

# INVESTOR PRESENTATION

28 August 2018



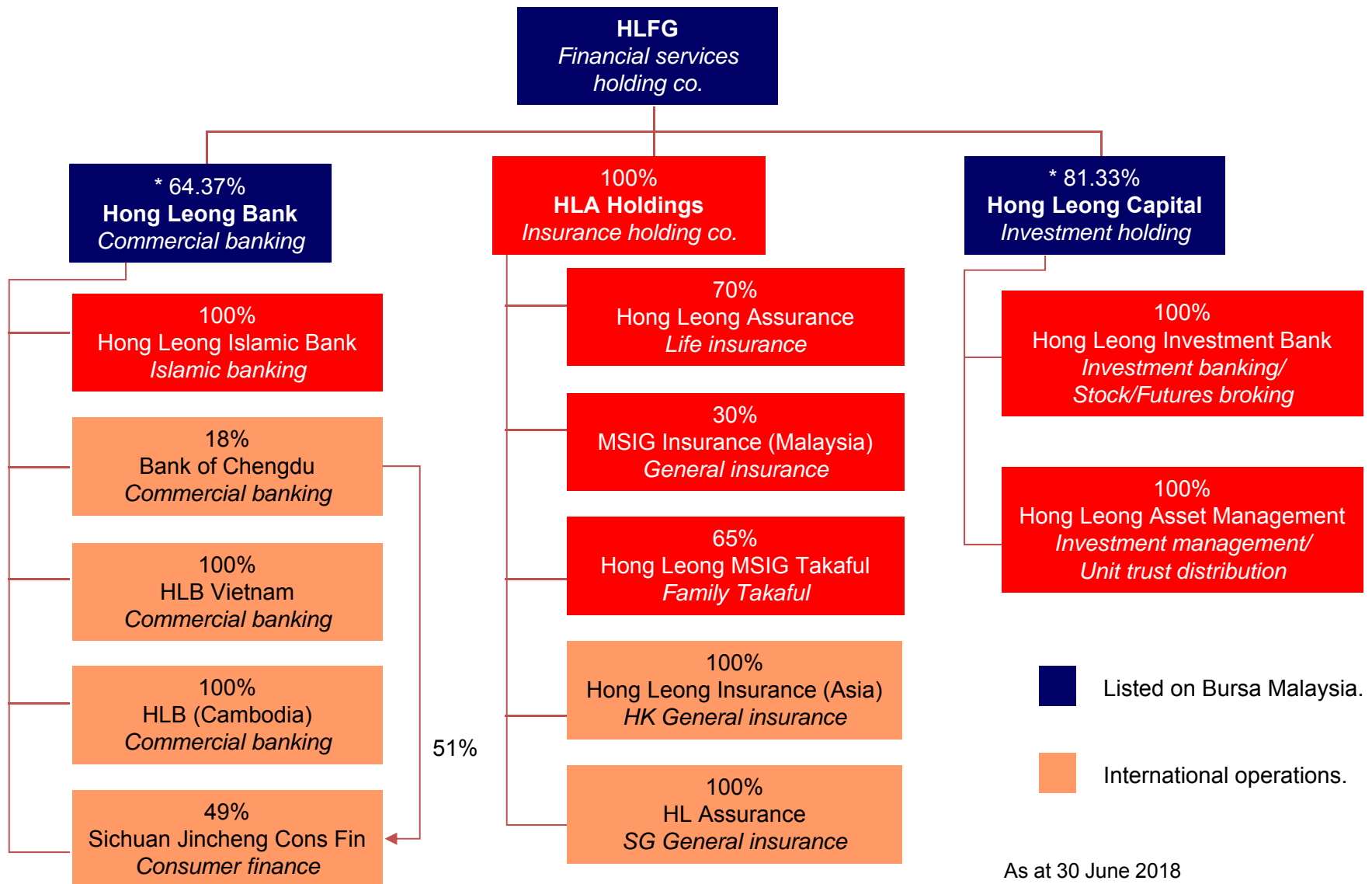
## Contents

- ❖ **Corporate Structure / Principal Businesses**
- ❖ **FY18 Results Highlights**
- ❖ **HLFG Key Trends**
- ❖ **Highlights:**
  - **Banking Division (Please refer to HLB's slides)**
  - **Insurance Division**
  - **Investment Banking Division**

### Appendices

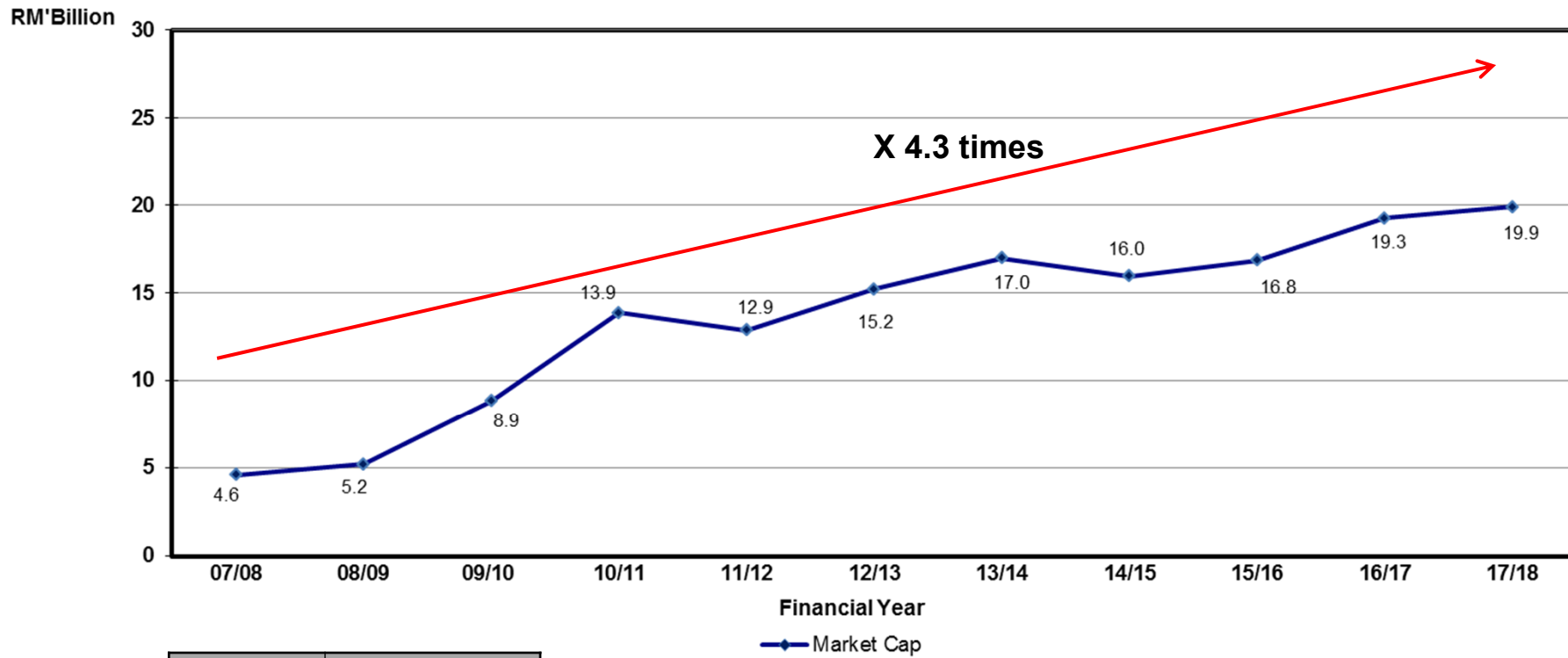
- ❖ **Results Summary by Segment**
- ❖ **MSIG**

# Corporate Structure / Principal Businesses



# HLFG Market Capitalisation

## HLFG Market Capitalisation



CAGR	As at FY18
1 Yr	18.1%
3 Yr	5.4%
5 Yr	9.1%
10 Yr	14.4%

## FY18 Results Highlights

### Financial Group (HLFG)

- HLFG's FY18 PBT of RM3.58bn increased 15.8% yoy.
- HLFG's Net Profit after tax and MI of RM1.91bn increased 26.6% yoy.
- Book Value per share +7.1% yoy to RM15.55.

