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

Summary of key matters discussed at the **Virtual 52nd 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, 28 October 2021 at 10.00 a.m.

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1. The Company received a letter from the Minority Shareholder Watchdog Group ("**MSWG**"), a shareholder, enquiring on the following matters. The Company's responses as read out by the Chairman of the Meeting are set out below:

1.1 Hong Leong Assurance Berhad's ("**HLA**") reported net profit of RM259 million in financial year ("**FY**") 2021, was an 83.4% increase on a year-on-year ("**y-o-y**") basis. The better performance was mainly contributed by higher insurance surplus, higher gain from equity investment portfolio and lower actuarial liabilities due to higher interest rates offset by fair value losses on bonds.

What were the catalysts that contributed to the higher gain from the equity investment portfolio? Overall, how did HLA's investment portfolio perform in FY2021 in terms of growth percentage and level of income recorded?

<u>Response:</u>

HLFG Group's investment philosophy is more grounded on ensuring long term returns for policy holders and portfolio mix is occasionally tweaked according to the maturity of some of the bond holdings and market conditions. This had resulted in the higher investment gains achieved this year, of RM1,019 million for FY2021 compared with RM977 million for FY2020 or 4.3%.

1.2 The total premium from bancassurance channel grew strongly by 25.5% y-o-y while banca new business regular premium ("**NBRP**") increased 39.2% y-o-y.

What is the contribution of bancassurance business to HLA's total gross premium and NBRP?

<u>Response:</u>

The contribution of bancassurance business to HLA's total gross premium and NBRP was 21% and 29% respectively.

1.3 The non-participating and investment-linked new business premium made up 90% of HLA's total new business premium.

What is HLA's current ratio of participating and non-participating business? What is the strategy to expand the size of non-participating business?

<u>Response:</u>

As Management works towards increasing the Non-Participating Life Fund as a percentage of the total insurance portfolio, the New Business premium will be proportionately higher for Non-Participating NBRP due to the product marketing efforts; this growth is further enhanced when customers are looking for protection with investment-linked features. Currently, Participating Life Funds make up about 57% of the portfolio.

The strategy is to have a balanced portfolio with a higher percentage of Non-Participating business. Management will continue to innovate on products and digital delivery system supported by a strong agency sales force and Bancassurance channel to meet customers' needs as portfolio mix is being shifted. Hong Leong Bank Berhad's increased focus on Wealth Management of which Bancassurance is a product would also be beneficial.

1.4 The stockbroking business of Hong Leong Investment Bank Berhad ("**HLIB**") achieved a revenue of RM162 million and a Profit Before Tax ("**PBT**") of RM99 million in FY2021, which was mainly driven by higher traded volumes recorded by Bursa Malaysia Securities Berhad ("**Bursa Malaysia**") and better market share of 4.5% that was driven by higher retail participation.

The calendar year 2020 was an exceptional year for the stockbroking industry due to the record high trading volume and trading value.

Does HLIB foresee similar momentum in trading volume, and trading value in FY2022?

<u>Response:</u>

Calendar year 2020 was indeed an exceptional year for the stockbroking industry due to the significantly high traded volumes recorded by Bursa Malaysia. In July to September 2021, Bursa Malaysia traded volume had reduced by approximately 48% y-o-y, so it looks unlikely for last year's high volumes to be repeated this year. In anticipation, the stockbroking division will be rolling out various initiatives to enhance its top line.

1.5 At the group level, "Other employment benefits" increased 91.8% y-o-y to RM93.8 million in FY2021 against RM48.9 million in the year before.

What caused the sharp increase in employees' benefits expenses?

<u>Response:</u>

The other employment benefits in FY2021 mainly includes the following:

a. Amortisation of MFRS 2 share-based compensation expense adjusted for any lapsed in entitlement amounted to RM26.7 million. This was in relation to the Group's Executive Share Scheme that was granted back in FY2018.

b. Mutual separation scheme of RM43.3 million as a result of the HLFG Group's regular operations review and multi period implementation to optimise resources and improve operational efficiency.

1.6 Based on the Corporate Governance ("**CG**") report of the Company on the application of the Practices under the Malaysian Code on CG ("**MCCG**"), please provide clarification on the following:

Practice 5.1: The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

HLFG Response in the CG Report:
Applied; a formal evaluation process had been put in place by the Board and the Nomination Committee ("**NC**") is delegated the authority to assess the effectiveness of the Board as a whole, the Board Committees and the contribution and performance of each individual director on an annual basis in conjunction with the annual Fit & Proper (F&P) assessment of Chairman, Directors and Chief Executive Officer per BNM Guidelines.

