PRIVATE AND CONFIDENTIAL

HONG LEONG BANK BERHAD
(Company No. 97141-X)
(Incorporated in Malaysia)

INFORMATION MEMORANDUM

PROPOSED ISSUANCE, OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE OF SUBORDINATED NOTES OF UP TO RM10.0 BILLION (OR ITS EQUIVALENT IN OTHER CURRENCIES) IN NOMINAL VALUE UNDER A MULTI-CURRENCY SUBORDINATED NOTES PROGRAMME

Principal Adviser/Lead Arranger/Lead Manager

HONG LEONG INVESTMENT BANK BERHAD
(Company No. 10209-W)

This Information Memorandum is dated 16 May 2014

RESPONSIBILITY STATEMENT

This Information Memorandum has been approved by the directors of Hong Leong Bank Berhad (the "**Bank**" or the "**Issuer**") and they collectively have accepted full responsibility for the accuracy of the information contained herein, and have further confirmed that, after having made all reasonable enquiries in the circumstances, and to the best of their knowledge, information and belief, there are no false or misleading statements or other material facts the omission of which would make any statement in this Information Memorandum false or misleading and that there are no material omissions from this Information Memorandum.

IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER

This Information Memorandum is to be distributed on a confidential basis to potential investors for the sole purpose of assisting such investors to consider whether to subscribe for or purchase the subordinated notes (the "**Sub-Notes**") to be issued by the Issuer under a multi-currency subordinated notes programme of up to RM10.0 billion (or its equivalent in other currencies) in nominal value (the "**Multi-Currency Sub-Notes Programme**").

At the point of issuance of the RM denominated Sub-Notes, the RM denominated Sub-Notes shall not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, to whom an offer or invitation to subscribe for the RM denominated Sub-Notes and to whom the RM denominated Sub-Notes are issued would fall within Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b); read together with Schedule 9 or Section 257(3) of the Capital Markets and Services Act, 2007, as amended from time to time ("**CMSA**") and such other selling restrictions as may be applicable outside Malaysia.

Subsequent to the issuance of the RM denominated Sub-Notes, the RM denominated Sub-Notes shall not be offered or sold directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, to whom an offer or invitation to subscribe for the RM denominated Sub-Notes would fall within Schedule 6 or Section 229(1)(b); read together with Schedule 9 or Section 257(3) of the CMSA and such other selling restrictions as may be applicable outside Malaysia.

At the point of issuance of the non-RM denominated Sub-Notes, the non-RM denominated Sub-Notes shall not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, to whom an offer or invitation to subscribe for the non-RM denominated Sub-Notes and to whom the non-RM denominated Sub-Notes are issued would fall within Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b); read together with Schedule 8 or Section 257(3) or Schedule 9 or Section 257(3) of the CMSA and such other selling restrictions as may be applicable outside Malaysia.

Subsequent to the issuance of the non-RM denominated Sub-Notes, the non-RM denominated Sub-Notes shall not be offered or sold directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, to whom an offer or invitation to subscribe for the non-RM denominated Sub-Notes would fall within Schedule 6 or Section 229(1)(b); read together with Schedule 8 or Section 257(3) or Schedule 9 or Section 257(3) of the CMSA and such other selling restrictions as may be applicable outside Malaysia.

This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer or as required under Malaysian laws, regulations or guidelines.

The Issuer hereby acknowledges that it has authorised the Principal Adviser/Lead Arranger/Lead Manager to circulate or distribute this Information Memorandum on its behalf in respect of or in connection with the proposed issue, offer or invitation to subscribe or purchase the Sub-Notes on a confidential basis to prospective investors falling within the selling restrictions and that no further evidence of authorisation is required.

No representation or warranty, express or implied, is given or assumed by the Principal Adviser/Lead Arranger/Lead Manager as to the authenticity, origin, validity, accuracy or completeness of information and data contained in this Information Memorandum or that the information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum.

The Principal Adviser/Lead Arranger/Lead Manager has not accepted and will not accept any responsibility for the information and data contained in this Information Memorandum or otherwise in relation to the Sub-Notes and shall not be liable for any consequences of reliance on any of the information or data in this Information Memorandum, except as provided by Malaysian laws. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by the Issuer, the Principal Adviser/Lead Arranger/Lead Manager or any other person.

This Information Memorandum should not be construed as a recommendation by the Issuer, the Principal Adviser/Lead Arranger/Lead Manager, any of its advisers or any other party to subscribe for or purchase the Sub-Notes. Further, the information contained herein should not be read as a representation or warranty, expressed or implied, as to the merits of the Sub-Notes or the purchase thereof. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis. Each recipient should perform and is deemed to have made his/its own independent investigation and analysis of the Issuer, the Sub-Notes and all other relevant matters, including but not limited to the information and data set out in this Information Memorandum, and each recipient should consult his/its own professional advisers.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction outside Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an offer of, or an invitation to subscribe for or purchase the Sub-Notes or any other securities of any kind by any party in any Foreign Jurisdiction.

This Information Memorandum is not and is not intended to be a prospectus and has not been registered or lodged under the laws of Malaysia or of any Foreign Jurisdiction as a prospectus. The information in this Information Memorandum is current as at the date hereof, unless specified otherwise.

The distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction may be restricted or prohibited by law. Each recipient is required by the Issuer and the Principal Adviser/Lead Arranger/Lead Manager to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer nor the Principal Adviser/Lead Arranger/Lead Manager accepts any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that: (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to receive this Information Memorandum and to subscribe for, purchase or in any other way to receive the Sub-Notes under all jurisdictions to which the recipient is subject, (c) the recipient will comply with all the applicable laws in connection with such subscription, purchase or acceptance of the Sub-Notes, (d) the Issuer and all other parties involved in the preparation of this Information Memorandum and their respective directors, officers, employees, agents and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription, purchase or acceptance of the Sub-Notes and they shall not have any responsibility or liability in the event that such subscription or acceptance of the Sub-Notes is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Sub-Notes can only be transferred or otherwise disposed of in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Sub-Notes and is able and prepared to bear the economic and financial risks of investing in or holding the Sub-Notes, (g) it is subscribing for, purchasing or accepting the Sub-Notes for its own account, (h) it, at the point of issuance of the RM denominated Sub-Notes, falls within one (1) or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the RM denominated Sub-Notes would constitute an excluded issue, excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b); read together with Schedule 9 or Section 257(3) of the CMSA and such other selling restrictions as may be applicable outside Malaysia; and after the point of issuance of the RM denominated Sub-Notes, falls within one (1) or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the RM denominated Sub-Notes would constitute an excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b); read together with Schedule 9 or Section 257(3) of the CMSA and such other selling restrictions as may be applicable outside Malaysia, and (i) it, at the point of issuance of the non-RM denominated Sub-Notes, falls within one (1) or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the non-RM denominated Sub-Notes would constitute an excluded issue, excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b); read together with Schedule 8 or Section 257(3) or Schedule 9 or Section 257(3) of the CMSA and such other selling restrictions as may be applicable outside Malaysia; and after the point of issuance of the non-RM denominated Sub-Notes, falls within one (1) or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the non-RM denominated Sub-Notes would constitute an excluded offer or excluded invitation pursuant to Schedule 6 or Section 229(1)(b); read together with Schedule 8 or Section 257(3) or Schedule 9 or Section 257(3) of the CMSA and such other selling restrictions as may be applicable outside Malaysia.

Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subjected to. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase the Sub-Notes in relation to any recipient who does not fall within item (h) and (i) above.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Sub-Notes shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Sub-Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Principal Adviser/Lead Arranger/Lead Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the tenure of the Sub-Notes or to advise any investor in the Sub-Notes of any information coming to its attention. The recipient of this Information Memorandum or the potential investors should review, inter alia, the most recently published documents incorporated by reference into this Information Memorandum when deciding whether or not to purchase the Sub-Notes.

This Information Memorandum includes certain historical information, estimates and projections or reports thereon derived from sources believed to be reliable and other publicly available information. Such information, estimates, and projections or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy of any information, estimate and projection or report thereon derived from such and other third party sources.

This Information Memorandum includes “forward looking statements”. These statements include, among other things, disclosure of the Issuer’s business strategy and expectation concerning its position in the Malaysian economy, such other Foreign Jurisdiction in which its overseas businesses are located and future operations. Such forward looking statements involve known and unknown risks, uncertainties and other factors, which may affect actual outcomes, many of which are outside the control of the Issuer. All these statements are based on estimates and assumptions made by the Issuer that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of the Issuer to be materially different from that expected or indicated by such statements and estimates, and no assurance is given that any of such statements or estimates will be realised. Therefore, the contingencies and inherent uncertainties underlying such information should be carefully considered by investors and the inclusion of a forward looking statement in this Information Memorandum is not a representation or warranty by the Issuer or any other person that the plans and objectives of the Issuer will be achieved. Further, such parties are not under any obligation to update or revise such forward looking statements to reflect any change in expectations or circumstances. Any differences in the expectations of the Issuer and its actual performance may result in the Issuer’s operating performance and plans being materially different from those anticipated.

All discrepancies (if any) in the tables included in this Information Memorandum between the listed amounts and totals thereof are due to, and certain numbers appearing in this Information Memorandum are shown after rounding.

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STATEMENTS OF DISCLAIMER – SECURITIES COMMISSION MALAYSIA

This Information Memorandum will be deposited in accordance with Sections 229(4) and 230(4) of the CMSA with the Securities Commission Malaysia ("**SC**"), which takes no responsibilities for its contents.

The SC had on 23 April 2014 authorised and approved the Multi-Currency Sub-Notes Programme for the issuance of the Sub-Notes pursuant to Section 214 (1) and 256C(1) of the CMSA. Please note that the SC's approval and authorisation shall not be taken to indicate that the SC recommends the subscription or purchase of the Sub-Notes.

The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed and contained in this Information Memorandum.

EACH ISSUE OF SUB-NOTES WILL CARRY DIFFERENT RISKS. ALL INVESTORS SHOULD EVALUATE EACH ISSUE OF SUB-NOTES BASED ON ITS MERITS. INVESTORS MUST RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF AN INVESTMENT IN ANY ISSUE OF SUB-NOTES. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR OWN LEGAL, FINANCIAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING ANY OF SUB-NOTES.

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CONFIDENTIALITY

This Information Memorandum and its contents are strictly confidential and the information herein contained is given to the recipient strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this Information Memorandum and its contents, and any information that is made available in connection with any further enquiries, must be held in complete confidence.

In the event that there is any contravention of this confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, the Issuer may, at its discretion, apply for any remedy available to the Issuer whether at law or equity, including without limitation, injunctions. The Issuer is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered, in this regard. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisers, directors, employees and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

This Information Memorandum is provided to prospective investors solely for their own evaluation of the Sub-Notes.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the Principal Adviser/Lead Arranger/Lead Manager promptly upon the Principal Adviser/Lead Arranger/Lead Manager's request, unless that recipient provides proof of a written undertaking satisfactory to the Principal Adviser/Lead Arranger/Lead Manager with respect to destroying these documents as soon as reasonably practicable after the said request from the Principal Adviser/Lead Arranger/Lead Manager.

E-DISCLAIMER

This Information Memorandum may be sent to you in an electronic form.

This Information Memorandum is strictly confidential and does not constitute an offer to subscribe for or purchase of any of the securities described herein or any invitation to subscribe for or purchase of any of the securities to any person or to the public generally other than to the intended recipient. Distribution or reproduction in any manner and form of this Information Memorandum to any persons, other than the person receiving the electronic transmission from the Issuer, the Principal Adviser/Lead Arranger/Lead Manager and their respective directors, officers, employees, affiliates and agents and any person retained to advise the person receiving the electronic transmission with respect thereto, is unauthorised. The person receiving the electronic transmission from the Issuer, the Principal Adviser/Lead Arranger/Lead Manager and their respective directors, officers, employees, affiliates and agents is prohibited from disclosing this Information Memorandum or any of its contents in any manner or form, altering the contents of this Information Memorandum or forwarding a copy of this Information Memorandum or any portion thereof by electronic mail or otherwise to any person. By opening and accepting this electronic transmission of this Information Memorandum, the recipient agrees to the foregoing.