### Commercial Bank (HLB)

- HLB's FY18 PBT of RM3.24bn increased 18.1% yoy.

#### Recognition/Awards;

- Asia's best employers for graduates by Human Resources Asia Recruitment Awards 2018.
- Best Innovation in Retail Banking Malaysia 2017 by International Banker 2017 Banking Awards.
- Best Bank in Malaysia - Cash Management Customer Satisfaction Award 2017.
- Gold Award for Highest Returns to Shareholders Over 3 Years.
- Silver Award for Highest Return on Equity Over 3 Years as awarded in The Edge - Billion Ringgit Club 2017 edition.

[For the full HLB results analysis, please refer to its own analyst presentation.]

## FY18 Results Highlights

### Insurance (HLAH)

- HLAH PBT of RM348.0m increased 10.2m or 3.0% yoy in FY18, mainly contributed by HLA's 8.4% yoy increase in PBT to RM265.5m and RM13.0m yoy improvement in HLMT's PBT. (Note: HLA's PBT increased by 31.1% yoy excluding one-off adj)
- Excluding one-off adjustment of RM58.5m, HLAH PBT improved by 20.3%.
- **HLA gross premiums at RM2.95 bn** in FY18. New business regular premiums at RM537.5m.
- HLA's Non-Par/Par ratio maintained upward trend, improving from 56:44 (FY17) to 89:11 (FY18). This is in line with focus on Non-PAR/investment link products and changes in regulation guidelines on PAR product sales.

- HLA NBEV improved by 24.3% (LY growth 10.5%).

### ▪ Recognition/Awards;

- Domestic Life Insurer of the Year at Asian Banking and Finance Insurance Asia Awards 2017.
- Malaysia Best Life Insurance Company 2017 by World Finance Global Insurance and International Finance.

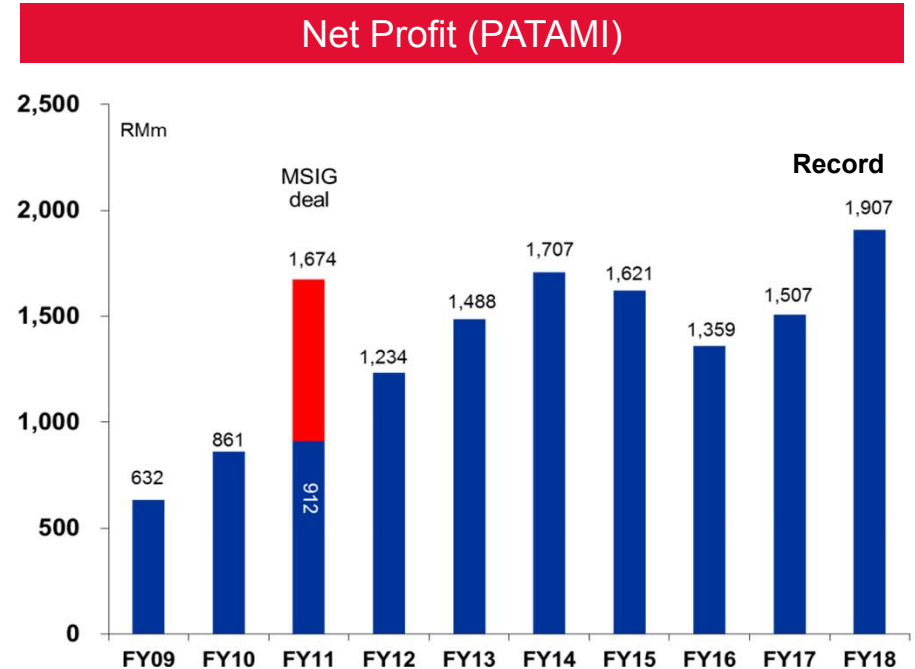
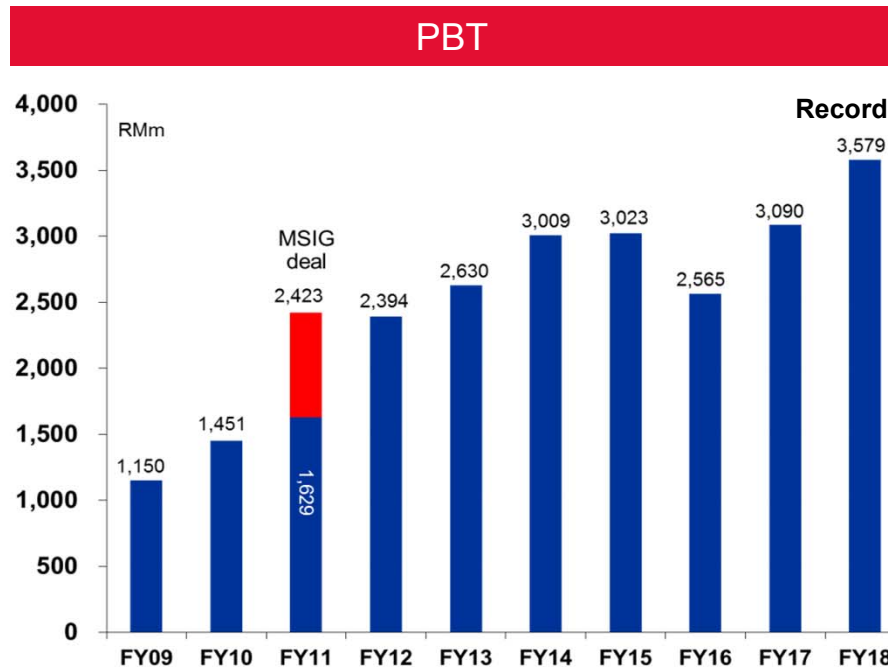
## FY18 Results Highlights


### Investment Banking (HLCB)

- PBT of RM78.6m decreased 6.4% yoy mainly due to subdued capital markets.
- **Recognition/Awards;**
  - In the Edge Thomson Reuters Lipper Malaysian Fund Awards 2018, HLAM achieved 2 Group and 2 Individual awards, namely:
    - Best Group in Equity – Malaysia Provident (for the second consecutive year);
    - Best Group in Mixed Assets – Malaysia Provident;
    - Best Performing Equity Malaysia Diversified (3 years) for the Hong Leong Growth Fund;
    - Best Performing Equity Malaysia Income (3 years) for the Hong Leong Dividend Fund.

## HLFG Key Trends

- Record PBT despite subdued economy.



