HONG LEONG FINANCE LIMITED (Co. Reg. No. 196100003D)

RESPONSE TO QUESTIONS RECEIVED FROM SHAREHOLDER AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors of Hong Leong Finance Limited ("**HLF**" or the "**Company**") refers to the Company's announcement of 26 March 2025 on its Notice of 65th Annual General Meeting to be held on 24 April 2025 ("**AGM**"), in particular, the invitation to shareholders to submit questions related to the resolutions to be tabled for approval at the AGM, by 10 April 2025 ("**Cut-Off Date**"). As of the Cut-Off Date, the Company had received questions relating to the Company's Annual Report 2024 from a shareholder and the Securities Investors Association (Singapore) ("**SIAS**"), and the Company's responses to the questions raised are set out below:

(A) Shareholder:

Question:
The company's share price has in general been flat for the past 15 years despite retained earnings over the same years. Clearly, the management under the board's guidance has to think out of the box to grow its earnings consistently at an appropriate rate to warrant market's attention. It is sad when one hears excuse about the market forces being the determining factor when the company should rise to the challenge and not accept the status quo and accept defeat. Isn't what the management is for, besides ensuring that the company avoid running into rough water. In this respect, I would appreciate if the company could enlighten shareholders of what it could do about it. Thank you.

HLF's response:

HLF appreciates shareholders' continued support, and the Company strives to enhance long-term value for all our stakeholders.

While HLF's share price has been relatively stable over the past 15 years, we have navigated through the volatility of financial markets and external shocks like the COVID-19 pandemic and remained resilient and profitable.

We have maintained a consistent strong dividend payout ratio above the financial industry average of 50% with competitive dividend yield in the region of 5.5% to 6.5%. Our current dividend payout ratio stood at 59.3% at a dividend yield of 5.6% for financial year ended 31 December ("**FY**") 2024. We remain committed to maintain sustainable return to shareholders in line with our dividend policy.

We are developing our strategic business and digital transformation roadmap to ensure that our business model aligns with the evolving market landscape. This includes exploring new revenue streams, diversifying our product offerings, and investing in digital transformation that will position us for future growth. We recognise the need to adapt our strategy to meet the demands of a rapidly changing market and to create sustainable value for our shareholders. Our focus remains on strengthening business fundamentals and executing strategies with prudent risk management that drive sustainable growth and long-term value creation.

Share price performance is influenced by a wide range of factors that reflect both the institution's internal performance and broader external economic and market conditions, investor sentiment, liquidity and sector dynamics. The Management under the Board's guidance will set long-term strategic direction to maintain investor confidence and drive share price appreciation in the long term.

(B) SIAS:

Question 1:

For the financial year ended 31 December 2024, the group's net profit increased by 11.5% to $103.9 million, which management attributes to revenue growth and operational efficiency.

According to the financial analysis and review section (page 86 of the annual report), the group achieved:

- *net interest margin (NIM) of 1.6% (1.5%)*
- *cost/income ratio of 46.6% (2023: 49.4%)*
- *return on equity (ROE) of 5.0% (2023: 4.6%)*

The capital adequacy ratio remains at 16.3% in 2024.

(i) What strategy does management employ to optimise and increase NIM? To what extent does management actively engage in balance sheet management to improve NIM, and has the board provided guidance on a target NIM range to management?

HLF's response:

HLF has a balanced and largely secured loan portfolio. We are focused on growing high yield SME Loans which saw a double-digit growth in FY2024. This remains one of our key growth engines over the next 3 years.

In anticipation of lower interest rates, we have strategically grown our fixed rate portfolios including Mortgage Loans and Hire Purchase which will generate higher profit when the cost of funds decreases over time.

Our NIM is closely tied to the cost of funds which we have been actively managing downwards. We monitor market movements closely and act swiftly to re-align our fixed deposit promotional rates to optimise our funding needs against holding costs. As SORA is expected to decline, we are experiencing lower cost of funds and envisage a declining trend in 2025.

HLF's Management regularly engages in balance sheet management to grow high-return assets while maintaining a manageable level of risk; implement effective deposit strategies to reduce the cost of funding while maintaining sound liquidity; monitor interest rate gap and align asset and liability repricing to protect or grow spreads.

While the Management team is responsible for business execution and operations, the Board's strategic oversight ensures that HLF remains aligned with our balance sheet optimisation to improve NIM and sustain profitability.

(ii) *Is management satisfied with the current ROE of 5%, relative to industry peers and historical performance? Has the board set a long-term ROE target, and how does management plan to achieve it?*

HLF's response:

HLF's Return on Equity ("**ROE**") has improved by 9% from 4.6% to 5% in FY2024.

