,000) and gain on liquidation of investments (long-term) amounting to \$Nil (2018: \$106,000).

Profit after tax	2019	2018	+ / (-)
	\$'000	\$'000	%
- first half year	52,524	55,416	(5.2)
- second half year	50,561	62,927	(19.7)

The decrease in the profit after tax for the second half of 2019 when compared to the same period in 2018 was mainly attributed to the decline in net interest income, and additional net allowances for doubtful debts of \$2,315,000 compared to the net recovery of doubtful debts of \$3,897,000 in the same period last year.

The Group operates in only one segment. Its activities relate to financing business augmented by secondary non-lending activities. All activities are carried out in the Republic of Singapore.

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Number of shares in issue	447,526,473	445,818,433	447,526,473	445,818,433
	\$'000	\$'000	\$'000	\$'000
Share capital	889,051	884,440	889,051	884,440
Reserves	749,914	726,600	749,914	726,600
Accumulated profits	275,278	263,311	271,899	260,020
Equity attributable to owners of the Company	1,914,243	1,874,351	1,910,864	1,871,060
Liabilities				
Deposits and balances of customers	12,307,049	11,337,820	12,311,282	11,341,986
Trade and other payables	215,866	129,822	214,549	128,507
Current tax payable	21,828	37,112	21,823	37,108
Deferred tax liabilities	1,794	2,150	1,794	2,150
Total liabilities	12,546,537	11,506,904	12,549,448	11,509,751
Total equity and liabilities	14,460,780	13,381,255	14,460,312	13,380,811
Assets				
Cash at banks and in hand	947,430	1,442,327	946,428	1,441,349
Statutory deposit with the Monetary Authority of Singapore ("MAS")	338,393	297,645	338,393	297,645
Singapore Government debt securities and MAS Bills	1,531,763	1,322,326	1,531,763	1,322,326
Hire purchase receivables	1,764,978	1,680,916	1,764,978	1,680,916
Loans, advances and factoring receivables	9,808,646	8,615,791	9,808,646	8,615,791
	11,573,624	10,296,707	11,573,624	10,296,707
Allowances for doubtful debts	(19,322)	(19,044)	(19,322)	(19,044)
	11,554,302	10,277,663	11,554,302	10,277,663
Other receivables, deposits and prepayments	22,160	21,218	22,159	21,217
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	66,732	20,076	66,732	20,076
Total assets	14,460,780	13,381,255	14,460,312	13,380,811
Acceptances, guarantees and other obligations on behalf of customers	3,804	5,526	3,804	5,526

2(b). Other information in relation to the Summarised Statements of Financial Position

For the Group and the Company,

- (i) Trade and other payables includes lease liabilities amounting to \$44,835,000 (31 December 2018: \$Nil); and
- (ii) Property, plant and equipment includes right-of-use ("ROU") assets with a net book value amounting to \$43,592,000 (31 December 2018: \$Nil).

2(c). Net Asset Value

Net asset value per share (\$)	4.28	4.20	4.27	4.20
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- 2(d). There are no outstanding borrowings and debt securities issuance as at 31 December 2019 (31 December 2018: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2019	2018
	\$'000	\$'000
Operating activities		
Profit for the year	103,085	118,343
Adjustments for:		
Impact of accrual of interest income	200	(466)
Impact of accrual of interest expense	45,495	13,005
Allowances for doubtful debts	2,811	7,373
Interest expense on lease liabilities	776	-
Depreciation of property, plant and equipment	8,071	1,955
Gain on disposal of property, plant and equipment	(62)	(296)
Gain on liquidation of investments (long-term)	-	(106)
Value of employee services received for issue of share options	277	286
Income tax expense	20,873	23,794
	181,526	163,888
Changes in working capital:		
Loans, advances and receivables	(1,279,450)	(318,501)
Other receivables, deposits and prepayments	(1,142)	478
Singapore Government debt securities and MAS Bills	(209,437)	(73,476)
Deposits and balances of customers	969,229	678,970
Trade and other payables	(4,286)	(6,879)
Cash generated from/(used in) operations	(343,560)	444,480
Income taxes paid	(36,379)	(17,643)
Cash flows from/(used in) operating activities	(379,939)	426,837
Investing activities		
Purchase of property, plant and equipment	(4,775)	(742)
Proceeds from disposal of property, plant and equipment	71	331
Proceeds from liquidation of investments (long-term)	-	106
Cash flows used in investing activities	(4,704)	(305)
Financing activities		
Payment for lease liabilities	(6,689)	-
Proceeds from exercise of share options	4,137	1,490
Dividends paid	(66,954)	(62,399)
Cash flows used in financing activities	(69,506)	(60,909)
Net increase/(decrease) in cash and cash equivalents	(454,149)	365,623
Cash and cash equivalents at beginning of year	1,739,972	1,374,349
Cash and cash equivalents at end of year	1,285,823	1,739,972

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

	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Cash at banks and in hand	947,430	1,442,327
Statutory deposit with the Monetary Authority of Singapore ("MAS")	338,393	297,645
Cash and cash equivalents	1,285,823	1,739,972

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities and MAS Bills amounted to \$1,531,763,000 (31 December 2018: \$1,322,326,000) for the Group.