Transmission over the internet may be subject to interruptions, transmission blackout, delayed transmission due to internet traffic, incorrect data transmission, data corruption, interception, unauthorised amendment, tampering, viruses or other technical, mechanical or systemic risks associated with internet transmissions due to the public nature of the internet. The Issuer, the

Principal Adviser/Lead Arranger/Lead Manager and their respective directors, officers, employees, affiliates and agents have not accepted and will not accept any responsibility and/or liability for any such interruption, transmission blackout, delayed transmission, incorrect data transmission, corruption, interception, amendment, tampering or viruses or any consequences thereof.

The electronic transmission of this Information Memorandum is intended only for use by the addressee named in the e-mail and may contain legally privileged and/or confidential information. If you are not the intended recipient of the e-mail, you are hereby notified that any dissemination, distribution or copying of the e-mail, and any attachments thereto, is strictly prohibited. If you have received the e-mail in error, please immediately notify by reply e-mail and permanently delete all copies of the e-mail and destroy all printouts of it.

The foregoing is in addition to and without prejudice to all other disclaimers and agreements as provided in this Information Memorandum which disclaimers and agreements, the recipient shall be deemed to have agreed to or be bound by.

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GLOSSARY OF DEFINITIONS AND ABBREVIATIONS

The following definitions (in addition to the definitions contained in the body herein) shall apply throughout this Information Memorandum except where the context otherwise requires:

BAC	:	Board Audit Committee
BCB	:	Business and Corporate Banking
BCBS	:	Basel Committee on Banking Supervision
BCSC	:	Board Credit Supervisory Committee
BNM	:	Bank Negara Malaysia
Board	:	Board of Directors of the Bank
BOCD	:	Bank of Chengdu Co. Ltd (Incorporation No. 510100000040263)
BRMC	:	Board Risk Management Committee
Bursa Securities	:	Bursa Malaysia Securities Berhad
CMSA	:	Capital Markets and Services Act 2007, as amended from time to time
EXCO	:	Executive Committee
FSA	:	Financial Services Act 2013, as amended from time to time
FYE	:	Financial year ended
HLA		Hong Leong Assurance Berhad (Company No. 94613-X)
HLB *or* the Bank *or* the Issuer	:	Hong Leong Bank Berhad (Company No. 97141-X)
HLB Group *or* the Group	:	Collectively, Hong Leong Bank Berhad, its subsidiaries and associated companies
HLCB	:	Hong Leong Capital Berhad (Company No. 213006-U)
HLFG	:	Hong Leong Financial Group Berhad (Company No. 8024-W)
HLFG group	:	Collectively, Hong Leong Financial Group Berhad, its subsidiaries and associated companies
HLIB	:	Hong Leong Investment Bank Berhad (Company No. 10209-W)
HLISB	:	Hong Leong Islamic Bank Berhad (Company No. 686191-W)
IFSA	:	Islamic Financial Services Act 2013, as amended from time to time
Lead Manager	:	HLIB and such other party(ies) (if any) as may be selected by the Issuer for any particular issuance
Multi-Currency Sub-Notes Programme	:	This multi-currency subordinated notes programme of up to RM10.0 billion (or its equivalent in other currencies) in nominal value for the issuance of the Sub-Notes
MyClear	:	Malaysian Electronic Clearing Corporation Sdn Bhd
NC	:	Nominating Committee
Noteholders	:	Holder(s) of the Sub-Notes

PFS	:	Personal Financial Services
PDS	:	Private Debt Securities
PIDM	:	Malaysia Deposit Insurance Corporation
Principal Adviser/Lead Arranger	:	HLIB
PTC	:	Principal Terms and Conditions of the Multi-Currency Sub-Notes Programme (set out in **Section 2** of this Information Memorandum)
RAM	:	RAM Rating Services Berhad (Company No. 763588-T)
RC	:	Remuneration Committee
RM	:	Ringgit Malaysia
SC	:	Securities Commission Malaysia
Sub-Notes	:	The subordinated notes issued under the Multi-Currency Sub-Notes Programme (further details of which are described in the PTC)
Trust Deed	:	The trust deed made or to be made between the Issuer and the Trustee constituting the Sub-Notes
Trustee	:	Malaysian Trustees Berhad (Company No. 21666-V)
USA	:	The United States of America
USD	:	The lawful currency of the United States of America

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1. EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information, the financial statements and notes thereto appearing elsewhere in this Information Memorandum. Investors should read the full text of this Information Memorandum before deciding to invest in the Sub-Notes.

1.1 Brief Background of the Issuer

The Issuer was incorporated as Kwong Lee Bank Limited in Malaysia on 26 October 1934 and changed its name to Kwong Lee Bank Berhad on 15 April 1966. In 1982, Kwong Lee Bank Berhad was acquired by MUI Group and on 2 February 1983, the Issuer changed its name to Malayan United Bank Berhad. Subsequently on 26 June 1989, the Issuer changed its name to MUI Bank Berhad. In January 1994, Hong Leong Group acquired MUI Bank Berhad and the Issuer assumed its present name on 10 January 1994. Hong Leong Bank was listed on the Kuala Lumpur Stock Exchange on 17 October 1994.

Please refer to **Section 4** of this Information Memorandum for more details on the description of the Issuer.

1.2 Description of the Multi-Currency Sub-Notes Programme

The Multi-Currency Sub-Notes Programme for the issuance of the Sub-Notes provides flexibility for the Issuer to issue, from time to time, the Sub-Notes in RM or other currencies during the tenure of the Multi-Currency Sub-Notes Programme, provided that the aggregate outstanding amount of the Sub-Notes shall not at any time exceed RM10.0 billion (or its equivalent in other currencies) in nominal value.

The tenure of the Multi-Currency Sub-Notes Programme is thirty (30) years from the first issue date of the Sub-Notes under the Multi-Currency Sub-Notes Programme. During this tenure, the Issuer has the option to issue Sub-Notes having tenure of not less than five (5) years from its issue date, provided that the Sub-Notes shall mature on or prior to the expiry of the Multi-Currency Sub-Notes Programme and shall, if applicable, be callable on any coupon payment date falling no earlier than five (5) years after the issuance of the relevant Sub-Notes ("**Call Date**"), at the option of the Issuer and subject to the item 2(u) of the PTC (as described in **Section 2** of this Information Memorandum) being satisfied.

The Sub-Notes, which are intended to qualify as Tier-2 capital of the Issuer in accordance with BNM's Capital Adequacy Framework (Capital Components) issued on 28 November 2012, will constitute direct, unconditional and unsecured obligations of the Issuer, subordinated in right and priority of payment, to the extent and in the manner provided in the Sub-Notes, ranking pari passu among themselves. The Sub-Notes will, in the event of winding-up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinated to the Sub-Notes.

The Sub-Notes may be subject to a contingent write-off upon the occurrence of a Non-Viability Event (as defined in **Section 2** of this Information Memorandum). Upon the occurrence of a Non-Viability Event, BNM shall have the option to require the entire principal outstanding, or a part thereof, and all other amounts owing under the Sub-Notes to be written off, and if BNM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event, each of the holders of the Sub-Notes irrevocably waives its right to receive repayment of the principal amount of the Sub-

Notes so written off and also irrevocably waives its right to any coupon (including coupon accrued but unpaid up to the date of the occurrence of a Non-Viability Event). For the avoidance of doubt, the requirement for a write off following the occurrence of a Non-Viability Event involving HLFG group will only apply to such tranche of the Sub-Notes in respect of which the Consolidated Recognition Option (as defined in **Section 2**) has been adopted and will not apply to other tranches of the Sub-Notes in respect of which the Consolidated Recognition Option has not been adopted.

For the avoidance of doubt, upon the occurrence of a Non-Viability Event, where the Issuer is required by BNM to write off or convert a portion of all the Tier 2 instruments and Tier 1 instruments of the Issuer which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, the Issuer shall first convert or write off the relevant Tier 1 instruments (if applicable), to be followed by the write off or conversion of the relevant Tier 2 instruments on a pari passu basis.

For the avoidance of doubt, such write off shall not constitute an event of default or enforcement event, nor would it trigger any cross-default under the Sub-Notes.

The coupon rate of the relevant Sub-Notes shall be determined prior to the issue date of each issuance of the Sub-Notes and the rate shall be applicable throughout the tenure of the relevant Sub-Notes. For the avoidance of doubt, there is no step-up coupon rate.

The PTC is set out in **Section 2** of this Information Memorandum.

1.3 Utilisation of Proceeds

The proceeds raised from the Multi-Currency Sub-Notes Programme shall be made available for the Issuer, without limitation, for its working capital, general banking and other corporate purposes, and the refinancing of any existing borrowings incurred, subordinated debt issued by the Issuer and/or any existing Sub-Notes issued under the Multi-Currency Sub-Notes Programme.

1.4 Rating by RAM

RAM has assigned a preliminary rating of AA_2 for the RM denominated Sub-Notes. In respect of the non-RM denominated Sub-Notes, the rating requirement is exempted under paragraph 4.11(b) of the Guidelines on Private Debt Securities of the SC. However, the non-RM denominated Sub-Notes may be rated by international rating agency(ies) in the future.

1.5 Approvals Required

1.5.1 BNM had via its letter dated 20 February 2014 approved the Multi-Currency Sub-Notes Programme.

1.5.2 The Multi-Currency Sub-Notes Programme has been approved and authorised by the SC vide its letter dated 23 April 2014.

The approvals and/or authorisation of the SC and BNM should not be taken to indicate that the SC or BNM recommends subscription for or purchase of the Sub-Notes. Investors should rely on their own evaluation to assess the merit and risk of investment.

1.6 Selling Restrictions

1.6.1 RM denominated Sub-Notes

(a) At Issuance

The RM denominated Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of, the RM denominated Sub-Notes and to whom the RM denominated Sub-Notes are issued would fall within:

(i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)); read together with
(ii) Schedule 9 (or Section 257(3))

of the CMSA and such other selling restrictions as may be applicable outside Malaysia.

(b) After Issuance

The RM denominated Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the RM denominated Sub-Notes and to whom the RM denominated Sub-Notes are issued would fall within:

(i) Schedule 6 (or Section 229(1)(b)); read together with
(ii) Schedule 9 (or Section 257(3))

of the CMSA and such other selling restrictions as may be applicable outside Malaysia.

1.6.2 Non-RM denominated Sub-Notes

(a) At Issuance

The non-RM denominated Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the non-RM denominated Sub-Notes and to whom the non-RM denominated Sub-Notes are issued would fall within:

(i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)); read together with
(ii) Schedule 8 (or Section 257(3) or Schedule 9 (or Section 257(3))

of the CMSA as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

(b) <u>After Issuance</u>

The non-RM denominated Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the non-RM denominated Sub-Notes and to whom the non-RM denominated Sub-Notes are issued would fall within:

(i) Schedule 6 (or Section 229(1)(b)); read together with
(ii) Schedule 8 (or Section 257(3) or Schedule 9 (or Section 257(3))

of the CMSA as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

1.6.3 Tradability

The RM denominated Sub-Notes and the non-RM denominated Sub-Notes are transferable, subject to the aforementioned selling restrictions and tradable under:

(i) the Rules on Scripless Securities under the Real Time Electronic Transfer of Funds and Securities System operated by MyClear, or
(ii) such other clearing and settlement rules of the relevant jurisdiction as shall be agreed by the Issuer and the Lead Manager.