The Board considers the Board Assessment described above to be effective for the Company presently.

The Board may consider engaging independent experts for the Annual Board Assessment as appropriate in the future.

MSWG's Comment:
Notwithstanding the current effective and robust board assessment conducted by the NC, how frequently does HLFG intend to engage independent experts to facilitate the evaluation of the Board, the Board committees and its members?

Response:

The Company will continuously review its Board evaluation process to further enhance the process. This may include engagement of independent experts to facilitate the evaluation of the Board, the Board committees and individual directors. Should independent experts be engaged for the Annual Board Assessment, an engagement interval of once every 3 years or 5 years will be appropriate.

2. Other comments/queries that were posted/raised by the shareholders of the Company before/during the AGM, and the responses by the Chairman of the Meeting, Group Chief Financial Officer ("**Group CFO**") and the Group Company Secretary are set out in the ensuing paragraphs:

2.1 A shareholder enquired on the following:

2.1.1 Proceed from disposal of shares in subsidiary amounting to RM127,892 million (page 95 of the Annual Report 2021) was reported under the Company's Statement of Cash Flow (as stated on page 98 of the Annual Report 2021).

(a) Please explain the nature of the transaction; and
(b) Details of this transaction and which subsidiary that was disposed/ liquidated.

Response:

The proceed from disposal of shares was in relation to the private placement of 27.0 million shares of Hong Leong Capital Berhad ("**HLCB**") held by HLFG in order for HLCB to meet public shareholdings spread requirement. Post the private placement, HLFG's shareholdings in HLCB decreased from 81.33% to 70.40% which resulted in HLCB meeting the public shareholdings spread requirement of 25% under Main Market Listing Requirements of Bursa Malaysia.

On 13 November 2020, the suspension in the trading of the shares in HLCB was uplifted by Bursa Malaysia.

2.1.2 HLFG had been declaring dividend of between 38 sen to 42 sen from FY2017 to FY2021. HLFG is mainly a holding company depending mostly on dividends received from its subsidiaries which had increased over the years except for last year due to COVID-19. Can the Board assured the shareholders that it would endeavour to increase dividend pay-out in line with the expected higher dividend receivable from its subsidiaries?

Response:

Management had been retaining a certain level of reserves in order for the Company to pursue any opportunity when it arises. The Company's dividend planning takes into account the capital plan vis-a-vis regulatory requirement. The Company does not have a fixed dividend policy as it provides Management with flexibility to balance short term cash return (such as, dividend to shareholders) with retention of profits for long term investment which may generate higher returns to shareholders. However, the Company endeavours to maintain or increase the dividend per share every year.

2.2 A shareholder enquired on the impact of International Financial Reporting Standard ("**IFRS**")17 on the accounting of HLA's life segment.

Response:

The IFRS 17 will come into effect from FY2023. HLA is in the midst of finalising and assessing the full impact of IFRS 17 and making the necessary preparation and readiness before FY2023. In general, under IFRS 17, revenue will be recorded in the income statement when earned over the period of providing services under the insurance contract.

2.3 A shareholder enquired on the amount spent on the virtual AGM and whether the Board would consider giving shareholders e-wallet as a token of appreciation for their attendance at the virtual AGM.

Response:

The cost of holding the virtual AGM was more than the cost for holding a physical AGM as the Company had to engage an external services provider to facilitate the virtual AGM, and ensure the right technology, resources and process to achieve the required standard operating procedures as mandated by the regulators.

In regard to rewarding shareholders with e-wallet, vouchers, etc. as a token of appreciation, it is not the Company's normal practice to do so. Management believes that distribution of cash return by way of dividend is a better way to reward all shareholders, and hence Management did not consider rewards such as e-wallet, vouchers, etc. for shareholders who attended the virtual AGM.

2.4 A shareholder requested for the justification on the Director Fees. What could the shareholders expect from the Directors eg. how much net profits increased compared to last year, dividends etc. and whether the Board would consider to provide the shareholders with a small token of appreciation such as the Touch N Go e-wallet.

Response:

In regards to the reward to shareholders, the Group Company Secretary had explained earlier. In regards to the Director Fees, the Board provides tremendous value in validating as well as guiding the Management team in its strategy formulation for the Company as a whole.

2.5 A shareholder enquired whether the Board had considered bonus issue especially for the mother share.

Response:

There is no corporate proposals/ action plans on bonus issue at this juncture.