As the company has been profitable with increasing retained earnings and our total equity has been growing, this has diluted our ROE. To enhance our ROE, we aim to grow our net income at the same or faster pace through various strategies including growing revenue through expansion of product offerings, pricing strategies, or product innovation; focusing on high-yield business and assets; leveraging digital transformation to drive customer engagement and business growth; improving profit margins via lowering the cost of funding and operational costs; and enhancing other revenue streams and fee-based income.

In addition, given the volatility in global markets, we are refining our risk management frameworks to better navigate economic challenges and mitigate downside risks. This will provide greater stability and improve our financial performance.

The Board and Management are aligned in our long-term vision and have set a clear path forward to grow our ROE. We remain focused on executing our strategies effectively to achieve our aim over the coming years.

(iii) *With a capital adequacy ratio of 16.3%, does management consider the current capital adequacy of 16.3% to be excessive, given regulatory requirements and strategic growth needs? If so, what plans are in place to optimise capital allocation and potentially return excess capital to shareholders?*

HLF's response:

HLF's current Capital Adequacy Ratio ("**CAR**") of 16.3% reflects a strong and conservative capital position. While it is well above the regulatory requirements, maintaining a high CAR serves several strategic and regulatory purposes. This not only protects against unexpected losses or economic downturns but also avoids regulatory interventions or capital calls during stress periods. Furthermore, a high CAR supports lending activities and withstands market uncertainties, and is useful when planning for strategic expansion, acquisitions, or new markets.

As part of our capital management planning, we will evaluate opportunities to deploy excess capital for strategic business growth opportunities. We will optimise the excess capital to drive long-term profitability and sustainability with prudent risk management in alignment with the Board's long-term strategic direction. We are prohibited from share buyback under the Finance Companies Act.

Question 2:

The number of employees increased from 619 to 632 over the past year.

(i) *What proportion of the recent headcount increase is attributable to strategic hires in areas such as digitalisation, cybersecurity, data analytics, and artificial intelligence (AI), aimed at future-proofing the group?*

HLF's response:

Since 2022, HLF has established a clear and deliberate digital transformation roadmap. To support its execution, we have taken a phased approach to progressively upgrade our capabilities by acquiring new talent through both replacement hires and newly-created roles. In addition, one of our key approaches is to reallocate and upskill internal resources to support digital initiatives, helping us to minimise the need to significantly increase headcount while still building the necessary capabilities.

Between 2022 and 2024, as part of HLF's transformation efforts, two senior management members and five operational staff were hired. Their responsibilities include delivering the digital roadmap while ensuring infrastructure stability and maintaining strong governance standards. One of the key outcomes of this effort was the successful pilot launch of HLF Digital, our first digital banking app, in August 2024.

To further drive transformation, we are implementing structured process integration across business functions to improve efficiency and customer responsiveness.

As our digital platforms evolve, we continue to deepen our internal expertise, with a growing emphasis on risk governance and cybersecurity to ensure the integrity of our platforms and data.

At the same time, we are encouraged by the growing customer adoption of our digital offerings, which affirms our transformation strategy. Moving forward, we aim to build on this momentum by enabling innovation through introducing more digital solutions that are relevant, resilient, and aligned with our customers' needs.

(ii) *In the face of intense competition for talent from fintechs and banks, what are the company's key strategies to attract, develop, and retain high-calibre employees? How does the company assess the effectiveness of its talent pipeline in ensuring long-term success?*

HLF's response:

HLF has in place various strategies to attract, develop and retain talent. We provide competitive compensation and benefits including market-benchmarked packages and well-being programmes, as well as opportunities for continuous learning through training and mentorship which not only enhance employees' skills but also foster loyalty. In addition, we provide an inclusive and collaborative work environment where staff are valued and treated with respect. We also emphasise work life balance and are committed to high standards of operations excellence, risk management and business integrity.

As part of HLF's long-term strategic plan, we identify and develop potential successors for critical roles, which helps to ensure business continuity and minimise disruption during transitions. To assess and identify potential talent, we also collaborate with Polytechnics and Universities through internship programmes.

The profiles and photographs of the directors (including the managing director) are shown on pages 16 to 23 of the annual report but there is minimal disclosure on the senior management team beyond a brief mention on page 34.

(iii) Can the company provide more visibility into the bench strength of key leaders across critical functions? Would it consider publishing profiles of its senior management team to enhance transparency and investor confidence?

HLF's response:

We provide comprehensive information on board members and leadership, in line with regulatory and governance expectations.

We have chosen not to publish detailed individual profiles of our broader senior management team, which reflects our focus on protecting internal talent and maintaining personal privacy of our executives.

In addition, our leadership development and succession planning frameworks are well-established and reviewed regularly by the Board's Nominating Committee.