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2. PRINCIPAL TERMS AND CONDITIONS OF THE MULTI-CURRENCY SUB-NOTES PROGRAMME

(a) *Names of parties involved in the proposal, where applicable:*

(i)	Principal Adviser	:	Hong Leong Investment Bank Berhad ("**HLIB**").
(ii)	Lead Arranger	:	HLIB. Principal Adviser/Lead Arranger to be referred to as the "**PA/LA**".
(iii)	Co-Arranger	:	Not applicable.
(iv)	Solicitors	:	Messrs Adnan Sundra & Low.
(v)	Financial Adviser	:	Not applicable.
(vi)	Technical Adviser	:	Not applicable.
(vii)	Bond Trustee	:	Malaysian Trustees Berhad.
(viii)	Guarantor	:	Not applicable.
(ix)	Valuer	:	Not applicable.
(x)	Facility Agent	:	HLIB.
(xi)	Primary Subscriber (under a bought-deal arrangement) and amount subscribed	:	To be determined prior to each issuance in respect of issuance via a bought deal basis only. Not applicable for issuance via private placement and book building.
(xii)	Underwriter and amount underwritten	:	In respect of the first issuance, the multi-currency subordinated notes ("**Sub-Notes**") will not be underwritten. For subsequent issuances, the Issuer may consider appointing underwriter(s) for the Sub-Notes.
(xiii)	Central Depository	:	For Ringgit ("**RM**") denominated Sub-Notes issuance Bank Negara Malaysia ("**BNM**"). For non-RM denominated Sub-Notes issuance Such central depository to be appointed prior to each issuance.
(xiv)	Paying Agent	:	BNM.
(xv)	Reporting Accountant	:	Not applicable.
(xvi)	Calculation Agent	:	Not applicable.

	(xvii) Others (Please Specify)		
	Lead Manager	:	HLIB and such other party(ies) (if any) as may be selected by the Issuer for any particular issuance.
(b)	Facility Description	:	A multi-currency subordinated notes programme involving the issuance of Sub-Notes of up to RM10.0 billion or its equivalent in other currencies in nominal value ("**Multi-Currency Sub-Notes Programme**"). The Sub-Notes issued under the Multi-Currency Sub-Notes Programme will qualify as Tier 2 capital of the Issuer in accordance with BNM's *Capital Adequacy Framework (Capital Components)* (the "**Framework**") issued on 28 November 2012.
(c)	Issue/Debt Programme Size	:	Up to RM10.0 billion or its equivalent in other currencies in nominal value. The total outstanding Sub-Notes issued under the Multi-Currency Sub-Notes Programme shall not at any time exceed the nominal value of RM10.0 billion or its equivalent in other currencies.
(d)	Tenure of Issue/Debt Programme	:	<u>Tenure of the Multi-Currency Sub-Notes Programme</u> Thirty (30) years from the date of the first issuance of the Sub-Notes under the Multi-Currency Sub-Notes Programme. <u>Tenure of the Sub-Notes</u> Each Sub-Note issued under the Multi-Currency Sub-Notes Programme shall have a tenure of not less than five (5) years from its issue date, provided that the Sub-Notes shall mature on or prior to the expiry of the Multi-Currency Sub-Notes Programme and shall, if applicable, be callable on the Call Date (as defined below) subject to the requirements set out in item 2.(u) below in relation to an Early Redemption. <u>Call Option</u> Each issuance of Sub-Notes under the Multi-Currency Sub-Notes Programme may have a callable option ("Call Option") (to be determined prior to each issuance). Under the Call Option, if applicable for the relevant Sub-Notes, the Issuer shall have the option to redeem all or part of such Sub-Notes on the Call Date subject to the requirements set out in item 2.(u) below in relation to an Early Redemption. "Call Date" is defined as "the Coupon Payment Date (as defined in item 2.(g)) falling no earlier than five (5) years after the issuance of the Sub-Notes and any Coupon Payment Date thereafter as may be applicable to a particular issuance of Sub-Notes that the Issuer and the Lead Manager agree prior to the issuance of such Sub-Notes".

(e)	Availability Period of Debt Programme	:	The Multi-Currency Sub-Notes Programme shall have an availability period of twenty five (25) years from the date of first issuance under the Multi-Currency Sub-Notes Programme. The date of the first issuance under the Multi-Currency Sub-Notes Programme shall not be later than two (2) years from the date of approval and authorisation by the Securities Commission Malaysia ("**SC**").
(f)	Interest/Coupon Rate	:	The coupon rate is to be determined prior to the issue date of each issuance of Sub-Notes. The coupon rate shall be applicable throughout the tenure of the relevant Sub-Notes (i.e. there shall be no step-up coupon rate).
(g)	Interest/Coupon Payment Frequency	:	Payable semi-annually in arrears from the issue date ("**Coupon Payment Date**") with the last coupon payment to be made on the maturity date or upon the date of Early Redemption (as defined in item 2.(u) below), whichever is the earlier.
(h)	Interest/Coupon Payment Basis	:	Actual number of days elapsed on a 365-day basis or in any event in accordance with MyClear Procedures (as defined in item 2.(m) below).
(i)	Security/Collateral, where applicable	:	None.
(j)	Details on Utilisation of Proceeds	:	The proceeds of the Sub-Notes shall be made available to the Issuer, without limitation, for its working capital, general banking and other corporate purposes, and the refinancing of any existing borrowings incurred, subordinated debt issued by the Issuer and/or any existing Sub-Notes issued under the Multi-Currency Sub-Notes Programme.
(k)	Sinking Fund and Designated Accounts, where applicable	:	Not applicable.
(l)	Rating	:	<u>For RM denominated Sub-Notes issuance</u> The rating agency is RAM Rating Services Berhad ("**RAM**"). The preliminary rating for the Sub-Notes is AA_2. <u>For non-RM denominated Sub-Notes issuance</u> The rating requirement is exempted under paragraph 4.11(b) of the SC's "*Guidelines on Private Debt Securities*" in respect of the non-RM denominated Sub-Notes. However, in the future, the non-RM denominated Sub-Notes may be rated by international rating agency(ies).
(m)	Mode of Issue	:	The Sub-Notes may be issued via direct placement on a best effort basis or a bought deal basis or book running on a best effort basis without prospectus.

For RM denominated Sub-Notes issuance

Issuance of the Sub-Notes shall be in accordance with (1) the Participation and Operation Rules for Payments and Securities Services ("**MyClear Rules**") issued by Malaysian Electronic Clearing Corporation Sdn Bhd ("**MyClear**"); and (2) the Operational Procedures for Securities Services issued by MyClear ("**MyClear Procedures**"), as amended or substituted from time to time (collectively, "**MyClear Rules and Procedures**"), subject to such variation, amendments or exemptions (if any) from time to time.

For non-RM denominated Sub-Notes issuance

The Sub-Notes shall be issued in accordance with the procedures and rules of the relevant jurisdiction.

(n) Selling Restriction, including Tradability :

Selling Restrictions at issuance for RM denominated Sub-Notes

The Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Sub-Notes and to whom the Sub-Notes are issued would fall within:

(i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)); read together with

(ii) Schedule 9 (or Section 257(3))

of the Capital Markets and Services Act, 2007, ("**CMSA**") as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

Selling Restrictions after issuance for RM denominated Sub-Notes

The Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Sub-Notes and to whom the Sub-Notes are issued would fall within:

(i) Schedule 6 (or Section 229(1)(b)); read together with

(ii) Schedule 9 (or Section 257(3))

of the CMSA as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia.

Selling Restrictions at issuance for non-RM denominated Sub-Notes

The Sub-Notes may only be offered, sold, transferred or

			otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Sub-Notes and to whom the Sub-Notes are issued would fall within: (i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)); read together with (ii) Schedule 8 (or Section 257(3) or Schedule 9 (or Section 257(3)) of the CMSA as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia. <u>Selling Restrictions after issuance for non-RM denominated Sub-Notes</u> The Sub-Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person to whom an offer for subscription or purchase of, or invitation to subscribe for or purchase of the Sub-Notes and to whom the Sub-Notes are issued would fall within: (i) Schedule 6 (or Section 229(1)(b)); read together with (ii) Schedule 8 (or Section 257(3) or Schedule 9 (or Section 257(3)) of the CMSA as amended from time to time, and such other selling restrictions as may be applicable outside Malaysia. <u>Tradability for RM and non-RM denominated Sub-Notes</u> The Sub-Notes are transferable (but subject to the Selling Restrictions described above) and tradable under (a) the Rules on Scripless Securities under the Real Time Electronic Transfer of Funds and Securities System operated by MyClear or (b) such other clearing and settlement rules of the relevant jurisdiction as shall be agreed by the Issuer and the Lead Manager.
(o)	Listing Status and Types of Listing	:	<u>For RM denominated Sub-Notes issuance</u> The Sub-Notes may be listed under the Exempt Regime maintained by Bursa Malaysia Securities Berhad. The SC will be notified accordingly in the event of such listing. <u>For non-RM denominated Sub-Notes issuance</u> The Notes may be listed on such exchange as may be agreed by the Issuer and the Lead Manager.
(p)	Other Regulatory Approvals Required in Relation to the Issue, Offer or Invitation to Subscribe or Purchase Sub-Notes,	:	Approval from BNM for the establishment of the Multi-Currency Sub-Notes Programme which was obtained via its letter dated 20 February 2014.

and whether or not obtained

(q) Conditions Precedent : To include but not limited to the following (all of which shall be in form and substance acceptable to the PA/LA):

A. Main Documentation

The Transaction Documents (as defined in item 2.(v)(iii) below) have been signed and, where applicable, stamped or endorsed as exempted from stamp duty under the relevant legislation and presented for registration.

B. The Issuer

(i) Certified true copies of the Certificate of Incorporation and the Memorandum and Articles of Association of the Issuer.

(ii) Certified true copies of the latest Forms 24, 44 and 49 of the Issuer.

(iii) A certified true copy of a board resolution of the Issuer authorising, among others, the issuance of the Sub-Notes and the execution of the Transaction Documents.

(iv) A list of the Issuer's authorised signatories and their respective specimen signatures.

(v) A report of the relevant company search of the Issuer.

(vi) A report of the relevant winding up search or the relevant statutory declaration of the Issuer (in form and substance acceptable to the PA/LA) signed by a director of the Issuer declaring that the Issuer is not wound up and that no winding up petition has been presented against the Issuer.

C. General

(i) The approval and authorisation from the SC and, where applicable, all other regulatory authorities.

(ii) The approval from BNM to establish the Multi-Currency Sub-Notes Programme.

(iii) The Sub-Notes (where RM denominated) have received the relevant ratings acceptable to the Lead Manager. Where a tranche of the Sub-Notes is to be included as capital in the consolidated total capital of the Hong Leong Financial Group Berhad group, which shall be decided by the Issuer prior to the issuance of such tranche ("**Consolidated Recognition Option**"), it is a condition precedent to the issuance of such tranche that the Issuer has procured the relevant rating agency's written confirmation that the rating assigned to such tranche (where applicable) remains unchanged from the previous assigned rating notwithstanding the adoption of

Consolidated Recognition Option in respect of such tranche, which confirmation shall be in form and substance acceptable to the Lead Manager.

(iv) Should a rating by international rating agency(ies) for the non-RM denominated Sub-Notes be required by the investor(s), receipt of such rating(s) acceptable to the Lead Manager.

(v) A legal opinion from the Solicitors addressed to the PA/LA and the Facility Agent advising with respect to, among others, the legality, validity and enforceability of the Transaction Documents.

(vi) A written confirmation from the Solicitors addressed to the PA/LA that all the conditions precedent have been fulfilled or waived as the case may be and where required, all the necessary Transaction Documents have been presented for registration with the relevant registries.

(vii) Such other conditions precedent as may be advised by the Solicitors (if any).

(r) Representations and Warranties : Representation and warranties will include such representation and warranties customary and standard for a facility of this nature and shall include, but not limited to the following:

(i) The Issuer is duly incorporated, validly in existence and has the power and authority to carry out its business.