4. Statements of Changes in Equity

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Group							
At 1 January 2018	882,829	673,408	2,307	5,554	16,932	235,601	1,816,631
Issue of shares under share option scheme	1,490						1,490
Value of employee services received for issue of share options				286			286
Value of employee services transferred for share options exercised or lapsed	121			(1,085)		964	-
Final dividend of 9 cents per share (tax exempt one-tier) paid in respect of year 2017						(40,110)	(40,110)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					(388)	388	-
Comprehensive income for the year						118,343	118,343
Transfer to Statutory reserve		29,586				(29,586)	-
At 31 December 2018	884,440	702,994	2,307	4,755	16,544	263,311	1,874,351
At 1 January 2019, as previously stated	884,440	702,994	2,307	4,755	16,544	263,311	1,874,351
Effect of initial adoption of SFRS(I) 16 (net of tax)						(653)	(653)
At 1 January 2019, as restated	884,440	702,994	2,307	4,755	16,544	262,658	1,873,698
Issue of shares under share option scheme	4,137						4,137
Value of employee services received for issue of share options				277			277
Value of employee services transferred for share options exercised or lapsed	474			(1,753)		1,279	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(982)	982	-
Comprehensive income for the year						103,085	103,085
Transfer to Statutory reserve		25,772				(25,772)	-
At 31 December 2019	889,051	728,766	2,307	3,279	15,562	275,278	1,914,243

4. Statements of Changes in Equity (continued)

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Company							
At 1 January 2018	882,829	673,408	2,307	5,554	16,932	232,387	1,813,417
Issue of shares under share option scheme	1,490						1,490
Value of employee services received for issue of share options				286			286
Value of employee services transferred for share options exercised or lapsed	121			(1,085)		964	-
Final dividend of 9 cents per share (tax exempt one-tier) paid in respect of year 2017						(40,110)	(40,110)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					(388)	388	-
Comprehensive income for the year						118,266	118,266
Transfer to Statutory reserve		29,586				(29,586)	-
At 31 December 2018	884,440	702,994	2,307	4,755	16,544	260,020	1,871,060
At 1 January 2019, as previously stated	884,440	702,994	2,307	4,755	16,544	260,020	1,871,060
Effect of initial adoption of SFRS(I) 16 (net of tax)						(653)	(653)
At 1 January 2019, as restated	884,440	702,994	2,307	4,755	16,544	259,367	1,870,407
Issue of shares under share option scheme	4,137						4,137
Value of employee services received for issue of share options				277			277
Value of employee services transferred for share options exercised or lapsed	474			(1,753)		1,279	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(982)	982	-
Comprehensive income for the year						102,997	102,997
Transfer to Statutory reserve		25,772				(25,772)	-
At 31 December 2019	889,051	728,766	2,307	3,279	15,562	271,899	1,910,864

5. Review of the Performance of the Group

The Group reported profit from operations before allowances of \$125.5 million for the year ended 31 December 2019, declined by 10.2% on the back of a strong performance of \$139.9 million in the previous year. The net attributable profit was \$103.1 million for the year ended 31 December 2019, 12.9% dip from \$118.3 million, after a net recovery of doubtful debts of \$2.2 million, a year ago.

Interest income rose by 13.3% to \$396 million arising from healthy loan growth and improved loans yield of 16 basis points. Interest expense increased to \$194.7 million driven by competitive deposit rates on enlarged deposit base to support the loan growth. Net interest margin contracted by 17 basis points as the higher cost of fund outweighed the improved loan spread.

Fee and commission income declined by 10.6% to \$13.7 million mainly attributed to lower fee income earned from lending activities as compared to the previous year. The lower other operating income was due mainly to the gain on disposal of plant and equipment in the previous year.

Total operating expenses rose by 2.3% to \$90.2 million for the year ended 31 December 2019, mainly stemming from upgrade in system infrastructure and technology to support new business initiatives and to enhance compliance controls.

