HONG LEONG FINANCIAL GROUP BERHAD (8024-W)

Summary of key matters discussed at the **48th Annual General Meeting** ("AGM") of **Hong Leong Financial Group Berhad** ("the Company" or "HLFG") held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 26 October 2017 at 4.00 p.m.

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1. Is the management considering changes to its holding company corporate structure taking into consideration the capital compliance cost with the full implementation of the Basel III Capital Adequacy Framework?

   Response:

   - We are not considering any changes to our holding company corporate structure at this point in time. Should there be any such corporate exercises, we shall make the necessary announcement at the appropriate time.

2. Please comment on the statement made on page 30 that the Company would consider raising alternative forms of capital to comply with the framework for financial holdings companies ("FHC") deadline on 1 January 2019.

   Response:

   - FHCs would generally raise capital securities such as Additional Tier 1 Capital and Tier 2 Capital to supplement common equity in meeting capital adequacy requirements. Our statement signals that we would consider such issuances in our capital plans and would make the necessary announcements at the appropriate time.

3. Please brief shareholders on the status of the amount of RM1,119,491,000 in the share premium account and would the Company consider using the amount to reward shareholders?

   Response:

   - We currently do not have any plans to use HLFG's share premium account pursuant to the transitional provisions of the Companies Act 2016.

4. HLFG had strengthened its earning engines during the financial year ("FY") 2017, evidenced by the overall growth recorded by its operating entities. He noted that HLFG increased its pretax profit by 20.5% year-on-year ("yoy") to a new high of RM3,090 million, with steady business momentum across all its core operating businesses. Hong Leong Bank Berhad's ("HLB") pretax profit increased 15.4% yoy to RM2,748 million whilst Hong Leong Assurance Berhad's ("HLA") pretax profits rose 58.3% yoy to RM245 million. The pre-tax profit of the investment banking ("IB") and asset management subsidiaries under Hong Leong Capital Berhad ("HLCB") had also increased by 30.3% yoy to RM84 million. The Group's key balance sheet and risk metrics remained strong. HLB's gross Impaired Loan Ratio remained sound at 0.96% whilst its loan impairment coverage was at 96.0% as at 30 June 2017. HLB's Liquidity Ratio remained prudent with a Loan/Deposit Ratio of 80.6%. HLB's capital position further improved with its

Total Capital Ratio increasing from 14.7% in 2016 to 15.8% as at 30 June 2017. Earnings per share increased by 7.0% yoy from 123.2 sen in FY2016 to 131.8 sen in FY2017 from a higher weighted share base arising from the completion of its Rights Issue in December 2015. Net assets per share rose from RM13.42 as at 30 June 2016 to RM14.52 as at 30 June 2017.

4.1 Would HLFG Group be able to continue the traction in its earning engines. What are the business direction and plans going forward to further strengthen its earning engines?

Response:

- The business momentum of the underlying business of the commercial banking arm grew at a healthy pace for FY2017. Higher net interest income ("NII") was attributable to loan growth and an improvement in net interest margin ("NIM"). NIM improved 15 basis points yoy to 2.09% reflecting prudent loan pricing and funding cost management. Although any further improvement in NIM going forward is expected to be marginal, HLB will strive to protect its NIM by managing its cost of funds through effective asset-liability management. In addition, HLB will also strive to grow its NII. In FY2017, HLB's non-interest income had improved by 8.4% yoy to RM1.20 billion, mainly due to higher wealth management and treasury income. Worth noting are HLB's foreign branches and subsidiaries whose performances were also stellar. From that perspective, it is expected that HLB's business momentum will continue to grow at a healthy pace going forward.

- As for the Group's insurance arm, HLA has registered a positive growth in its underlying business, mainly attributable to the ongoing shift in focus from PAR to Non-PAR life products, which is expected to bring its earnings to a much better level.