(ii) The Issuer has the power to enter into the Transaction Documents and exercise its rights and to perform its obligations under the Transaction Documents.

(iii) Entry into and the exercise of the Issuer’s rights and obligations under the Transaction Documents do not violate any existing law or regulation.

(iv) The Transaction Documents create valid, binding and enforceable obligations on the part of the Issuer.

(v) All necessary actions, authorisations and consents required under the Transaction Documents and the Sub-Notes have been obtained and remain in full force and effect.

(vi) The audited financial statements of the Issuer are prepared in accordance with generally accepted accounting principles and standards and represent a true and fair view.

(vii) Save as disclosed in the Information Memorandum, there is no litigation which would have a material adverse effect on the Issuer’s ability to perform its obligations under the Transaction Documents.

			(viii) Any other representation and warranties as may be advised by the Solicitors.
(s)	Events of Default and Enforcement Event, where applicable	:	The Events of Default shall be: (i) Default in payment of any principal or coupon under the Sub-Notes on the due date and the Issuer does not remedy such default within a period of seven (7) business days from the due date; or (ii) An order is made for the winding up of the Issuer and such order is not stayed or set aside within sixty (60) days of such order being made or, where so stayed, such stay lapses, or an effective resolution is passed for winding up of the Issuer except where such order is made or such resolution is passed for the purpose of a reconstruction or amalgamation of the Issuer, the terms of which have been approved by the holders of the Sub-Notes by way of special resolution. Upon the occurrence of item (i) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the holders of the relevant Sub-Notes) institute proceedings to enforce the payment obligations under the relevant Sub-Notes and may institute proceedings in Malaysia for the winding up of the Issuer, provided that neither the Trustee nor any of the holders of the relevant Sub-Notes shall have the right to accelerate payment of the relevant Sub-Notes in the case of default in the payment of any amount owing under the relevant Sub-Notes or any non-performance of any condition, provision or covenant under the Trust Deed. Upon occurrence of item (ii) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the holders of the Sub-Notes) declare (by giving written notice to the Issuer) that the Sub-Notes together with all other sums payable under the Sub-Notes shall become and be immediately due and payable at its nominal value together with the accrued but unpaid coupon (if any) notwithstanding the stated maturity of the Sub-Notes, whereupon such amounts shall become and be immediately due and payable. For the avoidance of doubt, the occurrence of Event of Default (i) above for any tranche of the Sub-Notes will not trigger an Event of Default for other tranches of the Sub-Notes outstanding. However, occurrence of Event of Default (ii) above will trigger an Event of Default for all tranches of the Sub-Notes outstanding.
(t)	Covenants	:	The Issuer shall comply with such applicable positive covenants as may be advised by the Solicitors and/or which are required in order to comply with the SC's Trust Deeds Guidelines including, but not limited to the following: (i) Exercise reasonable diligence in carrying on its business in a proper and efficient manner and keep in force and effect all

licenses, consents and rights necessary for the conduct of its business.

(ii) At all times comply with all relevant laws and regulations.

(iii) Maintain a paying agent in Malaysia.

(iv) Maintain proper books and accounts and deliver a copy of its audited financial statements to the Trustee in a timely manner.

(v) Inform the Trustee of any actual or potential Event of Default.

(vi) Deliver to the Trustee an annual certificate of compliance.

(u) Provisions on Buy-Back and Early Redemption of Sub-Notes :

Buy-Back of the Sub-Notes

The Issuer or any of its subsidiaries may at any time purchase, subject to the prior approval of BNM where applicable (but which approval shall not be required for a purchase done in the ordinary course of business), the Sub-Notes at any price in the open market or by private treaty provided no Non-Viability Event (as defined in item 2.(v)(viii) below) has occurred prior to the date of such purchase. If purchase is made by tender for a tranche of the Sub-Notes, such tender must (subject to any applicable rules and regulations) be made available to all holders of that tranche of the Sub-Notes equally.

The Sub-Notes purchased by the Issuer or its subsidiaries (other than in the ordinary course of business) shall be cancelled. The Sub-Notes purchased by related corporations (other than its subsidiaries) or any interested person of the Issuer, which includes the directors, major shareholders and chief executive officer, need not be cancelled but they will not entitle such related corporations or interested person of the Issuer to vote under the terms of the Sub-Notes subject to any exceptions in the SC's Trust Deeds Guidelines.

For the avoidance of doubt, the Sub-Notes held by related corporations or any interested person of the Issuer shall not be counted for the purposes of voting subject to any exceptions in the SC's Trust Deeds Guidelines. The Sub-Notes purchased and cancelled shall not be available for reissuance by the Issuer.

For the purpose of this clause, the term "ordinary course of business" includes those activities performed by the Issuer or any related corporation of the Issuer for third parties but excludes those performed for the funds of the Issuer or such related corporation. Third parties herein refer to clients of the Issuer, of its subsidiaries' and of related corporations.

Early Redemption

For each tranche of the Sub-Notes where a Call Option is applicable, the Issuer may, at its sole discretion, and subject to the prior approval of BNM, redeem that tranche of the Sub-Notes in part or in whole on the Call Date at their nominal amount together with accrued but unpaid coupon (if any). The early redemption by the Issuer of the Sub-Notes of one tranche does not trigger the redemption of the Sub-Notes in other tranches.

Regulatory Redemption

If at any time there is more than an insubstantial risk, as determined by the Issuer, that (i) any tranche of the Sub-Notes (in whole or in part) issued will, either immediately or with the passage of time or upon either the giving of notice or fulfilment of a condition, no longer fully qualify as Tier 2 capital of the Issuer (whether due to a change in accounting or tax policies or BNM's regulations or otherwise) for the purposes of BNM's capital adequacy requirements under any regulations applicable to the Issuer; or (ii) changes in law will make it unlawful to continue performing its obligations under the Sub-Notes, the Issuer may at its option, redeem such tranche of the Sub-Notes in full at their nominal amount together with accrued but unpaid coupon (if any), subject to the prior approval of BNM.

Tax Redemption

If there is more than an insubstantial risk that the Issuer (i) has or will be required to pay any additional amounts because of taxes, duties, assessments or government charges of whatever nature in relation to any tranche of the Sub-Notes; or (ii) would no longer be able to deduct interest in respect of any tranche of the Sub-Notes for taxation purposes, as a result of a change in, or amendment to, any applicable laws or regulations of Malaysia or any political subdivision or any authority thereof or therein having power to tax, or change in the application or official interpretation of such laws or regulations, which change or amendment comes into effect on or after the issue dates of the relevant Sub-Notes and the Issuer cannot, by taking reasonable measures available to it, avoid the payment of any additional amounts or deduct interest in respect of any tranche of the Sub-Notes, the Issuer may, at its option, redeem such tranche of the Sub-Notes in full at their nominal amount together with accrued but unpaid coupon (if any), subject to the prior approval of BNM.

(v) Other Principal Terms and Conditions for the Issue

(i)	Redemption at Maturity	:	Unless previously redeemed on the Call Date or redeemed pursuant to a Tax Redemption or a Regulatory Redemption or purchased from the market and cancelled, the Sub-Notes will be redeemed at their nominal amount together with accrued but unpaid coupon (if any) on their respective maturity dates.
(ii)	Status of Sub-Notes	:	The Sub-Notes will constitute direct and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Sub-Notes, ranking

			pari passu among themselves. The Sub-Notes will, in the event of a winding up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinate to the Sub-Notes.
(iii)	Transaction Documents	:	The Sub-Notes shall be evidenced by, inter alia, the following: (i) Programme Agreement; (ii) Securities Lodgement Form; (iii) Trust Deed; and (iv) Any other relevant agreements as advised by the Solicitors.
(iv)	Trustee's Reimbursement Account	:	The Trustee shall open and maintain, throughout the tenure of the Sub-Notes, a trustee's reimbursement account for the Sub-Noteholders' actions (the "**Account**") and the credit balance of the Account must be no less than RM30,000.00 which amount is to be obtained from the proceeds of issuance of the Sub-Notes.
(v)	Taxation	:	All payments by the Issuer shall be made subject to withholding or deductions for or on account of any present or future tax, duty, or charge of whatsoever nature imposed or levied by or on behalf of Malaysia, or any authority thereof having power to tax, and the Issuer shall not be required to gross up in connection with such withholding or deduction on these payments or distributions.
(vi)	Voting Rights	:	The holders of the Sub-Notes shall have no voting rights in the Issuer.
(vii)	Other Conditions	:	The Sub-Notes shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and/or any other authority having jurisdiction over matters pertaining to the Sub-Notes.
(viii)	Non-Viability Loss Absorption	:	Following the occurrence of the following trigger events (each a "**Non-Viability Event**"), whichever is the earlier: (i) BNM and the Malaysia Deposit Insurance Corporation ("**PIDM**") have notified the Issuer in writing that they are of the opinion that the write off of the Sub-Notes, together with the conversion or write off of any other Tier 2 instruments and Tier 1 instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, is necessary, without which the Issuer or the Hong Leong Financial Group Berhad group (if the Consolidated Recognition Option has been adopted in respect of such tranche of the Sub-Notes), would cease to be viable; or (ii) BNM and PIDM publicly announces that a decision has been

made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Issuer, without which the Issuer or the Hong Leong Financial Group Berhad group (if the Consolidated Recognition Option has been adopted in respect of such tranche of the Sub-Notes), would cease to be viable,

BNM shall have the option to require the entire principal outstanding, or a part thereof, and all other amounts owing under the Sub-Notes to be written off, and if BNM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event (as defined above), each of the holders of the Sub-Notes hereby irrevocably waives its right to receive repayment of the principal amount of the Sub-Notes so written off and also irrevocably waives its right to any coupon (including coupon accrued but unpaid up to the date of the occurrence of a Non-Viability Event). For the avoidance of doubt, the requirement for a write off following the occurrence of a Non-Viability Event involving the Hong Leong Financial Group Berhad group will only apply to such tranche of the Sub-Notes in respect of which the Consolidated Recognition Option has been adopted and will not apply to other tranches of the Sub-Notes in respect of which the Consolidated Recognition Option has not been adopted.

For the avoidance of doubt, upon the occurrence of a Non-Viability Event as described under (i) or (ii) above, where the Issuer is required by BNM to write off or convert a portion of all the Tier 2 instruments and Tier 1 instruments of the Issuer which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, the Issuer shall first convert or write off the relevant Tier 1 instruments (if applicable), to be followed by the write off or conversion of the relevant Tier 2 instruments on a pari passu basis.

For the avoidance of doubt, such write off shall not constitute an event of default or enforcement event, nor would it trigger any cross-default under the Sub-Notes.

A Non-Viability Event shall be deemed to have occurred on the day on which the Issuer received the notification from the BNM as per the clause herein where the Issuer shall immediately inform the Trustee and the rating agency of the same.

The Sub-Notes will under no circumstances be converted into equity of the Issuer and will only absorb losses pursuant to the terms specified herein.

(ix) Governing Laws : For RM denominated Sub-Notes issuance

Laws of Malaysia.

For non-RM denominated Sub-Notes issuance

The laws of such jurisdiction as shall be agreed upon by the Issuer and the Lead Manager.

3. INVESTMENT CONSIDERATIONS

THIS SECTION PROVIDES A SUMMARY OF CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD BE AWARE OF BUT IT IS NOT INTENDED TO BE COMPLETE OR EXHAUSTIVE. PRIOR TO MAKING ANY DECISION TO INVEST IN THE SUB-NOTES, PROSPECTIVE INVESTORS ARE ADVISED TO SEEK PROFESSIONAL ADVICE AND UNDERTAKE THEIR OWN INVESTIGATIONS ON THE ISSUER, AND ANY OTHER PARTIES OR MATTERS CONNECTED WITH THE SUB-NOTES AS THEY MAY CONSIDER NECESSARY, INCLUDING BUT NOT LIMITED TO, CONSULTING WEBSITES MAINTAINED BY REPUTABLE AUTHORITIES AND/OR ORGANISATIONS SUCH AS BNM, FOR FURTHER INFORMATION ON, INTER ALIA, THE INDUSTRY THAT THE ISSUER IS IN.