Net allowances for loans and other financial assets were \$1.6 million, against the net loan allowances write-back of \$2.2 million in the previous year due to bad debts recovered. The Group continues to maintain adequate loss allowances in respect of its loan portfolio and other financial assets.

Net loan assets totalling \$11,554 million as at 31 December 2019, grew by 12.4% or \$1,276 million over the previous year's base of \$10,278 million as at 31 December 2018.

In tandem with the growth in loan balances, deposits and balances of customers amounted to \$12,307 million as at 31 December 2019, representing an increase of 8.5% or \$969 million over the previous year's base of \$11,338 million as at 31 December 2018. Cash and cash equivalents including statutory deposit with the Monetary Authority of Singapore ("MAS") together with Singapore Government debt securities and MAS Bills held as liquid assets amounted to \$2,818 million as at 31 December 2019. The Group continues to maintain sound liquidity positions.

Group shareholders' funds as at 31 December 2019 totalled \$1,914 million (31 December 2018: \$1,874 million) with higher net asset value at \$4.28 per share (31 December 2018: \$4.20 per share).

There has been no forecast or prospect statement previously disclosed to shareholders in respect of the year ended 31 December 2019.

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

The Ministry of Trade and Industry reported that the Singapore economy grew 1.0% on a year-on-year basis in the last quarter of 2019, extending the 0.7% growth seen in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded at a slower pace of 0.6%, compared to the 2.2% growth seen in the third quarter. Overall, the Singapore economy grew by 0.7% in 2019.

In the fourth quarter of 2019, the manufacturing sector contracted by 2.3% on a year-on-year basis, further extending the 0.7% decline seen in the previous quarter. The contraction was due to output decline in the electronics, chemicals, transport engineering and general manufacturing sectors, which was mitigated by output expansion in the precision engineering and biomedical manufacturing clusters. On a quarter-on-quarter seasonally-adjusted annualised basis, the manufacturing sector shrank by 5.9%, reversing the 4.8% growth seen in the third quarter.

On the other hand, the construction sector was supported by public sector construction activities and grew by 4.3% on a year-on-year basis, higher than the 3.1% expansion seen in the third quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew 5.3% after a 3.5% growth in the preceding quarter.

The services producing industries also expanded in the fourth quarter, growing 1.5% on a year-on-year basis and faster than that 0.8% growth seen in the previous quarter. Growth was supported by the finance, insurance and business sectors.

The challenge for the Singapore economy remains the fragility of the external environment and the prospect of global economic growth amid uncertainties pertaining to US-China tensions beyond trade, China's slowdown, Brexit and rising political tensions globally. The emergence of the novel coronavirus outbreak has ramped up pandemic fears and risk aversion that could continue to weigh on business and consumer confidence. The rise of risk events are likely to cause further downward revision in growth projections. This has raised the expectation of a 4th Fed rate cut in the current cycle. Short-term rates are expected to soften as a result of impending growth slowdown.

Amidst these strong external headwinds, the Group will stay vigilant in our risk management in anticipation of a modest loan growth and volatile interest margins. We will continue to deepen our customers' relationship and collaboration with our business partners to better serve our customers' needs. With the imminent arrival of digital banks seeking to serve the SME and personal finance markets, we will further explore strategic partnership with suitable Fintech to ramp up our services and enhance customers' experience.

7. Dividends

A Final Dividend of 10 cents per share (tax exempt one-tier) is recommended by the directors for approval by shareholders in respect of the year ended 31 December 2019. Subject to shareholders' approval at the Annual General Meeting to be held on 29 April 2020, the dividend will be payable on 26 May 2020.

Latest Year

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	10 cents per share
	Total Dividend	\$44,753,000*
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 11 September 2019)
	Dividend Type	Cash
	Dividend Rate	5 cents per share
	Total Dividend	\$22,324,000
	Tax Rate	Tax exempt one-tier

Previous Year

(i)	Name of Dividend	Final (Paid on 22 May 2019)
	Dividend Type	Cash
	Dividend Rate	10 cents per share
	Total Dividend	\$44,630,000
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 12 September 2018)
	Dividend Type	Cash
	Dividend Rate	5 cents per share
	Total Dividend	\$22,289,000
	Tax Rate	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at 31 December 2019. This amount is subject to change arising from the issue of shares upon exercise of options, if any, under the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme") between 31 December 2019 and the last day for exercise of options to determine shareholders' entitlement to the dividend.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) the Company issued the following 26,500 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.28	4,000
\$2.45	2,000
\$2.56	1,000
\$2.34	3,000
\$2.23	5,500
\$2.58	11,000
Total	<u>26,500</u>

- (ii) options to 78,000 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (iii) options to 219,000 shares under the Share Option Scheme to subscribe for shares granted on 23 September 2019 were not accepted.