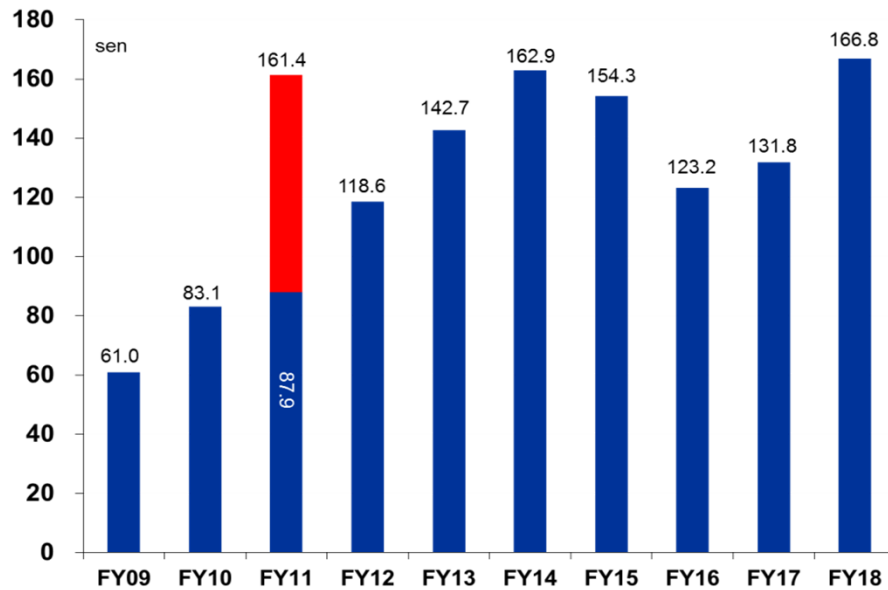
 Denotes non-recurring portion




## HLFG Key Trends

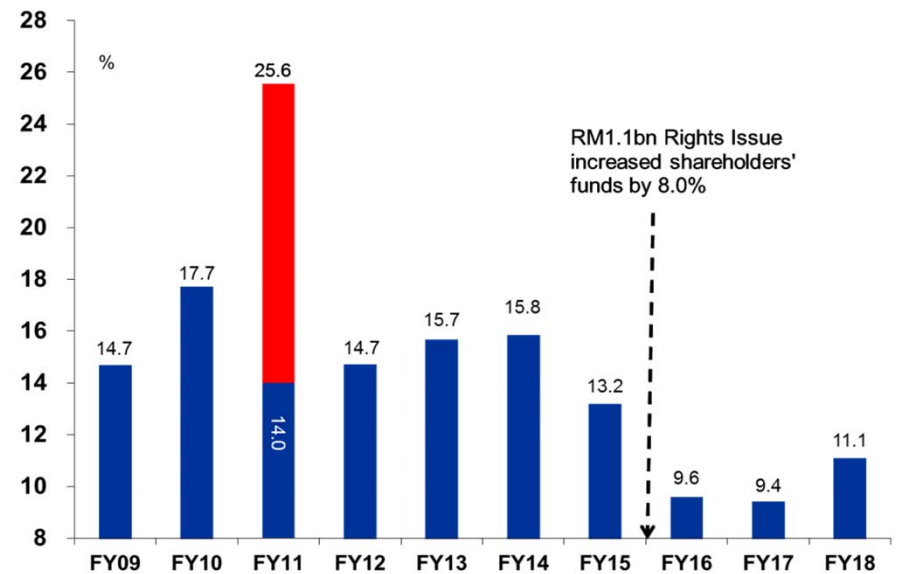
- Higher shareholders' funds base from our Dec 2015 Rights Issue (9:100) has impacted ROE.

### Earnings Per Share



 Denotes non-recurring portion

### Return on Equity

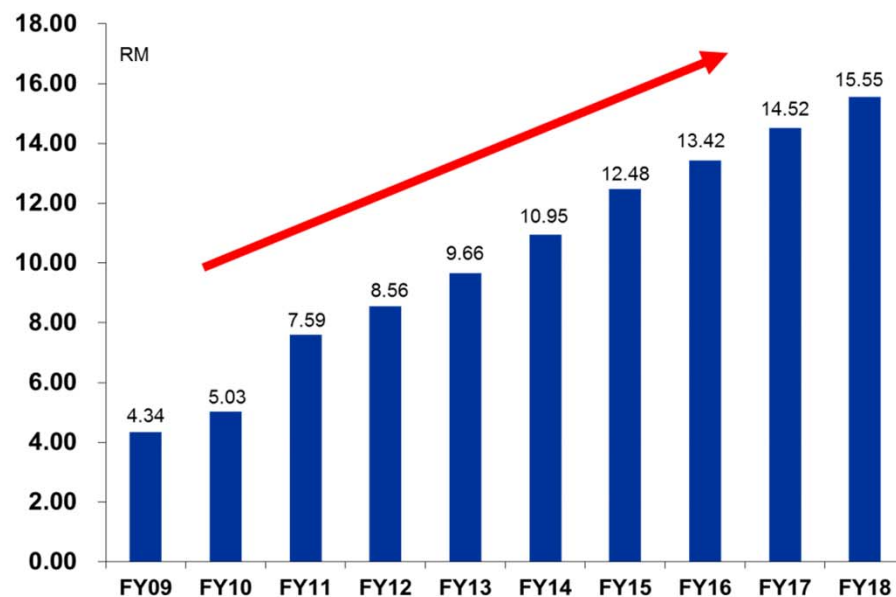


RM1.1bn Rights Issue increased shareholders' funds by 8.0%

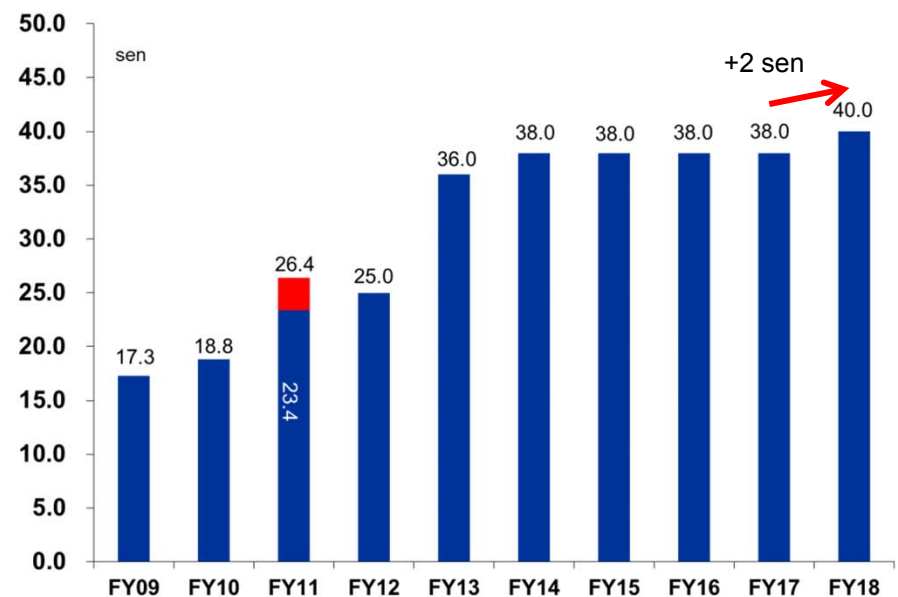
## HLFG Key Trends


- Book value/share +7.1% yoy to RM15.55.
- Net DPS +2 sen up to 40.0 sen in FY18.

### Book Value Per Share



### Net Dividend Per Share



 Denotes special dividend.

## Highlights: Hong Leong Bank (HLB)

- For further information on HLB, please refer to the HLB analyst information slides.