The information contained in this Information Memorandum includes forward looking statements which imply risks and uncertainties. The Issuer's actual results could differ materially from those anticipated in these forward looking statements and/or otherwise projected as a result of certain factors, including but not limited to those set forth in this section.

3.1 Considerations Relating to the HLB Group

Before investing in the Sub-Notes, prospective investors should pay particular attention to the fact that the Issuer and HLB Group and its activities are subject to the legal, regulatory and business environment in Malaysia and the other markets in which the Issuer and the Group operates (including, but not limited to, Singapore, Hong Kong, Vietnam, Cambodia and China). In the event of any of the following investment considerations materialising, the Group's business, business condition and/or results of operations could be materially and adversely affected.

3.1.1 Liquidity risks arising in connection with the HLB Group's failure to anticipate changes in funding sources could adversely impact the Group's ability to meet its obligations and may increase its cost of funds

Liquidity risks could arise from the HLB Group's inability to anticipate and provide for unforeseen decreases or changes in funding sources, which could have adverse consequences on the Group's ability to meet its obligations when they fall due. The HLB Group's funding resources to support their loan and investment operations are characterised by short-term customer deposits comprising demand, savings, fixed deposits and short term loans from financial institution.

Historically, the HLB Group's deposits resources have contained a significant level of core deposits. There can be no assurance that its stable deposit resources will continue. For instance, if significant deposits are withdrawn or not rolled over upon maturity, the Group's liquidity position could be adversely affected and it may need to borrow from alternative short- or long-term sources at a higher cost to fund its operations. Such funding may also not be available on commercially reasonable terms, or at all. This may materially and adversely affect the HLB Group's business, financial condition, results of operations and prospects.

3.1.2 The HLB Group's business is inherently subject to the risk of market fluctuations

The HLB Group's business is inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, exchange rates, interest rates, inflation rates, credit spreads, commodity, equity, bond and property prices and the risk that its customers may act in a manner which is inconsistent with the HLB Group's business, pricing and hedging assumptions. In particular, as a result of the Group's expansion into foreign markets, the Group may become increasingly exposed to changes in, and increased volatility of, foreign currency exchange rates.

Market movements may have an impact on the HLB Group in a number of key areas. For example, changes in interest rate levels, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. Historically, there have been periods of high and volatile interbank lending margins over official rates (to the extent that banks have been willing to lend at all), which have exacerbated these risks.

Although the Group believes that it has adopted a sound market risk management practices and strategies, there can be no assurance that the HLB Group's risk management systems will remain effective in mitigating risk exposure in all market environments or against all types of risks, including risks that are unidentified or unanticipated. Some methods of managing risks are based upon observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures had indicated.

3.1.3 Deteriorating economic conditions could lead to an increase in impaired loans which could adversely impact the HLB Group

Under Financial Instruments: Recognition and Measurement (**MFRS 139**), the HLB Group assesses, at each reporting date, whether there is objective evidence that a loan or a group of loans is impaired. A loan or group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one (1) or more events that has occurred after the initial recognition of the loan (an incurred "**loss event**") and that loss event(s) have an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

The HLB Group first assesses whether objective evidence of impairment exists individually for loans which are individually significant, and individually or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment.

Loan impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of loans, advances and financing. The carrying amount of the loans, advances and financing is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

The HLB Group's gross impaired loans ratio and loan impairment coverage ratio stood at 1.3% and 127.5% respectively, as at 31 December 2013. Any worsening of economic conditions in Malaysia or the region may lead to an increase in impaired loans. A substantial increase in impaired loans may materially and adversely affect the HLB Group's business, financial condition, results of operations and prospects and necessitate write-offs, which may materially and adversely impact its capital adequacy ratio.

3.1.4 Credit risks arising in connection with the HLB Group's businesses or a deterioration in the credit quality of the Group's counterparties could affect the recoverability and value of the HLB Group's assets and require increased provisioning

Credit risks arising from adverse changes in the credit quality and recoverability of loans, advances and amounts due from counterparties are inherent in a wide range of the HLB Group's businesses. Credit risks could arise from deterioration in the credit quality of the Group's specific counterparties, from a general deterioration in local or global economic and market conditions or from systemic risks within the financial systems. Although the Group believes that it has adopted a sound asset quality management system, there can be no assurance that the system will remain effective or adequate or that the amount of the HLB Group's impaired or non-performing loans will not increase in the future. If the asset quality of the Group's loan portfolio deteriorates, HLB Group could be required to make additional provisions and write-offs, which may materially and adversely affect the Group's business, financial condition, results of operations and prospects. See "Risk Management" at **Section 6** of this Information Memorandum for a description of the HLB Group's exposure to credit risks.

3.1.5 Interest rate risks arising in connection with the HLB Group's loan portfolio, holdings of securities and its interbank deposits and placements could adversely impact the HLB Group

The HLB Group's exposure to interest rate risk arises from its loan portfolio, holdings of securities, customer deposits and its interbank deposits and placements. When the market interest rates decline, the HLB Group's net interest margin generally decreases due to the immediate re-pricing of its base lending rate ("**BLR**") or base rate (BR) based loans compared with slower re-pricing of the interest paid on customers' deposits, in particular fixed/time deposits which are only re-priced on maturity.

The net interest margin on certain of the HLB Group's banking products, credit cards for example, may be compressed in a rising interest rate environment due to statutory caps on the interest rate that the Group may charge its customers, therefore potentially preventing the HLB Group from passing on the full amount of the interest rate increase to its customers.

On the other hand, a portion of the portfolio of the Group's loans is composed of fixed rate loans such as hire purchase loans and personal loans, which are financed with fixed interest rates over the tenure of such loans, are protected in a declining interest rate environment.

Net interest margin also faces significant pressure due to competition within the Malaysian banking sector, where market participants compete aggressively on price in certain product sectors. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates. The actual effect on net interest income due to changes in interest rates will depend on the degree and timing of changes in interest rates, the behaviour and contractual re-pricing dates of the HLB Group's assets and liabilities and the HLB Group's ability to respond to changes in its interest rates on loans and deposits. Although the HLB Group believes that it has adopted sound interest rate risk management strategies, there is no assurance that such strategies will remain effective or adequate in the future.

3.1.6 Deterioration in collateral values, in particular the value of real estate, or inability to realise collateral value may necessitate an increase in HLB Group's provisions

The HLB Group's largest concentration of loans is housing loans, which comprised 43.4% of the HLB Group's total loans as at 31 December 2013. Consequently, a significant portion of the HLB Group's loans are secured by collateral such as real estate, the value of which, in some cases, may decline due to economic deterioration or general worsening of the current global market outlook.

This may result in a portion of the HLB Group's loans exceeding the value of the underlying collateral. Any such deterioration in the value of the collateral securing the HLB Group's loans or its inability to obtain additional collateral or inability to realise the value of existing collateral may require the HLB Group to increase its loan provisions, which may adversely affect the business, financial condition and results of operations of the HLB Group and may necessitate write-offs which may materially and adversely impact its capital adequacy ratio.

3.1.7 The HLB Group may raise additional capital in order to comply with regulatory capital framework

Pursuant to BNM's Capital Adequacy Framework (Capital Components) guidelines issued on 28 November 2012, which are derived from internationally-agreed standards on capital adequacy promulgated by the BCBS established by the Bank for International Settlements, BNM requires all banks in Malaysia to have minimum common equity Tier 1 ("**CET1**") capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6.0% and a Total Capital ratio of at least 8.0% with effect from 1 January 2015. The minimum capital adequacy ratios applicable for 2013 and 2014 are CET1 of at least 3.5% and 4.0% respectively, Tier 1 of at least 4.5% and 5.5% respectively while minimum Total Capital ratio is at least 8.0% for 2013 and 2014. In addition, banks will be required to maintain a capital conservation buffer of 2.5% of total risk weighted assets, in the form of common equity (or equivalent), subject to scaling factors of 25% in calendar year 2016, 50% in calendar year 2017 and 75% in calendar year 2018 under BNM transition arrangement. Separately, banks will be required to maintain a countercyclical capital buffer of up to 2.5% of total risk weighted assets subject to similar scaling factors. The capital requirements would also be supplemented by a leverage ratio, a liquidity coverage ratio and a net stable funding ratio.

As at 31 December 2013, the HLB Group's CET1 capital ratio, Tier 1 capital ratio and Total Capital ratio (all ratios were after proposed dividends) were 10.2%, 11.8% and 14.4% respectively.

HLB Group's capital base and capital adequacy ratio may deteriorate in the future if its results of operations or financial condition deteriorate for any reason, including as a result of any deterioration in the asset quality of its loans or if the HLB Group is not able to deploy its funding into suitably low-risk assets. If the Group's capital adequacy ratio deteriorates, it may be required to obtain additional capital in order to remain in compliance with the applicable capital adequacy guidelines. However, the Group may not be able to obtain additional capital on favourable terms, or at all.

3.1.8 The HLB Group depends on the recruitment and retention of qualified personnel and any failure to attract and retain such personnel could affect the HLB Group's businesses

The HLB Group, to a significant extent, relies on its directors and senior management for its business direction and business strategy. In addition, the HLB Group's success also depends on the ability and experience of its senior management and other key employees. Competition for personnel is intense and the HLB Group may not be successful in attracting or retaining qualified personnel. The loss of directors, senior management members or key employees, the HLB Group's inability to attract new qualified employees or adequately trained employees, or the delay in hiring key personnel, could adversely affect its ability to operate its business or to compete effectively, which in turn, could affect the HLB Group's business, financial condition and results of operations. There can be no assurance that there will be continuity in the HLB Group's present management team throughout the tenure of the Sub-Notes.

Competition for skilled personnel also places upward pressure on wage rates generally and may lead to the restructuring of remuneration packages of key personnel in order for the HLB Group to maximise its retention rates. Both loss of key personnel and pressure on wage rates are exacerbated by new entrants in the Malaysian banking market, particularly foreign banks and financial institutions. Restructuring of remuneration packages may impose additional costs on the HLB Group, both in terms of the costs of salary and non-salary items that make up the restructured remuneration packages and in terms of management time and expertise taken up in developing and implementing the restructured remuneration packages across the HLB Group. There may be significant challenges in implementing restructured remuneration packages across the HLB Group, including the risk of industrial action from employees or their respective unions. General upward pressure on wage rates and the costs associated with restructuring of remuneration packages could affect the HLB Group's business, financial condition and results of operations.

3.1.9 Risk of significant fraud, system failures, calamities or security breaches

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (such as those of the HLB Group's counterparties or vendors) and the occurrence of natural disasters. Although HLB Group has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, there can be no assurance that such measures will be effective.

In addition, the HLB Group seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the HLB Group's increased use of the internet. Computer break-ins and power disruptions could affect the security of information stored in, and transmitted through, these computer systems and network infrastructure. The HLB Group employs security systems, including firewalls and password encryption, designed to minimise the risk of security breaches. There can be no assurance that these security measures will be adequate or successful.

A significant fraud, system failure, calamity or failure in security measures could have a material adverse effect on the HLB Group's business, financial condition, results of operations and prospects. In addition, the HLB Group's reputation could be adversely affected by significant frauds committed by employees, customers or other third parties. See "Risk Management" at **Section 6** of this Information Memorandum for a description of the HLB Group's exposure to operational risks.

3.1.10 If the Group is unable to adapt to rapid technological changes on a timely basis, or is not successful in integrating new technologies into its existing technology framework, its business could suffer

HLB Group's future success and ability to compete with other banks will depend, in part, on its ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. Any failure to keep pace with technological advances or to maintain an appropriate level of investment in information technology may adversely affect the HLB Group's competitiveness, business, financial condition, results of operations, prospects and reputation. While HLB Group has dedicated significant resources to implementing the latest technological advances to improve the accessibility of its services, for instance through internet and mobile phone banking, there can be no assurance that the HLB Group will successfully implement new technologies effectively or adapt its transaction-processing systems to customers' requirements or industry standards, which may, in turn, have a material adverse effect on its business and financial condition.