As at the end of the year, unissued shares of the Company under option amounted to 15,075,650 shares (31 December 2018: 16,187,455 shares).

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly, there were no treasury shares held as at 31 December 2019 and 31 December 2018. There were also no shares held as subsidiary holdings as at 31 December 2019 and 31 December 2018.

9. Accounting Policies

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

As previously announced, the adoption of the new/revised/amendments to SFRS(I)s which came into effect from 1 January 2019 does not have a material impact on the financial statements of the Group and the Company for the year ended 31 December 2019, except for SFRS(I) 16 Leases on first time adoption impact.

SFRS(I) 16 Leases introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a ROU asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group has applied SFRS(I) 16 initially on 1 January 2019 using the modified retrospective approach. The cumulative effect of adopting SFRS(I) 16 was recognised as an adjustment to the opening balance of accumulated profits at 1 January 2019, with no restatement of comparative information. At initial adoption on 1 January 2019, the Group accounted for \$39.9 million of ROU assets, \$40.7 million of lease liabilities, an increase of \$0.1 million deferred tax asset and a decrease in accumulated profits of \$0.7 million.

Except as described above, the accounting policies and methods of computation adopted in the audited financial statements for the year ended 31 December 2019 are consistent with those applied in the audited financial statements for the year ended 31 December 2018.

10. Closure of Books

Notice is hereby given that, subject to shareholders' approval of the payment of a final dividend of 10 cents per share in respect of the year ended 31 December 2019 at the Annual General Meeting to be held on 29 April 2020, the Share Transfer Books and Register of Members of the Company will be closed from 5.00 p.m. on 11 May 2020 up to (and including) 12 May 2020. Duly completed registrable transfers received by the Company's Registrar, M & C Services Private Limited of 112 Robinson Road #05-01, Singapore 068902 up to 5.00 p.m. on 11 May 2020 will be registered to determine shareholders' entitlement to the dividend. In respect of shares in the securities accounts with The Central Depository (Pte) Limited ("CDP"), the said dividend will be paid by the Company to CDP which will distribute the said dividend to holders of the securities accounts.

11. Shareholders' Mandate for Interested Person Transactions

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

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

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Kwek Leng Beng	79	Cousin of Mr Kwek Leng Peck and Mr Kwek Leng Kee; and uncle of Mr Kevin Hangchi.	Chairman/Managing Director Full responsibilities as Chief Executive Officer. Managing Director of the Company since March 1979. Chairman of the Company since 1984.	-

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

Dated this 27th day of February 2020

Independent auditors' report

Members of the Company Hong Leong Finance Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 72.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for opinion

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

Key audit matters

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

Impairment of loans, advances and receivables

(Refer to Note 11 in the financial statements)

The key audit matter

The Group's loans, advances and receivables to customers represent 80% of its total assets.

SFRS(I) 9 "Financial Instruments" requires the Group to determine the probability weighted estimate of the expected credit loss ("ECL") of loans, advances and receivables to customers.

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

The ECL allowances for credit-impaired exposures is highly subjective due to the judgement applied by management in estimating the future cash flows, including the realisable value of collaterals, if relevant, and consequently the ECL allowances required.

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

How the matter was addressed in our audit

We tested the design, implementation and operating effectiveness of the key controls in place over the credit approval and review process. We performed sample checks of credit reviews on loans and advances to critically assess the appropriateness of the credit grading and any objective evidence of impairment.

In respect of non credit-impaired exposures, we assessed the appropriateness of the model methodology and parameters for compliance with SFRS(I) 9 requirements. We tested the accuracy and integrity of the inputs used to compute the ECL allowances. For a sample of non credit-impaired exposures, we re-calculated the ECL allowance using the modelled attributes to test the mathematical accuracy of the calculations produced by the ECL model.

In respect of credit-impaired exposures, we assessed the controls over the determination of ECL allowances for credit-impaired exposures. For a sample of credit-impaired exposures, we critically assessed the expected recoveries from realisable values of collaterals and other possible sources of repayment. This includes checking the valuation of collaterals, where possible, to externally derived evidence, such as real estate valuations.

We found that the methodology and management's assumptions used in the ECL model were appropriate and the ECL allowances computation was consistent with the ECL model.

Other information

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

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

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

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

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

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

Responsibilities of management and directors for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Ian Hong Cho Hor.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

27 February 2020