HONG LEONG FINANCIAL GROUP BERHAD
(Registration No. 196801000439 (8024-W))

Summary of key matters discussed at the **Fully Virtual 51st Annual General Meeting** ("AGM") of **Hong Leong Financial Group Berhad** ("the Company" or "HLFG") held at the Auditorium, Ground Floor, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Friday, 30 October 2020 at 2.30 p.m.

---

1. HLA Holdings Sdn Bhd ("HLAH"), the insurance holding company of HLFG, recorded a 17.4% decline in net profit to RM228 million in financial year ("FY") 2020 (FY2019: RM275.4 million) due to a 36% decrease in Hong Leong Assurance Berhad's ("HLA") net profit to RM141 million (FY2019: RM221 million). The insurance business is the second largest net profit contributor for HLFG after the banking business.

   What are the factors which will support the performance of both life and general insurance businesses in view of the current low interest rate environment and the slowdown in economic activities?

   Response:

   For FY2020, the insurance group contributed about 7.8% of the Group's Profit Before Tax ("PBT"), whilst the commercial banking group contributed 90.6%.

   Despite a low interest rate environment and slowdown in economic activities affecting both the life and general insurance businesses, Management believes the demand for insurance products and the business model remain robust.

   In the life business, top line/ premiums growth has not been materially affected. HLA's FY2020 gross premium grew by 1% year-on-year ("YoY") despite Covid-19 Movement Control Orders ("MCO") and ensuing market volatilities. Moreover, Management has seen a recovery in topline growth when strict lockdown measures were relaxed. Management believes that the competitive and attractive life products accompanied by good customer services with operating digitalization would support the recovery and sustainable growth of the business.

   As for the general businesses, whilst they have been affected by the economic slowdown, Management also believes that the core demand for general insurance products remain. Although some segments like travel insurance were affected, this has been balanced by lower claims in the motor insurance class due to reduction at the associated company of the Group, MSIG Insurance (Malaysia) Bhd, and by the commercial lines of business in the overseas niche based general business.

2. The number of agents for HLA has declined from its peak of 11,886 in FY2016 to 7,791 in FY2020. Meanwhile, the new business regular premium contributed by agents contracted 1.9% to RM380 million in FY2020 with productivity growth per agent slowed to 4% in FY2020, as compared to a 26% growth in FY2019.

   Why is there a significant slowdown in productivity growth per agent in FY2020? What are the benchmarks applied by HLA to measure the productivity and effectiveness of its agency force?

Response:

The cited slowdown in HLA's average agency New Business Regular Premiums ("NBRP") productivity growth from 26% in FY2019 to 4% in FY2020 was due to 2 main reasons:

(i) A more aggressive enforcement of non-regrettable attrition in the agency sales force in FY2019 led to the higher productivity gains in that year while FY2020 was more of a normalized productivity growth.
(ii) Covid-19 and MCO impact for 5 out of the 12 months in FY2020 reduced customer demand and opportunity for agents to meet new customers had some impact on productivity of agents.

The typical benchmarks applied by HLA to measure the productivity and effectiveness of its agency force were:

(a) Number of active agents;
(b) Number of cases per active agent; and
(c) Average case size.

3. How did the social distancing and travel restriction measures affect HLAH's life and general insurance businesses in terms of securing new business premium and customer servicing? How effective is the remote interaction in maintaining engagement with existing and new customers as compared to physical interaction?

Response:

Social distancing and travel restriction measures did affect HLAH's life and general insurance businesses in terms of securing new business premium and customer servicing as it was more difficult to meet customers and close sales. Nonetheless, HLA's FY2020 gross premium grew by 1% YoY. As for the general business, HLAH was affected more on the travel insurance segment but the shortfall was made up by other lines of business.

Whilst remote interaction in maintaining engagement with existing and new customers is not as effective as compared to physical interaction, HLA has however used the lockdown period to accelerate the use of digital tools to reach out to customers during various MCOs. Examples were enhancements to the online policy submission processes for the agency force and encouraging the greater use of HLA 360 online portal for the customers.

4. Based on Bank Negara Malaysia's ("BNM") policy document for investment-linked business that came into effect on 1 July 2019, insurers are required to perform sustainability test for investment-linked policy if the policy certificate issued is expected to sustain its coverage until the end of its contractual term. About 56% of HLA's RM2.83 billion gross premium in FY2020 was contributed by investment-linked products (HLFG's Analyst Briefing Presentations 2020).