3.1.11 Risk of pending or future mergers or acquisitions

There can be no assurance that the HLB Group's future mergers or acquisitions will result in the successful integration of the merged or acquired businesses and operations or will not have any adverse effect on the HLB Group's business, financial condition, results of operations or prospects. In particular, if the HLB Group makes a decision relating to any merger or acquisition in uncertain or highly competitive economic or market conditions or for a substantial consideration, such merger or acquisition may result in an increase to its risk exposure or a depletion of the resources of the HLB Group, which could have an adverse effect on the business, financial condition and results of operations of the HLB Group.

3.1.12 Considerations relating to Malaysia and overseas markets in which the HLB Group operates

The business of the HLB Group is predominantly concentrated in Malaysia, which may result in a higher level of concentration risk compared to some other banks whose businesses are spread over diverse locations. As at 31 December 2013, 95.6% of the operating revenues of the HLB Group were derived from within Malaysia and 94.7% of the assets of the Group were employed within Malaysia. The concentration of revenue streams and asset locations in Malaysia may entail a higher level of risk as compared to some other banks which have revenue streams and/or assets spread over different countries. As a result, a substantial portion of revenue derived by the HLB Group and the overall quality of its loan portfolio depends on the continued strength of Malaysia's economy, which is, in turn, affected by general economic and business conditions in the Asian region as well as global economy.

3.2 Considerations Relating to the Sub-Notes Generally

3.2.1 A downgrade in rating may affect the liquidity and market price of the Sub-Notes

RAM has assigned a preliminary rating of AA_2 for the RM denominated Sub-Notes under the Multi-Currency Sub-Notes Programme. There can be no assurance that the rating will remain in effect for any given period or that the rating will not be revised by RAM in the future if, in their judgement, circumstances so warrant. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Sub-Notes but would not constitute an event of default or an event obliging the Issuer to prepay the Sub-Notes.

3.2.2 Credit ratings may not reflect all risks

The ratings of the Sub-Notes may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Sub-Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, reduced or withdrawn by the rating agency at any time.

3.2.3 There are no terms in the Sub-Notes that limit the Issuer's ability to incur additional indebtedness, including but not limited to any indebtedness that is secured or ranks senior to or equally with the Sub-Notes

There are no restrictions on the amount or number of other securities or any other form of indebtedness that the Issuer may issue or procure which are secured or rank senior to or pari passu with the Sub-Notes. The creation and issue of further securities or any other form of indebtedness that are secured or which rank senior to or pari passu with the Sub-Notes does not require the consent of the Noteholders. The issue of such securities and/or incurrence of such indebtedness may reduce the amount recoverable by the Noteholders in the event of dissolution or winding-up of the Issuer.

3.2.4 Issuer's ability to meet its obligations under the Sub-Notes

The Sub-Notes constitute direct and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Sub-Notes ranking pari passu among themselves. The Sub-Notes are payable out of the business operations of the Issuer and thus will not be the obligations or responsibilities of any person other than the Issuer. Since the Sub-Notes are unsecured, Noteholders will not have any priority of recourse to the assets of the Issuer; please also see **Section 3.3** for a description of the risks associated with the subordinated nature of the Issuer's obligations under the Sub-Notes. The ability of the Issuer to meet its obligations to pay the relevant principal or coupon of the Sub-Notes will largely be dependent on the revenue generated by its operations and the receipts of dividends from its subsidiaries. The ability of its subsidiaries to pay dividends is dependent on them maintaining profitable operations and is subject to applicable laws, regulatory guidelines and restrictions on the payment of dividends by any of the regulatory authorities or by restrictions contained in relevant financial or other agreements.

3.2.5 The Sub-Notes may not be suitable investment for all investors

Each potential investor in any Sub-Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Sub-Notes, the merits and risks of investing in the Sub-Notes and the information contained or incorporated by reference in this Information Memorandum or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sub-Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sub-Notes, including where principal or coupon is payable in one (1) or more currencies, or where the currency for principal or coupon payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Sub-Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

3.2.6 Investors should pay attention to any modification and waivers

The principal terms and conditions of the Sub-Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

3.2.7 Global financial uncertainty has a contingent effect which may affect the market price of the Sub-Notes

Changes in global financial conditions may result in substantial and/or continuing volatility in international capital markets. Further deterioration in global financial conditions could have a material adverse effect on worldwide financial markets, which may adversely affect the market price of the Sub-Notes.

3.2.8 Malaysian taxation

All payments by the Issuer shall be made subject to withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of the Government of Malaysia ("**Government**") or any authority thereof having power to tax, and the Issuer shall not be required to gross up in connection with such withholding or deduction on these payments or distributions.

Under present Malaysian law, all interest payable to non-residents in respect of the Sub-Notes is exempted from withholding tax. However, there is no assurance that this present position will continue and in the event that such exemption is revoked, modified or rendered otherwise inapplicable, such interest shall be subject to withholding tax at the then prevailing withholding tax rate.

3.2.9 Change of law

The principal terms and conditions of the Sub-Notes are based on Malaysian law in effect as at the date of this Information Memorandum and the laws of the applicable jurisdiction. No assurance can be given as to the impact of any possible judicial decision or change to such laws, or administrative practice after the date of this Information Memorandum.

3.2.10 Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Sub-Notes are legal investments for it, (2) the Sub-Notes can be used as collateral for various types of borrowing and (3) other restrictions applicable to its purchase or pledge of any Sub-Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Sub-Notes under any applicable risk-based capital or similar rules.

3.3 Considerations relating to the structure of the Sub-Notes

3.3.1 Limited events of default and right to accelerate and subordinated obligations

The events of default of the Sub-Notes are as follows:

(i) default in payment of any principal or coupon under the Sub-Notes on the due date and the Issuer does not remedy such default within a period of seven (7) business days from the due date; or

(ii) an order is made for the winding up of the Issuer and such order is not stayed or set aside within sixty (60) days of such order being made or, where so stayed, such stay lapses, or an effective resolution is passed for the winding up of the Issuer except where such order is made or such resolution is passed for the purpose of a reconstruction or amalgamation of the Issuer, the terms of which have been approved by the holders of the Sub-Notes by way of special resolution.

Upon the occurrence of item (i) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the holders of the relevant Sub-Notes) institute proceedings to enforce the payment obligations under the relevant Sub-Notes and may institute proceedings in Malaysia for the winding up of the Issuer, provided that neither the Trustee nor any of the holders of the relevant Sub-Notes shall have the right to accelerate payment of the relevant Sub-Notes in the case of default in the payment of any amount owing under the relevant Sub-Notes or any non-performance of any condition, provision or covenant under the Trust Deed.

Upon the occurrence of item (ii) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the holders of the Sub-Notes) declare (by giving written notice to the Issuer) that the Sub-Notes together with all other sums payable under the Sub-Notes shall become and be immediately due and payable at its nominal value together with the accrued but unpaid coupon (if any) notwithstanding the stated maturity of the Sub-Notes, whereupon such amounts shall become and be immediately due and payable.

For the avoidance of doubt, the occurrence of event of default (i) above for any tranche of the Sub-Notes will not trigger an event of default for other tranches of the Sub-Notes outstanding. However, the occurrence of event of default (ii) above will trigger an event of default for all tranches of the Sub-Notes outstanding.

In the event of winding-up and liquidation of the Issuer, the Sub-Notes will be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinated to the Sub-Notes.

3.3.2 The Sub-Notes may be subject to optional redemption by the Issuer

For each tranche of the Sub-Notes where a Call Option (as defined in the PTC in **Section 2** of this Information Memorandum) is applicable, the Issuer may, at its sole discretion, and subject to the prior approval of BNM, redeem that tranche of the Sub-Notes in part or in whole on the Call Date (as defined in the PTC in **Section 2** of this Information Memorandum) at their nominal amount together with accrued but unpaid coupon (if any). The early redemption by the Issuer of the Sub-Notes of one tranche does not trigger the redemption of the Sub-Notes in other tranches.

In addition:

(i) ***Regulatory Redemption*** **-** If at any time there is more than an insubstantial risk, as determined by the Issuer, that (i) any tranche of the Sub-Notes (in whole or in part) issued will, either immediately or with the passage of time or upon either the giving of notice or fulfilment of a condition, no longer fully qualify as Tier 2 capital of the Issuer (whether due to a change in accounting or tax policies or BNM's regulations or otherwise) for the purposes of BNM's capital adequacy requirements under any regulations applicable to the Issuer; or (ii) changes in law will make it unlawful to continue performing its obligations under the Sub-Notes, the Issuer may at its option, redeem such tranche of the Sub-Notes in full at their nominal amount together with accrued but unpaid coupon (if any), subject to the prior approval of BNM.

(ii) ***Tax Redemption*** **-** If there is more than an insubstantial risk that the Issuer (i) has or will be required to pay any additional amounts because of taxes, duties, assessments or government charges of whatever nature in relation to any tranche of the Sub-Notes; or (ii) would no longer be able to deduct interest in respect of any tranche of the Sub-Notes for taxation purposes, as a result of a change in, or amendment to, any applicable laws or regulations of Malaysia or any political subdivision or any authority thereof or therein having power to tax, or change in the application or official interpretation of such laws or regulations, which change or amendment comes into effect on or after the issue dates of the relevant Sub-Notes and the Issuer cannot, by taking reasonable measures available to it, avoid the payment of any additional amounts or deduct interest in respect of any tranche of the Sub-Notes, the Issuer may, at its option, redeem such tranche of the Sub-Notes in full at their nominal amount together with accrued but unpaid coupon (if any), subject to the prior approval of BNM.

3.3.3 Loss absorption in relation to the Sub-Notes

Upon the occurrence of the earlier of the events described as Non-Viability Events below:

(i) BNM and PIDM have notified the Issuer in writing that they are of the opinion that the write off of the Sub-Notes, together with the conversion or write off of any other Tier 2 instruments and Tier 1 instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, is necessary, without which the Issuer or the HLFG group (if the Consolidated Recognition Option has been adopted in respect of such tranche of the Sub-Notes), would cease to be viable; or

(ii) BNM and PIDM publicly announced that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Issuer, without which the Issuer or the HLFG group (if the Consolidated Recognition Option has been adopted in respect of such tranche of the Sub-Notes) would cease to be viable,

BNM shall have the option to require the entire principal outstanding, or a part thereof, and all other amounts owing under the Sub-Notes to be written off, and if BNM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event, each of the holders of the Sub-Notes hereby irrevocably waives its right to receive repayment of the principal amount of the Sub-Notes so written off and also irrevocably waives its right to any coupon (including coupon accrued but unpaid up to the date of the occurrence of a Non-Viability Event). For the avoidance of doubt, the requirement for a write off following the occurrence of a Non-Viability Event involving the HLFG group will only apply to such tranche of the Sub-Notes in respect of which the Consolidated Recognition Option (as defined in the PTC in **Section 2** of this Information Memorandum) has been adopted and will not apply to other tranches of the Sub-Notes in respect of which the Consolidated Recognition Option has not been adopted.

For the avoidance of doubt, upon the occurrence of a Non-Viability Event as described under (i) or (ii) above, where the Issuer is required by BNM to write off or convert a portion of all the Tier 2 instruments and Tier 1 instruments of the Issuer which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, the Issuer shall first convert or write off the relevant Tier 1 instruments (if applicable), to be followed by the write off or conversion of the relevant Tier 2 instruments on a pari passu basis.

For the avoidance of doubt, such write off shall not constitute an event of default or enforcement event, nor would it trigger any cross-default under the Sub-Notes.