## Highlights: Insurance Division

- Results Overview & Trend
- Recap Summary Strategy
- Market Position
- Revenue/Distribution Highlights
- Key Ratios

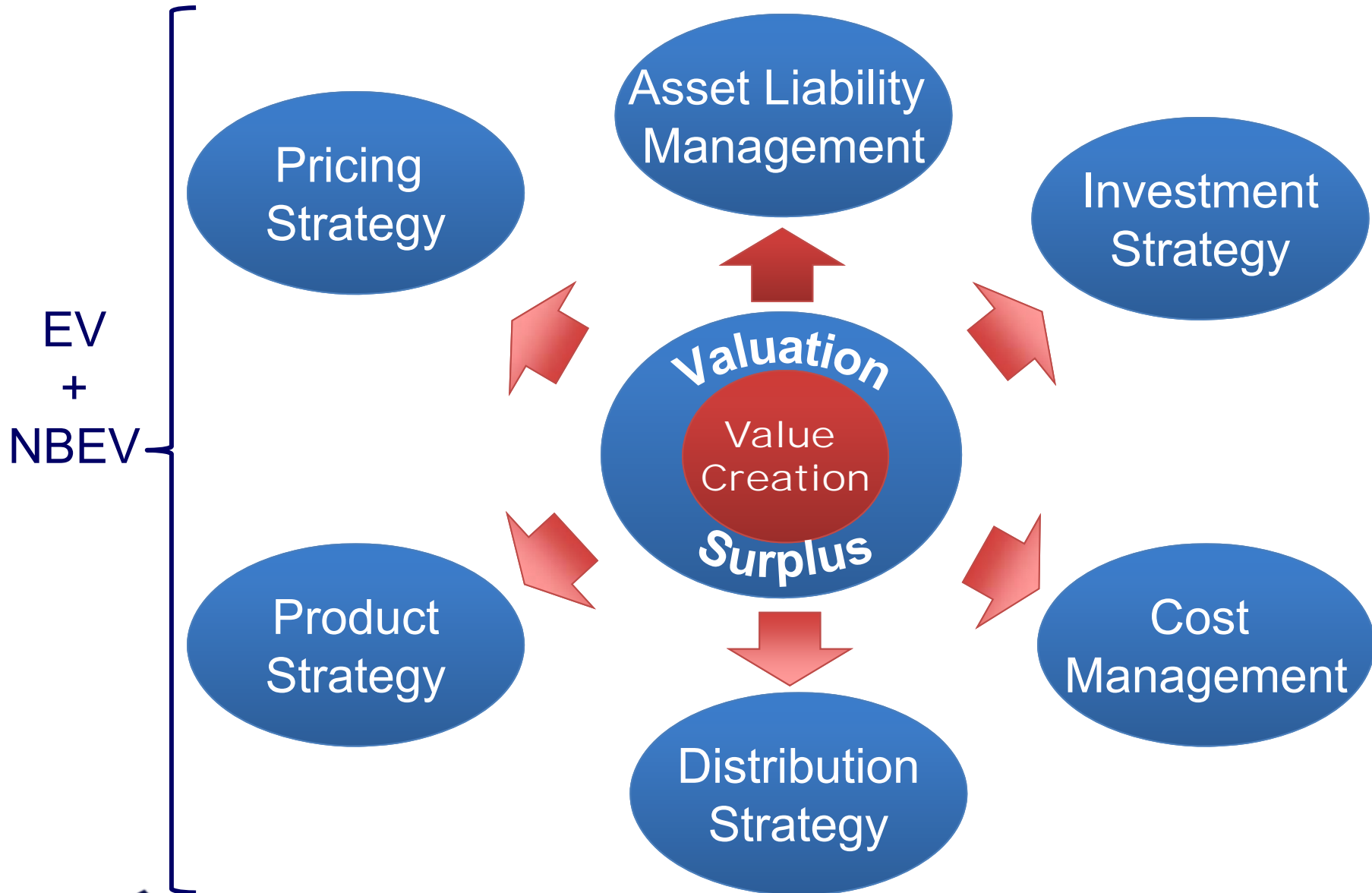
## FY18 Results: HLA

- Excluding the impact of interest rate movements/lumpy items, HLA's operating profit improved 31.1% to RM297.1m.
- Provision for Equity Impairment refers to prolonged but *unrealised* losses which have to be booked under accounting standards.
- New business regular premiums -8.3% yoy to RM537m mainly due to slower economy/switch to Non-Par/IL products.
- Non Par/Par ratio improved from 56:44 (FY17) to 89:11 (FY18).
- NBEV improved by 24.3% (LY growth 10.5%).

HLA RM 'mil	FY16	FY17	FY18
Pretax Profit (HLFG Level - reported)	154.8	245.0	265.5
Impact of interest rate movements	15.3	(32.1)	(36.2)
Other lumpy items	12.6	13.7	67.8
Operating profit (excluding other lumpy items)	182.7	226.6	297.1

 +24.0%     
  +31.1%

## HLA: Value Creation Strategy



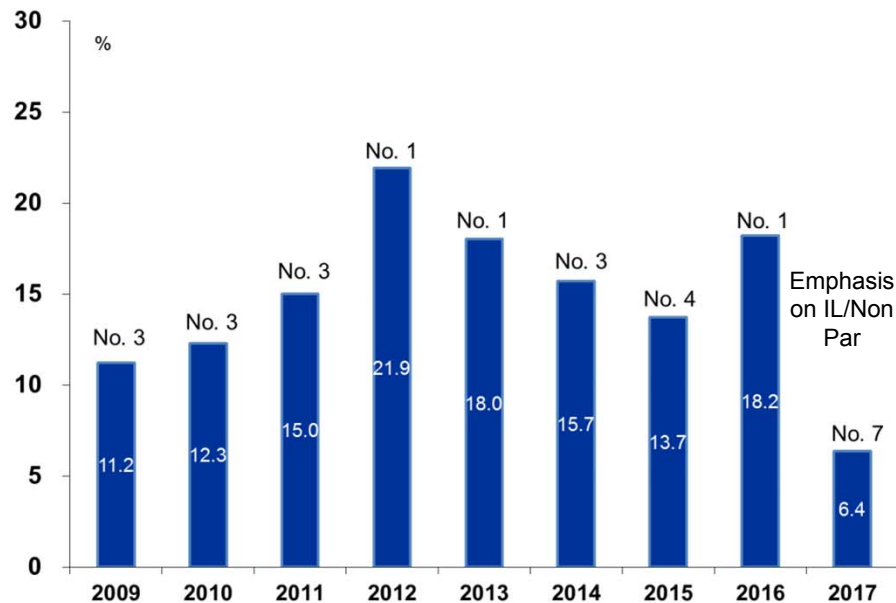
## HLA: Strategy

- Built up distribution network (agency). **9,426 agents** (June 2018). Able to compete with the market leaders in distribution.
- Built up leading market position in Ordinary Life segment.
- Non-Participating / Participating ratio for new business has improved significantly from 22:78 (FY13) to **89:11** (FY18).
- **Drive NBEV.**
- Also building up bancassurance (taking advantage of sister bank HLB's circa 273 branch network).
- Competitive products.