Question 3:

At the annual general meeting scheduled to be held on 24 April 2025, the company is proposing to re-elect Mr Kwek Leng Beng who has served as a director on since March 1979.

If re-elected, the director will remain as chairman of the board and executive committee, a member of the board risk committee and the nominating committee. Mr Kwek Leng Beng also serves as the managing director.

An excerpt from the director's profile is shown below. The full profile can be found on page 17 of the annual report, and additional information on directors seeking re-election is available on pages 180-187.

KWEK LENG BENG • 84
CHAIRMAN / EXECUTIVE DIRECTOR

First appointment as Director
1 March 1979

Appointment as Executive Chairman
28 November 1984

Last re-election as Director
27 April 2023
Will be seeking re-election at the 2025 Annual General Meeting

Board committees
- Executive Committee (Chairman)
- Board Risk Committee (Member)
- Nominating Committee (Member)

Present directorships in other listed companies and principal commitments
- City Developments Limited* ("CDL") (Executive Chairman)
- Hong Leong Investment Holdings Pte. Ltd. (Executive Chairman)
- Millennium & Copthorne Hotels Limited (Executive Chairman)

Other appointments
- Singapore Hotel Association (Member)
- Singapore Institute of Directors (Fellow)

(i) *Can the board, especially the nominating committee, clarify the distinct roles and responsibilities of Mr Kwek Leng Beng as managing director and Mr Ang Tang Chor as president? Is there any significant overlap in their functions?*

<u>HLF response:</u>

As Managing Director ("**MD**"), Mr Kwek Leng Beng is the most senior executive in the Company and bears full executive responsibility for the Company's business. He provides the Company with strong leadership and vision, leads the Board in developing policies and strategies, and ensures that these are implemented effectively. He has oversight of the President and provides guidance and advice to him.

Mr Ang Tang Chor, the President, is primarily responsible for the operations of the Company. This includes executing the policies and strategies approved by the Board, managing departments and business units to ensure efficiency, and ensuring that the Company's operations are aligned with its strategic goals. In consultation with the MD, the President also seeks business opportunities and drives new initiatives to enhance operational performance.

While the MD drives the Company's long-term vision and strategies, the President ensures that the Company's operations align with the vision and strategies and the Company is run efficiently. There is, therefore, a distinct separation of their roles.

(ii) *Given the director's other executive roles outside the company, can the board confirm whether Mr Kwek Leng Beng serves as a full-time managing director?*

<u>HLF response:</u>

Besides being MD of the Company, Mr Kwek Leng Beng also holds executive roles in the Company's related companies. Please refer to the write-up on Mr Kwek on page 17 of the Company's Annual Report 2024.

When the Nominating Committee ("**NC**") evaluates the Directors' individual performance and nominations for re-election to the Board, the Directors' time commitment is one of several factors considered by the NC. This is particularly scrutinised in the case of Directors who sit also on other boards and/or have other principal commitments. Based on its evaluation, the NC is fully satisfied with Mr Kwek Leng Beng's time commitment to the Company. Among other things, this is evident from Mr Kwek's full attendance at Board and relevant Board Committee meetings over the years.

The nominating committee (NC), as stated in its terms of reference, is responsible for succession planning for both the board (including the chairman) and key management personnel (KMP), comprising the managing director, president, and chief financial officer (CFO).

(iii) *Can the committee provide a detailed overview of its succession planning framework, including its approach to identifying and developing potential successors?*

<u>HLF's response:</u>

Board succession planning is a continual process and is reviewed annually by the NC. Besides considering the Board diversity plans and targets (which includes reviewing its size, composition and mix), the NC also takes into consideration the Company's business operations. The NC has recommended, and the Board has concurred, that in the absence of the Board Chairman, the Lead Independent Director, Mr Peter Chay, will stand in as the Board Chairman in the interim until a new Chairman is appointed. With the review framework in place, the NC is of the view that the Board will be able to function smoothly notwithstanding the resignation or retirement of any Director.

The NC also reviews succession planning for the KMP annually. Other than the MD, none of the other KMP are Directors. The other KMP are the President, CFO, and with effect from February 2025, the Executive Vice President ("**EVP**") (Operations), EVP (Internal Audit) and EVP (Corporate & Consumer Business). Potential successors to all KMP (not being a Director) have also been identified and are being groomed.

Roles which make significant contributions to the Company's success have also been identified and included in management succession planning. Staff holding these roles and their potential successors are given exposure to areas beyond their own responsibilities as part of grooming them for future promotion.

By Order of the Board

Yeo Swee Gim, Joanne
Ng Siew Ping, Jaslin
Company Secretaries

Date: 17 April 2025