A Non-Viability Event shall be deemed to have occurred on the day on which the Issuer received the notification from the BNM as per the clause herein where the Issuer shall immediately inform the Trustee and the rating agency of the same.

3.3.4 The Sub-Notes may be written-off upon the occurrence of a Non-Viability Event of HLFG group

Where a tranche of the Sub-Notes are included as capital at the consolidated level of HLFG group, the Sub-Notes may, at the option of BNM and PIDM, be written-off upon the occurrence of a Non-Viability Event in relation to HLFG group as described in paragraph 32.1 of the BNM's Capital Adequacy Framework (Capital Components).

Accordingly, there is a potential risk that a holder of the Sub-Notes will lose all or some of his investment and will not receive a full return of the principal amount or any unpaid amounts due under the Sub-Notes should there be any Non-Viability Event occurring at HLFG group's level.

However, the requirement for a write off following the occurrence of a Non-Viability Event involving the HLFG group will only apply to such tranche of the Sub-Notes in respect of which the Consolidated Recognition Option (as defined in the PTC in **Section 2** of this Information Memorandum) has been adopted and will not apply to other tranches of the Sub-Notes in respect of which the Consolidated Recognition Option has not been adopted.

3.3.5 The Consolidation Recognition Option is conditional upon the rating

Where a tranche of the Sub-Notes are included as capital at the consolidated level of HLFG group, it is a condition precedent to the issuance of such tranche that the Issuer has procured the relevant rating agency's written confirmation that the rating assigned to such tranche, if applicable, remains unchanged from the previous assigned rating notwithstanding the adoption of Consolidated Recognition Option in respect of such tranche.

There can be no assurance that the rating will remain unchanged for any given period or that the rating will not be revised by RAM in the future if, in their judgement, circumstances so warrant.

3.3.6 No step-up in coupon rate

In respect of the Sub-Notes, the coupon rate will be determined prior to each issuance of the Sub-Notes and such rate shall be applicable throughout the tenure of the relevant Sub-Notes.

3.3.7 Sub-Notes where denominations involve integral multiples

The Sub-Notes have denominations consisting of a minimum denomination of 1,000 in nominal value (in RM or any other currency determined at issuances) and integral multiples of 1,000 or such other denominations as permitted by MyClear and BNM at the time of issuance. It is possible that the Sub-Notes may be traded in amounts that are not integral multiples of such minimum denomination. In such a case, a Noteholder, who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination will not receive a definitive Sub-Note in respect of such holding (should definitive Sub-Notes be printed) and would need to purchase a principal amount of the Sub-Notes such that it holds an amount equal to one or more denominations. If definitive Sub-Notes are issued, holders should be aware that definitive Sub-Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

3.3.8 Different tranches of Sub-Notes

Each tranche of the Sub-Notes will carry different risks and potential investors are strongly encouraged to evaluate each tranche on its own merit.

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3.4 Considerations Relating to the Market Generally

3.4.1 No prior market for the Sub-Notes and liquidity of the Sub-Notes

The Sub-Notes comprises a new issue of securities by the Issuer for which there is no existing market for the Sub-Notes and there can be no assurances that a secondary market for the Sub-Notes will develop, or if a secondary market does develop, that it will provide the Noteholders with liquidity of investment or that it will continue for the tenure of the Sub-Notes. Therefore, investors may not be able to sell their Sub-Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for the Sub-Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Sub-Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

The market value of the Sub-Notes may fluctuate. Consequently, any sale of the Sub-Notes by Noteholders in any secondary market which may develop may be at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, HLB's performance and the market for similar securities. No assurance can be given as to the liquidity of, or trading market for, the Sub-Notes and an investor in the Sub-Notes must be prepared to hold the Sub-Notes for an indefinite period of time or until their maturity. Historically, the market for debt securities by Southeast Asian issuers has been subject to disruptions that have caused substantial volatility in the prices of such securities. There can be no assurance that the market for any Sub-Notes will not be subject to similar disruptions. Any such disruption may have an adverse effect on Noteholders.

Additionally, there are selling restrictions governing the Sub-Notes as described under "Selling Restrictions" of the PTC in **Section 2** of this Information Memorandum.

Accordingly, the purchase or subscription of the Sub-Notes is suitable only for investors who can bear the risks associated with a lack of liquidity in the Sub-Notes apart from the financial and other risks associated with an investment in the Sub-Notes.

3.4.2 Interest rate risk

Noteholders may suffer unforeseen losses due to fluctuations in interest rates. The Sub-Notes is similar to fixed income securities and may therefore see their prices fluctuate due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices. The Sub-Notes may be similarly affected resulting in a capital loss for Noteholders. Conversely, when interest rates fall, bond prices and the prices at which the Sub-Notes trade may rise. Noteholders may enjoy a capital gain but the profit received may be reinvested for lower returns.

3.4.3 Inflation risk

Noteholders may suffer erosion on the return of their investments due to inflation. Noteholders would have an anticipated rate of return based on expected inflation rates on the purchase of the Sub-Notes. An unexpected increase in inflation could reduce the actual returns.

3.4.4 Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the non-RM denominated Sub-Notes in foreign currency (the "**Foreign Currency**"). This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "**Noteholder's Currency**") other than the Foreign Currency. These include the risk that foreign exchange rates may significantly change (including changes due to devaluation of the Foreign Currency or revaluation of the Noteholder's Currency) and the risk that authorities with jurisdiction over the Noteholder's Currency may impose or modify exchange controls. An appreciation in the value of the Noteholder's Currency relative to the Foreign Currency would decrease (i) the Noteholder's Currency-equivalent interest on the non-RM denominated Sub-Notes, (ii) the Noteholder's Currency-equivalent value of the principal payable on the non-RM denominated Sub-Notes and (iii) the Noteholder's Currency-equivalent market value of the non-RM denominated Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable foreign exchange rate. As a result, Noteholders may receive less interest or principal than expected, or no interest or principal.

3.5 Considerations Relating to the Industry

3.5.1 Regulatory constraints

The HLB Group's principal business activities are subject to regulatory purview and measures imposed by the relevant regulatory agencies. Banking activity in Malaysia is regulated by BNM under the FSA and IFSA. Regulatory measures imposed on banks in Malaysia include restrictions on operations and measures requiring maintenance of reserves and minimum capital adequacy requirements.

The HLB Group is regulated by BNM, the central bank of Malaysia which is directly involved in the regulation and supervision of Malaysia's financial system. Its principal functions are to (i) formulate and conduct monetary policy in Malaysia; (ii) issue currency in Malaysia; (iii) regulate and supervise financial institutions which are subject to the laws enforced by BNM; (iv) provide oversight over money and foreign exchange markets; (v) exercise oversight over payment systems; (vi) promote a sound, progressive and inclusive financial system; (vii) hold and manage the foreign reserves of Malaysia; (viii) promote and exchange rate regime consistent with the fundamentals of the economy; and (ix) act as financial adviser, banker and financial agent of the Government.

BNM and the Minister of Finance of Malaysia have extensive powers under FSA and IFSA, which is the principal statute that sets out the laws for the licensing and regulation of institutions carrying on banking, finance company, merchant banking and other financial businesses. In addition to FSA and IFSA, Malaysian licensed banks and financial institutions are subject to guidelines, practice notes and standards issued by BNM from time to time.

Accordingly, potential investors should be aware that BNM could, in the future, set interest rates at levels or restrict credit in a way which may be adverse to the operations, financial condition or asset quality of banks and financial institutions in Malaysia, including the HLB Group, and may otherwise significantly restrict the activities of the HLB Group and Malaysian banks and financial institutions generally.

The regulatory measures presently imposed, and as may be introduced from time to time, by the regulatory agencies could affect the HLB Group's business activities. For example:

(i) BNM had issued Single Counterparty Exposure Limit ("**SCEL**") policies with the objective of representing a non-risk adjusted back-stop measure to ensure that exposures to a single counterparty and persons connected to it are within a prudent limit at all times, imposes a maximum permissible credit exposure to a single customer group, maximum sectorial credit in respect of financing activity, limits on the interest rates charged by banks on certain types of loans, caps on lending to certain sectors of the Malaysian economy and has established priority lending guidelines in furtherance of certain social and economic objectives. A change in credit policies by BNM may restrict certain businesses of the HLB Group and could require the HLB Group to scale down its operations in a particular business area;

(ii) On 3 November 2010, BNM announced, with immediate effect, a maximum loan-to-value ratio of 70%, which is applicable to a loan taken out by a borrower to finance their third property. On 18 March 2011, BNM placed further restrictions on credit cards provided to low income individuals, raising the minimum income eligibility requirement to RM24,000 per annum (from RM18,000 per annum) and stipulating that persons earning RM36,000 per annum or below may only hold cards from a maximum of two (2) card issuers and that the maximum credit limit on each card must not exceed two (2) times the monthly income of the cardholder;

(iii) On 18 November 2011, BNM issued new guidelines to financial institutions aiming to promote prudent, responsible and transparent retail financing practices which took effect on 1 January 2012. At present, loans with a loan-to-value ratio greater than 90% will now have to carry a risk weightage of 100%, compared with 75% previously; and

(iv) BNM had, on 16 December 2013 issued its latest SCEL policy to address and clarify, among others, prudential limits and definition of "single counterparty" based on feedback received on its earlier issued SCEL policy dated 28 February 2013.

These regulations place restrictions on the business of the Group and may cause the Group to scale down operations in the areas of its business most affected.

BNM also has broad investigative and enforcement powers. Contravention of BNM regulations and guidelines may expose the HLB Group to enquiries from an investigation by BNM and other Malaysian regulatory agencies. These enquiries or investigations may result in sanctions including fines, corrective orders, restriction of business lines and possible loss of licences required for the Group to operate its businesses and, in addition, may cause the HLB Group's reputation to be adversely affected. Contravention of regulations, policies or guidelines of BNM (or any other regulatory agency) therefore carries with it financial and reputational risks that could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

The FSA and IFSA are the new legislations that provide for the regulation and supervision of financial institutions in Malaysia, payment systems and other relevant entities and also the oversight of the money market and foreign exchange market. These new legislations generally provide for a stricter financial services regime, including the increase in duties and responsibilities of financial institutions and enhanced level of governance and disclosure.

The HLB Group have compliance procedures in place to ensure compliance with the new legislations, and effort is taken to ensure the Group meets the requirements of new regulations. There are no certainties or indications on the approach that will be taken by our regulators, and there is additional compliance cost to the HLB Group with the changing and increasing regulation.

Failure to comply with such rules and regulations may result in penalties, loss of regulatory licences and permits and damage to business reputation, which may have a material adverse effect on our business, prospects, financial condition and/or results of operations.

3.5.2 Competition

The Malaysian banking industry operates in a very competitive environment fostered by BNM's policies (e.g. the entry of, inter alia, foreign banks and domestic licensed Islamic banks which are now allowed to offer/perform products and services that are similar to those of the HLB Group). Further, BNM announced in 2009 further measures to liberalise the Malaysian financial sector, including a framework for the issuance of up to five (5) new commercial banking licences and two (2) new Islamic banking licences to foreign financial institutions and the increase of foreign equity limits to 70% for existing domestic Islamic banks, investment banks, insurance and takaful companies. The foreign equity limit for existing domestic commercial banks is currently 30%. There can be no assurance that current foreign equity limits in the Malaysian financial sector will not be increased in the future.

All of the above mentioned new commercial banking licences have been issued to foreign financial institutions. Although these policies are designed, in part, to encourage development of financial institutions in Malaysia and to strengthen domestic financial institutions in preparation for increased foreign competition, any increased competition could have an adverse effect on the HLB Group's operations in the form of reduced margins, smaller market share and reduced income generally. The issuance of new commercial banking licences to foreign financial institutions has created a more challenging business environment due to aggressive pricing, price offerings and product promotions (resulting in shrinking margins) and increasing customer demand for more sophisticated products and improved service standards.