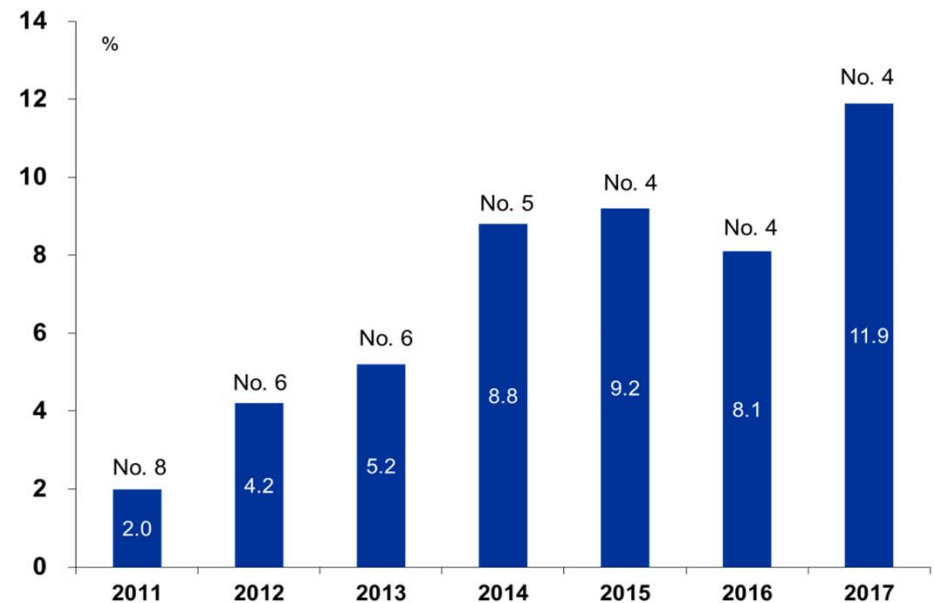
## HLA: Market Position

- Top 4 insurer in terms of New Business Regular Premium (“NBRP”).
- Emphasis on Non-Participating business has caused Investment-Linked market share to grow by 6x in the last 6 years. Maintained No. 4 position.

Ordinary Life Market Share of NBRP (%)



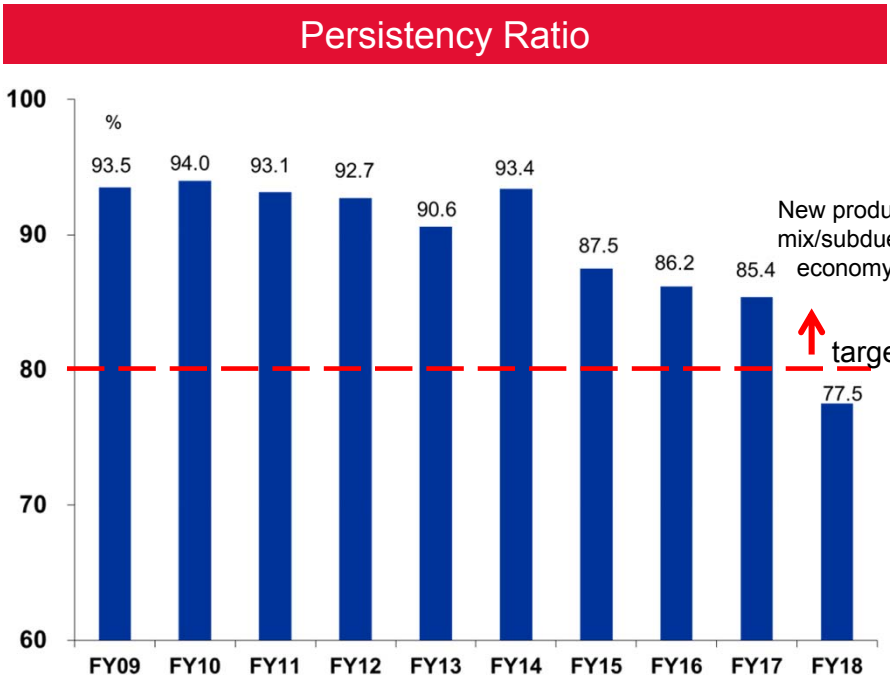
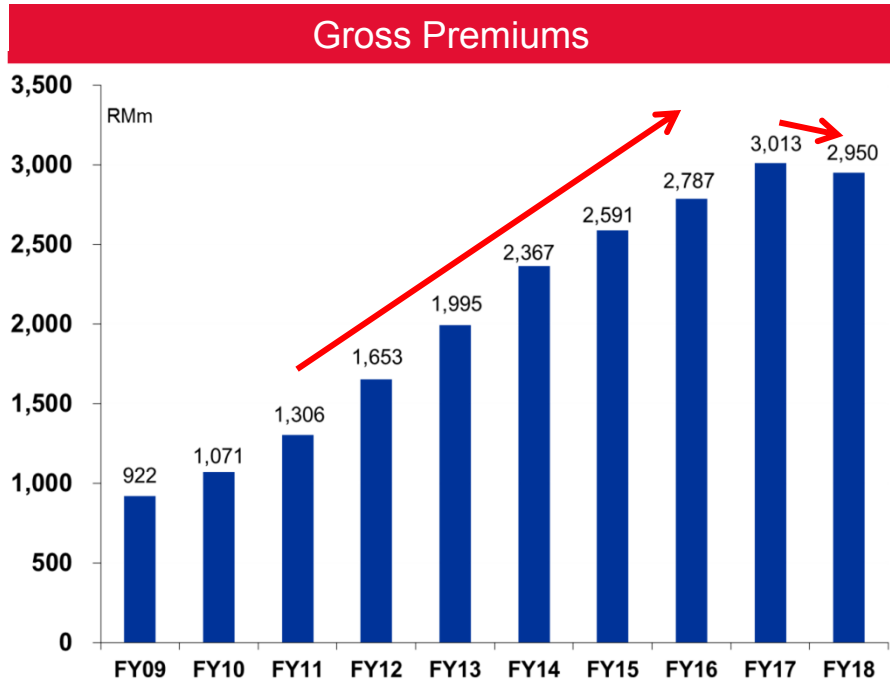
Investment-Linked Market Share of NBRP (%)





# HLA

▪ **New Business** ↓ + **Persistency/Renewals** → **Gross Premiums** ↓



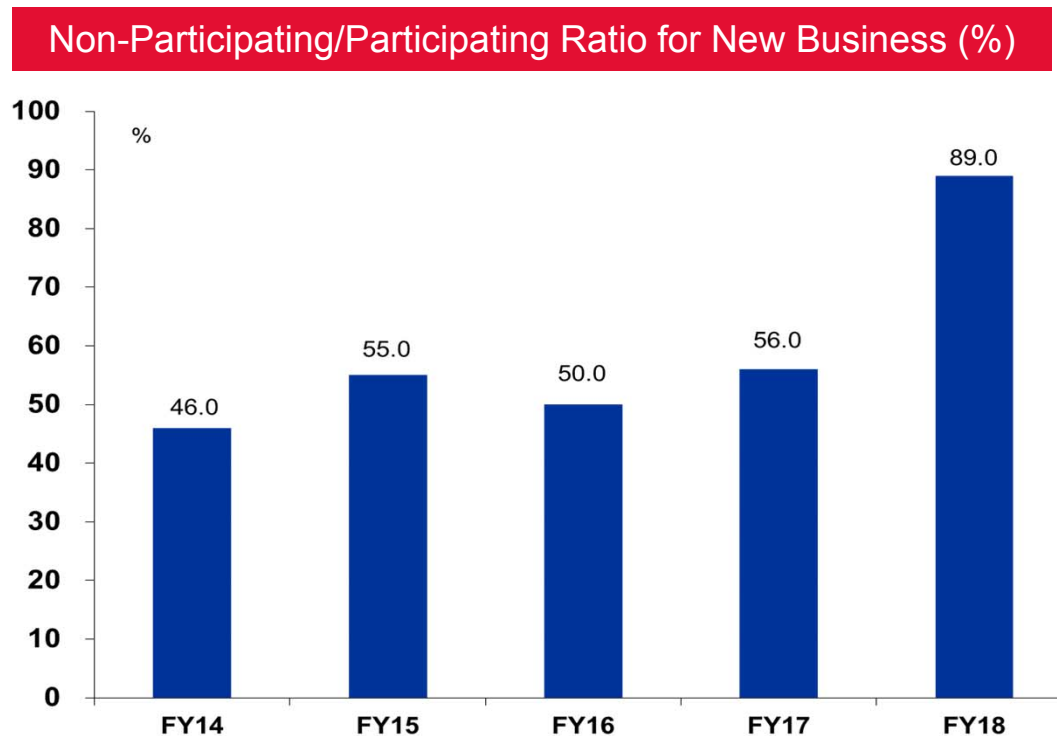
## HLA: Product Category Segments

- Enhancing IL contribution (+27% yoy in FY18) to 39% of total gross premiums.

