

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

Summary of key matters discussed at the **50th 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 Thursday, 31 October 2019 at 2.30 p.m.

1. HLA Holdings Sdn Bhd (“HLAH”) is the insurance holding company of the Group. For financial year (“FY”) 2019, HLAH recorded a net profit of RM275 million, lower by 3.3% year-on-year (“yoy”). Whilst Hong Leong Assurance Berhad (“HLA”) (70% equity interest) registered a higher 5% yoy net profit, the decrease in HLAH’s results was due to a lower contribution from Hong Leong MSIG Takaful Berhad (“HLMT”) (65% equity interest) with pretax profit decreasing 36% yoy to RM10.4 million. HLAH’s full share of MSIG Insurance (Malaysia) Berhad’s (“MSIG”) (30% equity interest) pretax profit also decreased by 10.3% yoy to RM57 million in FY2019 mainly due to higher net claims and lower underwriting margins for the year arising from the follow on effects of fire and motor detariffication.

What measures have you taken to improve the performance of HLMT and MSIG in FY2020?

Response:

- HLMT’s pretax profit in FY2019 was affected by one-off costs incurred in the disposal and cessation of the general Takaful business (approximately RM3.5 million) and additional one-off market research and recurring expenses in HLMT’s commitment to grow its Family Takaful business involving additional IT expenses, manpower, marketing and developmental costs.
- In addition, HLMT has been investing significantly to grow its business since FY2019. These investments will continue in FY2020, focusing in:
 - growing and strengthening its distribution channels, in particular, agency.
 - digitalisation projects to improve operational efficiency and customer centricity.
 - expanding the workforce to support the business expansion initiatives.
 - systems and tools to manage IT and compliance risks.

These investments are expected to improve the topline and profitability of HLMT going forward.

- MSIG Insurance (Malaysia) Bhd is an associate company of HLAH where HLAH owns 30% equity interest. Their results have been affected by the fire and motor detariffication and Management understand that they have been more selective in the business underwritten given the revision to the risk/ rewards parameters. Please refer to their Annual Report for further information on their business performance and strategy.
2. HLFG has two overseas general insurance companies in the Group, namely Hong Leong Insurance (Asia) Limited (“HLIA”) in Hong Kong and HL Assurance Pte. Ltd. (“HLAS”) in Singapore. In FY2019, HLAS recorded a loss of RM15.9 million due to high commercial lines reserving costs which are expected to reverse out subsequently upon normalization with the actual claims experience.

What is the status of the claims and the actual claims experience?

Response:

- The commercial line reserving of HLAS was projected by the external appointed actuary (Ernst & Young). Since HLAS has only started this business line in the past 2 years, its claim ratio of 44% cannot be used to calculate reserving requirements as the period is deemed to be too short. Hence the industry claim ratio of 60% was used. If after 12 to 24 months, HLAS can hold its claim ratio then the amounts reserved can be released.

3. With the huge demand in the Islamic bank stocks, would the Company consider spinning off Hong Leong Islamic Bank Berhad (“HLISB”) in a separate listing?

Response:

- There are presently no plans to list HLISB. Management is focused on growing the businesses of HLISB as Management believes that HLISB still has plenty of room to grow.

4. What are the factors which contributed to the lower net profit recorded by HLCB Group for the financial year ended 30 June 2019?

Response:

- Lower Bursa trading volumes and subdued corporate market activities had affected the investment banking and stockbroking businesses of HLCB Group, which resulted in a lower net profit for the financial year ended 30 June 2019. The lower net profit of HLCB Group was however mitigated by the performance of its asset management business, which reported a strong growth in profits, up 80% yoy.

5. What are the actions taken by HLFGB to address the non-compliance of HLCB with the public shareholding spread requirement of Bursa Malaysia Securities Berhad (“Bursa”) so as to uplift the suspension in trading of HLCB shares imposed by Bursa?

Response:

- Management is looking at various options to address the non-compliance with the 25% public shareholding spread requirement by HLCB, and will make the necessary announcement to Bursa in due course.