- The Group's asset management business under Hong Leong Asset Management Bhd ("HLAM") also showed good results and significant progress. The positive growth in its underlying businesses was attributable to strong fund performances. HLAM has been steadily improving its investment performance which culminated in it receiving 2 awards in FY2017 in The Edge / Thomson Reuters Lipper Malaysia Fund Awards 2017, namely Best Equity Award – Malaysia Provident (Group Award); and Best Equity Malaysia – Malaysia Provident (3 years) for the Hong Leong Penny Stock Fund (Individual Award). In FY2017, HLAM has also gained traction in digital distribution of securities and increased its market share from the retail business. Going forward, HLAM will grow through continued sales and marketing efforts and focus on delivering consistent and strong fund performances. With efficient customer support and communications, HLAM aims to help its customers achieve superior long-term risk-adjusted returns. Superior investment performance is the driver to growth.

- As for IB, the industry's corporate activities are the key factor for its growth and the market has experienced an increase in corporate activities in recent months. In this regard, we are strengthening the deal origination team in the IB arm of the Group to grow the IB business.

- Overall the Group expects the business momentum from all 3 earning engines to grow further. The Group values long term potential over short term gains for sustainable growth.

4.2 Could the Loan Loss Coverage Ratio, Gross Impaired Loan Ratio and Total Capital Ratio be maintained at healthy levels going forward?

Response:

- Yes, the ratios are expected to remain healthy. HLB's Loan Impairment Coverage was 96% as at 30 June 2017. Inclusive of additional regulatory reserves, the Loan Impairment Coverage Ratio was 151%.

4.3 Would HLFG consider delayering its corporate structure so that the Group could be more efficient?

Response:

- The Group is not considering delayering its corporate structure at this point in time.

5. What is HLB's and HLFG's capital position? What are HLFG's plans in meeting the capital adequacy requirements of the Basel III Capital Adequacy Framework for FHC?

Response:

- In terms of capital position, HLB's capital position had further improved with its total capital ratio increasing from 14.7% in 2016 to 15.8% as at 30 June 2017. The Total Capital Ratio of HLFG as a FHC will be published in 2019 in line with FHC capital rules which take effect from 1 January 2019.

- Nonetheless, HLFG has already taken some proactive steps including the completion of its Rights Issue in December 2015 to improve its capital position. Going forward, HLFG will consider raising alternative forms of hybrid capital, which is expected to place HLFG in a stronger position and above the minimum regulatory requirement when the full implementation of the Basel III Capital Adequacy Framework for FHCs takes effect on 1 January 2019.

6. What are the Group's plans to enhance its Islamic banking and Takaful businesses?

Response:

- Islamic banking is coming along very nicely and is already contributing almost 11% to total Hong Leong Bank earnings and is growing every year.

- Takaful business is very relevant to the Group business and we will continue to grow this business segment.

7. Why was there an increase in the provision for taxation from RM39,357,000 in FY2016 to RM235,309,000 in FY2017, set out on page 75 of HLFG 2017 Annual Report. Please give details of the increase in the tax liability in particular for the item stated as "under accrual from previous years" which had increased from RM8 million to RM168 million, set out in Note 37 of the Financial Statements on page 162 of HLFG 2017 Annual Report.

   Response:

   - The details of the increase in the tax liability which was attributable to the tax due to the Inland Revenue Board were disclosed in Note 37 on page 162 of HLFG 2017 Annual Report as follows:-

     > "Included in the under accrual in prior years is an additional one-off assessments raised by IRB in respect of prior years taxes of RM206.3 mil of which RM101.8 mil is in respect of additional assessment raised on HLB's prior years taxes and RM104.5 mil being additional assessment raised on HLAH."

     Both were one-off cases in relation to past years' taxes. HLB's case has been concluded. As for HLAH, it is currently at the dispute resolution stage.

8. Given that the total allowance for impairment losses on loans, advances and financing and other losses had increased from RM52.537 million in FY2016 to RM161.226 million in FY2017 as set out under Note 35 of the Financial Statements on page 160 of HLFG 2017 Annual Report, would the position deteriorate going forward?

   Response:

   - The increase in the allowance for impairment losses was in relation to one customer in the oil and gas industry and a prudent stance was taken to make a bad debt provision although the customer has to-date been making timely payments and the collateral is almost 100%.