What is the percentage of investment-linked policies (of total policies issued) that has been adjusted in terms of premium, policy duration and sum insured after the conclusion of sustainability test?

Response:

HLA had sent around 26% of its investment-linked policy base a notice with a recommended increase in premium and the policyholders have been advised to reach out to their HLA servicing representative to explore the possible options to improve the sustainability of their policy. To-date, not many policyholders have come back and made changes to their policy.

5. The Minimum Allocation Rate ("MAR") for investment-linked business will increase from 60% to 80% in the fourth to sixth year. How well is HLA prepared for this change as the increase in MAR will limit the amount that an insurer could pay for other expenses and agents commission?

   Response:

   Since its implementation on 1 July 2019, HLA has factored in the MAR in its products, including the feature of having progressively higher MAR rates in later years of the policy.

6. As stated on page 24 of the Annual Report 2020, HLA's net profit decreased by 36.1% to RM141 million in FY2020 mainly due to lower interest rates affecting actuarial reserving and new regulatory obligations such as the MAR.

   Could Management elaborate how each of these factors has affected the profit of HLA, the quantum of the impact, and whether Management expects the impact to be one-off or on-going?

   Response:

   - The new regulatory obligations on MAR, which came into effect on 1 July 2019, had adversely affected the profit of HLA by approximately RM40 million.

   - The reduction in overnight policy rate ("OPR") had an adverse impact to HLA's profitability but this was offset by revaluation gains from bonds. The net interest impact was RM6 million.

   - The MAR would have an on-going impact on HLA.

7. As stated on page 159 of the Annual Report 2020, HLA reported a 42% drop in PBT to RM166.977 million for FY2020. What were the reasons for the big drop in PBT despite the increase in Net Assets to RM1.881 billion in FY2020? Will HLA improve its financial performance in FY2021?

   Response:

   - Key factors that had contributed to the decrease in HLA's profit were:

     (i) The first year impact from introduction of the MAR of RM40 million;
     (ii) Volatility in equity market that had impacted HLA's profit by RM44 million;
     (iii) Fair value loss on investment properties of RM16 million; and
     (iv) Adverse impact on lower OPR, offset by gains from revaluation of bonds, with net interest impact of RM6 million.

- Management is confident that the financial performance of HLA would improve going forward.

8. Hong Leong Capital Berhad ("HLCB"), 83.22% owned subsidiary of the Company, has not been meeting with the public shareholding spread requirement under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). Has there been further extension of time granted by Bursa Securities to meet the shareholding spread and if the spread is not met by the deadline, will HLCB be delisted from Bursa Securities?

   Response:

   There was no deadline set by Bursa Securities to meet the public shareholding spread requirement. Management has been in active discussion with HLCB on possible options to overcome the issue of non-compliance with the public shareholding spread. There has been no discussion with Bursa Securities on the delisting of HLCB.

9. At the Company level, a total of RM1.6 billion subordinated notes was issued as part of its multi-currency perpetual notes programme. What was the rationale by the Company in raising funds via issuance of subordinated notes. With the recent sharp reduction in interest rate due to OPR cuts by BNM, is HLFG considering other means of financing to take advantage of the current low interest rate environment?

   Response:

   The issuance of RM1.6 billion Tier 2 AT1 capital securities was a back-to-back investment which is similar to the amount of securities issued by Hong Leong Bank Berhad ("HLB"). In terms of capital planning, the issuance of the back-to-back capital securities, a flow through from HLB, is an efficient way for the Group. HLB issued capital securities to HLFG as a financial holding company and HLFG issued to the market. This method of issuance is not new in the market as other financial groups have done the same method of issuance. Management is comfortable with the issuance of subordinated notes as it does not impair its regulatory capital adequacy ratio position.

10. A shareholder enquired whether the Company would be giving the same dividend rate as FY2020 for next year due to challenging market.

    Response:

    Management was not at liberty to predict the future dividend. However, Management expects the profit level to improve in the next financial year with the anticipated improvement in economic situation.

11. A shareholder enquired on the cost of convening the virtual AGM and whether the Board would consider giving food voucher as a reward to shareholders who took interest to participate in the virtual meeting.

    Response:

    The costs for holding the virtual AGM are slightly more than the costs for holding a physical AGM. Giving away vouchers/ gifts is not the Company's normal practice. Management believes most of the shareholders prefer to receive their dividends in cash, and hence Management did not consider rewards such as vouchers/ gifts. The distribution of cash returns (dividend payment to shareholders) is a better way to reward all shareholders.