6. Would an Overnight Policy Rate (“OPR”) cut impact the businesses of HLB?

Response:

- Any OPR cut will have an immediate impact on the net interest margin (“NIM”) of HLB as HLB will have to immediately reprice its floating rate financing products but can only reprice its deposits products, in particular fixed deposits, when they

mature. Although a lower OPR may facilitate higher sales of financing products over time; historically there is a net negative impact on the banks' profit & loss statements in the short term.

7. How much Directors' fees are paid to each Director? Is there any increase in the Directors' fees as compared to the previous financial year?

Response:

- Directors' fees of RM110,000 each are paid to the Independent Non-Executive Director ("INED") of the Company for his/her full year of service. In addition, meeting allowance of RM1,000 per meeting will also be paid to INED for each Board meeting attended.
- There is no change in the quantum of Directors' fees and meeting allowance paid to INED as compared to the previous financial year.

- 8(a). How long has PricewaterhouseCoopers PLT ("PwC") served as the external auditors of the Company and whether there is any increase in audit fees in recent years?

Response:

- PwC has been the external auditors of the Company for about 16 years. The Company had initiated a Request for Proposal ("RFP") exercise a year ago to invite selected audit firms, including PwC, to submit their proposals for the Group's external audit services. Having evaluated the proposals received, the Company has awarded the external audit services to PwC.
- The audit fees for the financial year ended 30 June 2019 are lower as compared to the previous year.

- 8(b). How many audit firms were invited to submit their proposals and who are they?

Response:

- Three audit firms, including PwC, were invited to submit their proposals to the Company for the RFP exercise. Due to confidentiality and sensitivity of the matter, Management did not disclose the name of the other two audit firms that submitted their proposals.

- 8(c). What are the evaluation criteria set for the RFP exercise on the external audit services of the Company?

- The RFP criteria include, amongst others, the audit approach, audit quality and experience, independence and proposed audit fee. As part of the RFP process, HLF Group Finance together with the senior Finance teams of all operating subsidiaries have evaluated the proposals received from the selected audit firms and presented their recommendations of the selected audit firm for the Group Tender Review Committee's review and endorsement, prior to tabling it to the

Board Audit & Risk Management Committee/ Board Audit Committee of the respective operating subsidiaries for consideration and approval.

9. What is the purpose of seeking shareholders' mandate for the authority to Directors to allot shares? Is there any party identified for the shares of the Company to be allotted?

Response:

- The proposed resolution on Authority to Directors to Allot Shares, if passed, will allow the Directors to issue ordinary shares of the Company from time to time up to 10% of the total number of issued shares of the Company for the time being. This will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise. There is no party identified for the shares of the Company to be allotted thus far.

10. In relation to the ordinary resolution on the proposed renewal of shareholders' mandate for recurrent related party transactions ("RRPTs") of a revenue or trading nature ("Proposed Shareholders' Mandate"), what are the major RRPTs included in the Proposed Shareholders' Mandate?

Response:

- The shareholders' mandate is sought for the Company and its unlisted subsidiaries (excluding HLB and HLCB and their respective subsidiaries) to, inter alia, enter into the following RRPTs:
 - i) Rental of properties;
 - ii) Provision of corporate office support services; and
 - iii) Receipt of group management and/or support services including information technology services.

11. Whether the business of HLIA is impacted by the anti-government protests in Hong Kong, which has been on-going since March 2019?

Response:

- The commercial line business of HLIA, in particular the claim ratio, is not impacted by the on-going anti-government protests in Hong Kong as HLIA does not provide insurance coverage to the properties that are affected by the protestors. However, the on-going anti-government protests have resulted in some impact to the travel insurance business of HLIA due to higher claim amounts on flight delays and fewer tourists travelling to Hong Kong.
- The market volatility arising from the political instability in Hong Kong had however impacted HLIA's investment income and HLIA had recorded some mark-to-market losses in its investment portfolio for FY2019. However, the fundamentals of HLIA's investments remain strong and Management believes that the overall value of the investment portfolio would recover over time.