Gross Premiums (RMm) Segment	FY14	FY15	FY16	FY17	FY18	Yoy (%)	Contri (%)	Comments
1. Ordinary Life ("OL")	1,898	1,957	2,030	2,045	1,745	(15)	59	<ul style="list-style-type: none"> <li><b>No. 7 among all life insurers in this segment</b> by annualised New Business Regular Premiums ("NBRP").</li> <li><b>6.4% market share</b> of NBRP in this segment.</li> </ul>
2. Investment-Linked ("IL")	414	567	697	915	1,166	27	39	<ul style="list-style-type: none"> <li>Building up this segment on the back of stronger distribution force.</li> <li><b>No. 4 in this segment.</b></li> <li><b>Market share (NBRP) 11.9% in 2017.</b></li> </ul>
3. Credit Life	55	67	60	53	39	(26)	2	<ul style="list-style-type: none"> <li>Mainly MRTA (captive market from HLB).</li> <li>Non-recurring single premium business.</li> </ul>
<b>Total</b>	<b>2,367</b>	<b>2,591</b>	<b>2,787</b>	<b>3,013</b>	<b>2,950</b>	<b>(2)</b>	<b>100</b>	<ul style="list-style-type: none"> <li><b>No. 1 among domestic life insurers (OL + IL)</b> by NBRP.</li> <li><b>Top 4 among all insurers (OL + IL)</b> by NBRP.</li> </ul>

## HLA: Non-Par/Par Ratio

- Higher Non-Participating/Participating ratio = Higher New Business Embedded Value (EV) Margin.
- In general, Investment-Linked policies have higher EV margins than Ordinary Life policies.
- **Non-Par/Par ratio resumed uptrend in FY18 to highest ever ratio. Targeting further improvement.**



## HLA: Distribution Channels

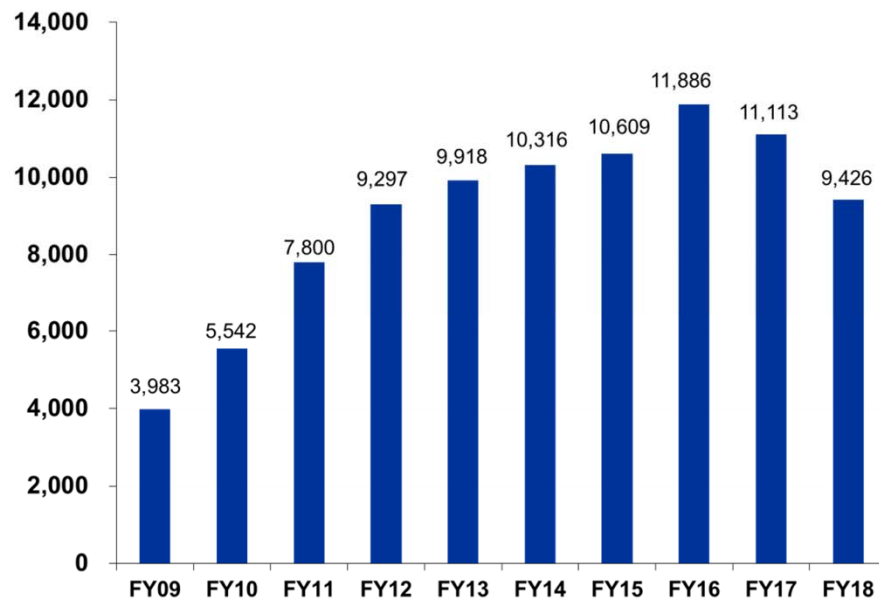
- **Bancassurance plan to tap on HLB's circa 273 branches bearing fruit (banca premiums have increased by 91% in 4 years), but Agency will continue to be the main distribution channel (80% share of gross premium).**

Gross Premiums (RMm)	FY14	FY15	FY16	FY17	FY18	Yoy (%)	Contri (%)	Comments
1. Agents	2,048	2,222	2,406	2,525	2,356	(7)	80	<ul style="list-style-type: none"> <li>▪ HLA's core distribution channel.</li> <li>▪ <b>9,426 agents</b> as at Jun 18.</li> </ul>
2. Bancassurance	265	333	325	407	505	24	17	<ul style="list-style-type: none"> <li>▪ Access to HLB, the <b>5th largest bank</b> with the <b>2nd largest branch network (circa 273 branches)</b>.</li> <li>▪ 5-year Group Bancassurance Plan + insurance specialist model.</li> </ul>
3. Telemarketing/ Alternative Channels	54	36	55	82	89	9	3	
<b>Total</b>	<b>2,367</b>	<b>2,591</b>	<b>2,787</b>	<b>3,013</b>	<b>2,950</b>	<b>(2)</b>	<b>100</b>	

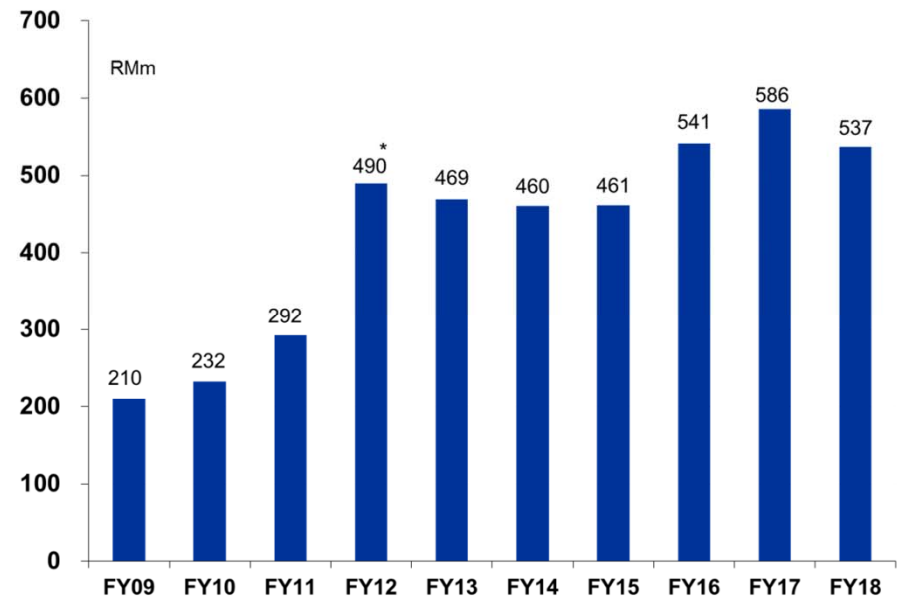
## HLA: Agency

- No. of Agents ↑ + Agent Productivity = New Business ↑
- Agency growth has slowed in recent years due to higher base as well as non-productive agents leaving. Focus on building a productive agency force.
- New business regular premiums -8.2% yoy to RM537.5m.
- New Business Regular Premiums are critical to growing total premiums (new business + renewals).

### Number of Agents



### New Business Regular Premium

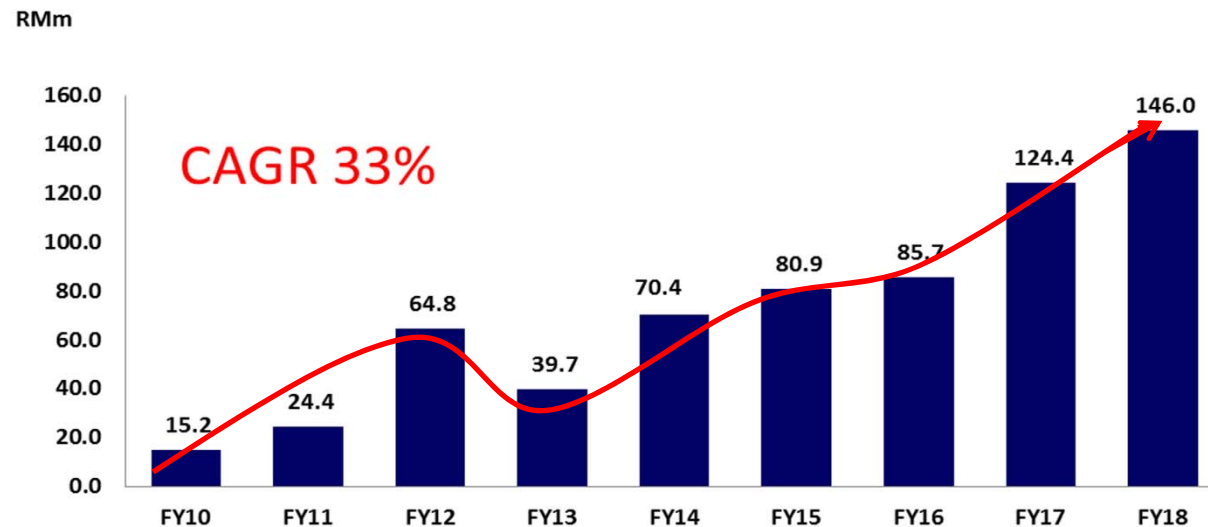


\* One-off close-ended product of RM41m.

## HLA: Bancassurance

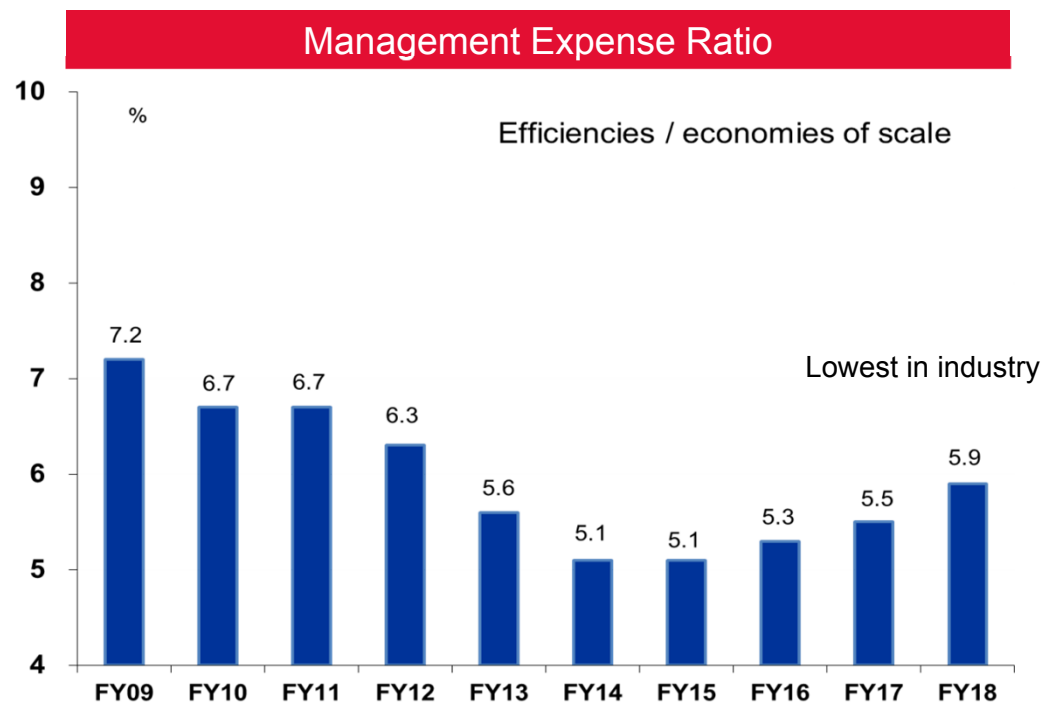
- **No. 5 in Non-Agency (primarily bancassurance) New Business Regular Premiums with 10.5% market share.**
- Taking advantage of sister bank's (HLB) **circa 273 branches.**
- Growing **Banca Consultants' team.**
- Aligned with profitability targets/strategy. Bancassurance tends to have a **higher proportion of non-participating policies.**
- A cheaper distribution channel.
- **5-year plan with ambitious targets.**

### Banca NBRP



## HLA: Cost Efficiency

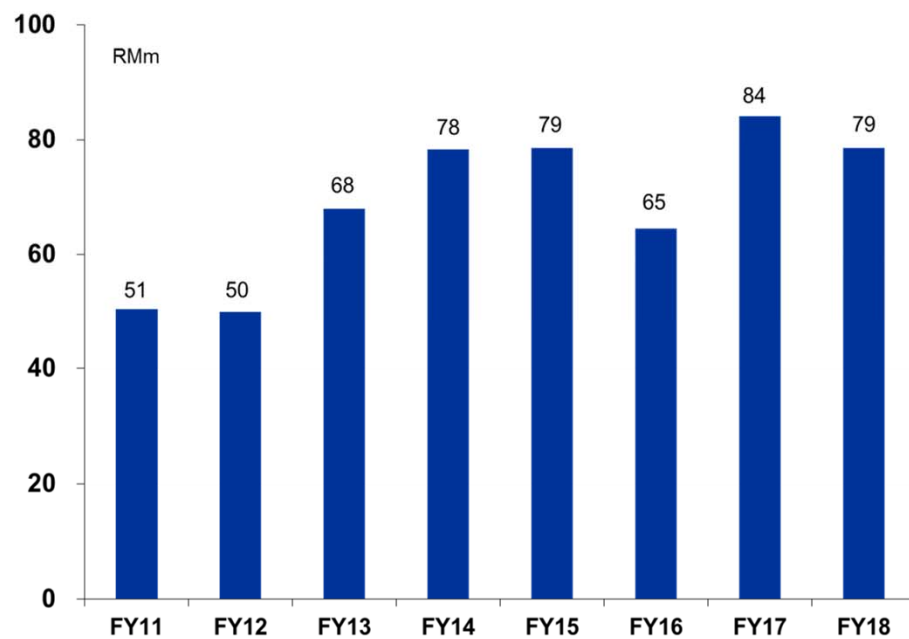
- Gross Premiums  $\uparrow$   $\rightarrow$  Economies of Scale  $\rightarrow$  Management Expense Ratio  $\downarrow$
- Gross Premiums  $\uparrow$  + Management Expense Ratio  $\downarrow$   $\rightarrow$  PBT  $\uparrow$
- With the lowest Management Expense Ratio in the industry & greater economies of scale, we have started spending selectively on marketing & branding.
- Accounts & half-year results available at [hla.com.my](http://hla.com.my)



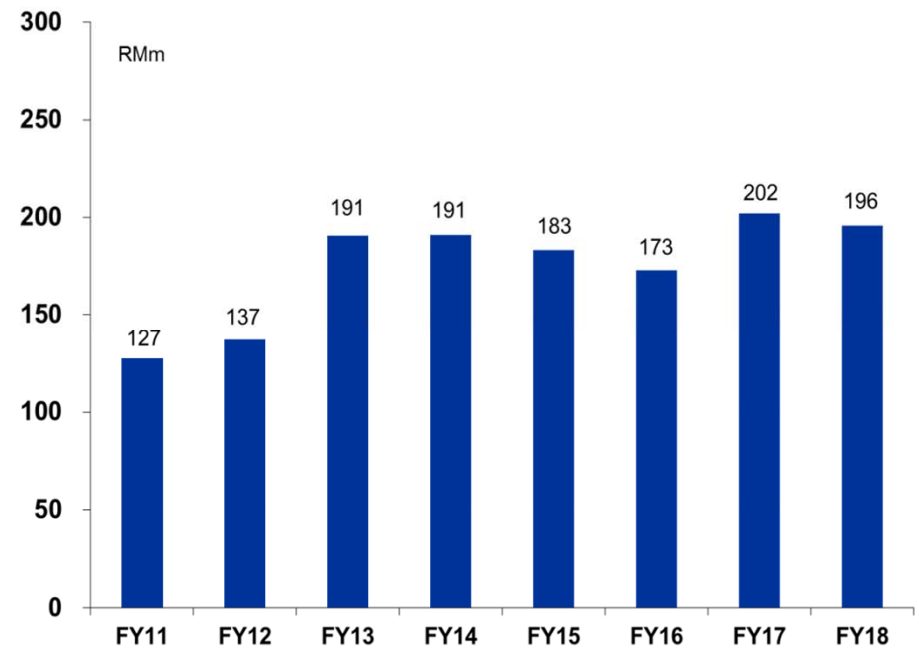
## Highlights: Hong Leong Capital (HLCB)

- Seasoned management team since 2010.
- PBT/revenue holding up despite subdued capital markets.

PBT



Revenue (Total Income)





## Highlights: Investment Banking Division

- Strong PBT growth in stockbroking division.
- Stockbroking 4.37% market share (FY18).
- HLAM AUM RM16.2bn (Jun 18).
- In the Edge Thomson Reuters Lipper Malaysian Fund Awards 2018, HLAM achieved 2 Group and 2 Individual awards, namely:
  - Best Group in Equity – Malaysia Provident (for the second consecutive year);
  - Best Group in Mixed Assets – Malaysia Provident;
  - Best Performing Equity Malaysia Diversified (3 years) for the Hong Leong Growth Fund;
  - Best Performing Equity Malaysia Income (3 years) for the Hong Leong Dividend Fund

HLCB Group RMm	FY17	% contribution	FY18	% contribution	yoy (%)
Investment banking	38.8	46	29.3	37	(25)
Stockbroking	29.2	35	32.6	41	11
Asset management	8.1	10	12.4	16	53
Others	8.0	9	4.4	6	(45)
Pretax Profit	84.0	100	78.6	100	(6)

# Appendix:

# Further Information

## FY18 Results Summary – Segmental PBT

Group (Y E June) RMm	FY17	% contribution	FY18	% contribution	yoy (%)
HLB operating profit + Sichuan Jincheng JV	2,405.3	77.8	2,730.1	76.3	13.5
Bank of Chengdu @ 20%	342.9	11.1	516.1	14.4	50.5
<b>Commercial Banking (HLB)</b>	<b>2,748.3</b>	<b>88.9</b>	<b>3,246.3</b>	<b>90.7</b>	<b>18.1</b>
HLA (Life + Shareholders' Fund)	245.0	7.9	324.0	9.1	32.2
MSIG @ 30% (General insurance)	73.5	2.4	63.1	1.8	(14.1)
Others: HLIA, HLMT & Others	19.4	0.6	19.4	0.5	0.2
<b>Insurance excld one-off</b>	<b>337.9</b>	<b>10.9</b>	<b>406.5</b>	<b>11.4</b>	<b>20.3</b>
<b>One-off</b>	0.0	0.0	(58.5)	(1.6)	(100.0)
<b>Insurance</b>	<b>337.9</b>	<b>10.9</b>	<b>348.0</b>	<b>11.4</b>	<b>3.0</b>
<b>Investment banking (HLCB)</b>	<b>84.0</b>	<b>2.7</b>	<b>78.6</b>	<b>2.2</b>	<b>(6.5)</b>
Others	(80.2)	(2.6)	(94.3)	(2.6)	17.5
<b>Pretax profit</b>	<b>3,089.9</b>	<b>100.0</b>	<b>3,578.6</b>	<b>101.6</b>	<b>15.8</b>
Taxation	(773.1)		(684.1)		(11.5)
Profit after taxation	2,316.9		2,894.5		24.9
Non-controlling interests	(810.1)		(987.1)		21.8
<b>Net Profit (Actual)</b>	<b>1,506.8</b>		<b>1,907.4</b>		<b>26.6</b>
EPS (sen)	131.8		166.8		26.6

## MSIG (General Insurance)

- Maintaining Profit After Tax.
- Liberalisation of general insurance tariffs will limit earnings growth in the near term.

MSIG YE Dec RMm	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
<b>Gross Premiums</b>	<b>757.8</b>	<b>801.7</b>	<b>965.1</b>	<b>1,241.8</b>	<b>1,326.3</b>	<b>1,425.9</b>	<b>1,486.7</b>	<b>1,535.4</b>	<b>1,522.5</b>	<b>1,536.7</b>
Reinsurance	(156.5)	(171.2)	(179.6)	(238.4)	(289.1)	(306.3)	(295.1)	(292.9)	(296.6)	(295.4)
Net Premium	601.3	630.5	785.5	1,003.4	1,037.2	1,119.6	1,191.6	1,242.5	1,225.9	1,241.2
Change in Unearned Premium Prov	(18.7)	(18.5)	(40.1)	(27.3)	(61.4)	(47.5)	(38.3)	(124.1)	19.1	0.7
Earned Premium	582.6	612.0	745.4	976.1	975.8	1,072.1	1,153.3	1,118.4	1,245.0	1,241.9
Net Claims	(308.0)	(339.6)	(441.2)	(568.2)	(580.3)	(615.2)	(645.9)	(682.6)	(685.1)	(694.3)
Underwriting Surplus	111.7	108.3	106.1	147.6	135.7	168.5	193.2	173.5	207.1	186.1
Investment & Other Income	9.2	42.3	54.8	69.1	96.4	88.3	85.2	88.3	106.4	123.0
Profit Before Taxation	120.9	150.6	160.9	216.7	232.1	256.8	278.4	261.8	313.6	309.0
Taxation	(25.7)	(32.5)	(36.8)	(50.1)	(50.0)	(53.0)	(63.4)	(61.7)	(64.8)	(65.2)
<b>Profit After Taxation</b>	<b>95.2</b>	<b>118.1</b>	<b>124.1</b>	<b>166.6</b>	<b>182.1</b>	<b>203.8</b>	<b>215.0</b>	<b>200.1</b>	<b>248.8</b>	<b>243.8</b>
<b>Shareholders' Funds</b>	<b>1,015.6</b>	<b>1,043.2</b>	<b>1,862.6</b>	<b>1,969.4</b>	<b>2,071.2</b>	<b>2,189.5</b>	<b>2,298.4</b>	<b>2,401.4</b>	<b>2,548.0</b>	<b>2,725.5</b>
Retention Ratio (%)	79.3	78.6	81.4	80.8	78.2	78.5	80.1	80.9	80.5	80.8
Claims Ratio (%)	52.9	55.5	59.2	58.2	59.5	57.4	56.0	61.0	55.0	55.9
Underwriting Margin (%)	19.2	17.7	14.2	15.1	13.9	15.7	16.7	15.5	16.6	15.0
Return On Equity (%)	9.3	11.5	8.5	8.7	9.0	9.6	9.6	8.5	10.1	8.9

- Annual report & half-year results available at [msig.com.my](http://msig.com.my)

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