In addition, the HLB Group's future growth will be subject to competition from other service providers in the markets into which the HLB Group exports its services or in which it operates. The Competition Act 2010 ("**Competition Act**") which took effect on 1 January 2012, was introduced to promote economic development by promoting and protecting the process of competition in order to maximise consumer welfare through the prohibition of anticompetitive practices. The Competition Act applies to all commercial activities undertaken within Malaysia and those outside Malaysia which have effects on competition in the Malaysian market. The scope of the Competition Act includes prohibitions of anticompetitive agreements and the abuse of dominant position. However, there can be no assurance that in the future, the HLB Group's business and operations will be in full compliance with the Competition Act at all times. Further, there can be no assurance that the HLB Group will be able to maintain or increase its present market share in the future or that increased competition will not materially and adversely affect the HLB Group's business, financial condition, results of operations and prospects.

Although the HLB Group plans for expansion and growth in future business, the HLB Group's future growth will inevitably be subject to competition from other service providers as well as customer preference. As such, there can be no assurance that the HLB Group will be able to maintain or increase its present market share in the future.

3.5.3 Deposits in Malaysia are not insured up to full amounts

BNM is not required to act as lender of last resort to meet liquidity needs in the banking system generally or for specific institutions, although it has, in the past and on a case-by-case basis, provided a safety net for individual banks with an isolated liquidity crisis. However, there can be no assurance that BNM will provide such assistance in the future. On 1 September 2005, BNM introduced a deposit insurance system (the "**Deposit Insurance System**") pursuant to the establishment of an independent statutory body namely PIDM, under the Malaysia Deposit Insurance Corporation Act 2005 ("**2005 Act**") and all licensed commercial banks (including subsidiaries of foreign banks operating in Malaysia) and Islamic banks are member institutions of the Deposit Insurance System.

On 16 October 2008, the Government moved to guarantee all bank deposits in an effort to shore up confidence in the Malaysian financial system to curb potentially damaging capital outflows. BNM announced the guarantee for all local and foreign currency deposits from 16 October 2008 until 31 December 2010. With effect from 31 December 2010, the Malaysia Deposit Insurance Corporation Act 2011 (the "**2011 Act**") came into effect and replaced the 2005 Act.

The 2011 Act was enacted to implement an enhanced financial consumer protection package, whereby, amongst other changes, the deposit insurance limit was increased to RM250,000 per depositor per member bank with such amount being inclusive of principal and interest. In addition, under the 2011 Act, foreign currency deposits will now benefit from deposit insurance protection.

Under the Deposit Insurance System, explicit deposit protection is provided to eligible deposits up to the prescribed limit of RM250,000 per depositor, per member institution and such amount is inclusive of principal and interest effective as of 31 December 2010. A separate coverage for the same amount is provided for Islamic deposits (i.e. those accepted under Shariah principles), accounts held under joint ownership and trust accounts, sole proprietorships and partnerships. A separate coverage for the same amount is provided for Islamic deposits (i.e. those accepted under Shariah principles), accounts held under joint ownership and trust accounts, sole proprietorships and partnerships.

Notwithstanding the aforesaid, the fact not all that deposits are insured up to their full amount could lead to or exacerbate liquidity problems, which, if severe, could have an adverse effect on the HLB Group's business, financial condition, results of operations or prospects, or on the Malaysian financial markets generally. In addition, the Deposit Insurance System could potentially encourage risk taking on the part of the HLB Group.

3.5.4 Force Majeure

An event of force majeure is an event which is not within the control of the party effected, which that party is unable to prevent, avoid or remove and shall include war and acts of terrorism, riot and disorders, natural catastrophes and others. Force majeure events do not include economic downturn, non-availability or insufficient or lack of financing on the part of the Issuer. The occurrence of a force majeure event may have a material impact on the Issuer's business.

3.6 General Considerations

3.6.1 Winding-up of the Issuer

Under the FSA, no application for the winding-up of a licensed person (i.e. all banks, which includes the Issuer), an operator of a payment system or an approved person can be presented to the High Court of Malaya without the prior written approval of BNM.

In addition, a copy of such an application to the High Court of Malaya must also be delivered to BNM at the same time as it is presented to the High Court of Malaya. The failure to comply with such requirements is an offence and a person convicted of such offence is liable to imprisonment and/or a fine.

As there is no precedent for the winding-up of a major financial institution in Malaysia, there is uncertainty as to the manner in which such proceeding would occur and the results thereof. Although the Sub-Notes may pay a higher coupon rate than comparable notes which are not subordinated, there is a real risk that an investor in the Sub-Notes will lose all or some of his investment should the Issuer become insolvent and is wound-up.

3.6.2 Forward Looking Statements

Certain statements in this Information Memorandum are forward-looking in nature. These statements include, among others, discussions of the Issuer's business strategies and expectations concerning its position in the Malaysian economy, future operations, profitability, liquidity, capital resources and financial position. All forward-looking statements are based on estimates and assumptions made by the Issuer and third party consultants that, although believed to be reasonable, are subject to risks and uncertainties which may cause actual events and the future results of the Issuer to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any such statements or estimates will be realised. In light of these and other uncertainties, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by the Issuer or any other person that the plans and objectives of the Issuer will be achieved.

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4. DESCRIPTION OF THE ISSUER

4.1 Overview

As at 31 March 2014, the HLB Group is Malaysia's 5th largest commercial banking group by total assets and by customer deposits. The HLB Group's principal business is commercial banking, which consists of PFS, BCB and Global Markets. The HLB Group conducts its commercial banking business in Malaysia, with two overseas branches located in Singapore and Hong Kong, two subsidiaries located in Vietnam and Cambodia, and an associated bank and joint venture consumer finance company in Chengdu, China. A representative office of HLB has been established in Nanjing, Jiangsu Province, People's Republic of China. The HLB Group is also involved in Islamic Banking.

With more than 100 years of banking knowledge and experience, HLB today has a strong heritage, leading market positions and a well-recognised business franchise and brand. Its merger with EON Bank Group in 2011 has further embedded its position as a core banking franchise with an expanded distribution network of around 300 branches across the country. The HLB Group offers a comprehensive range of alternate and electronic channels including self-service terminals, Hong Leong Call Centre, Hong Leong Phone Banking, Connect Online Banking and Connect Mobile Banking.

The ordinary shares of HLB have been listed on Bursa Securities since 1994. As at 31 March 2014, HLB had a market capitalisation of RM26.6 billion. Headquartered in Malaysia, HLB is a member of the Hong Leong group of companies, one of the largest business groups in Malaysia, with diversified businesses in financial services, manufacturing, property and infrastructure development. The ultimate holding company of HLB is Hong Leong Company (Malaysia) Berhad.

4.1.1 Enlarged Scale and Synergies from the EON Cap Acquisition

The EON Cap Acquisition (as defined in **Section 4.2** below) has enhanced the HLB Group's scale and systemic importance in the Malaysian banking industry. The merger has transformed the HLB Group into the 5th largest commercial banking group by total assets and by customer deposits, and resulting in the third largest domestic branch network. The HLB Group stands to benefit from the complementary strengths as a result of the EON Cap Acquisition, both in terms of product offerings and customer base. Post-acquisition, all businesses have strengthened their respective franchises through leveraging on the enhanced distribution capabilities and product range across the combined customer base of the Issuer.

4.1.2 Robust Asset Quality and Conservative Lending Practices

The HLB Group has an industry leading asset quality profile, supported by disciplined credit management policies, conservative lending practices and complemented by prudent loan loss provisioning standards. As at 31 December 2013, the HLB Group's gross impaired loan ratio stood at 1.3% compared to the Malaysian banking industry average of 1.8%. The HLB Group's loan impairment coverage of 127.5% was also significantly stronger than the Malaysian banking industry average of 101.0% as at 31 December 2013.

** Source: Bank Negara Malaysia. (http://www.bnm.gov.my)*

4.1.3 Strong Liquidity and Deposit Funding Base

The HLB Group has a large and stable source of deposit funding, with a high proportion of stable retail deposits which stood at 52.5% of the HLB Group's total customer deposits as at 31 December 2013. The Issuer's total customer deposits have grown consistently, backed by the HLB Group's network of about 300 branches in Malaysia and the strength of its customer franchise. As at 31 December 2013, the HLB Group's total gross loans, advances and financing and total customer deposits stood at RM100.6 billion and RM125.9 billion respectively, resulting in a loan, advances and financing to deposit ratio of 79.9%.

4.1.4 Strong Capital Position

As at 31 December 2013, the HLB Group's CET1 capital ratio, Tier 1 capital ratio and Total Capital ratio stood at 10.5%, 12.1% and 14.7% respectively before deducting proposed dividends and at 10.2%, 11.8% and 14.4% respectively after deducting proposed dividends, well above the minimum regulatory requirement for year 2013.

4.1.5 Diversified Earnings Portfolio and Solid Profitability

The Issuer also has an increased diversification of segmental profitability. For the six month period ended 31 December 2013, PFS, BCB, Global Markets and the international operations contributed 46%, 34%, 18% and 2% respectively to the HLB Group's profit before taxation and zakat. In addition, the HLB Group is well positioned to capture Islamic finance opportunities with RM17.2 billion in customer deposits and RM14.0 billion in gross financing as at 31 December 2013.

4.2 History and Background

The Issuer was incorporated as Kwong Lee Bank Limited in Malaysia on 26 October 1934 and changed its name to Kwong Lee Bank Berhad on 15 April 1966. In 1982, Kwong Lee Bank Berhad was acquired by MUI Group and on 2 February 1983, the Issuer changed its name to Malayan United Bank Berhad. Subsequently on 26 June 1989, the Issuer changed its name to MUI Bank Berhad. In January 1994, Hong Leong Group acquired MUI Bank Berhad and the Issuer assumed its present name on 10 January 1994. Hong Leong Bank was listed on the Kuala Lumpur Stock Exchange on 17 October 1994. In January 2001, the Issuer merged with Wah Tat Bank Berhad and the Issuer's wholly-owned subsidiary, Hong Leong Finance Berhad merged with Credit Corporation (Malaysia) Berhad.

The Singapore branch of the Issuer was established on 2 July 1956 whilst the Hong Kong branch was established on 13 January 2004.

The Issuer completed the merger of the finance company business of its subsidiary, Hong Leong Finance Berhad, with the commercial banking business of the Issuer in August 2004.

In mid-2008, the Issuer became the first Malaysian bank to enter the Chinese banking sector with a 19.99% strategic shareholding in BOCD in Chengdu, China. BOCD is the platform for the Issuer to expand its activities in western and central China.

In December 2008, the Issuer became the first and only Malaysian and Southeast Asian bank to be granted a licence to incorporate and operate a 100% wholly-owned commercial bank in Vietnam. In July 2009, Hong Leong Bank Vietnam Limited was legally incorporated and operations commenced in October 2009.

In November 2009, the Issuer entered into a joint venture agreement with BOCD to establish a joint-venture company to operate a licensed consumer finance company in Chengdu, China. HLB has a 49% shareholding in the joint-venture company, Sichuan Jincheng Consumer Finance Limited Company, which was incorporated on 26 February 2010.

On 6 May 2011, the Issuer completed the acquisition of the entire assets and liabilities of EON Capital Berhad ("**EON Cap Acquisition**"). On 1 July 2011, the entire business of EON Bank Berhad (now known as Promino Sdn Bhd), including all its assets and liabilities, was transferred to the Issuer in accordance with a vesting order granted by the High Court of Malaya.

On 18 February 2013, the Issuer established a wholly-owned subsidiary in Cambodia. Hong Leong Bank (Cambodia) PLC commenced operations on 8 July 2013.

The Issuer established a representative office in Nanjing, Jiangsu Province, People's Republic of China known as Hong Leong Bank Berhad Nanjing Representative Office which commenced operations on 27 November 2013.

The Issuer is principally engaged in commercial banking business and in the provision of related services.

4.3 HLB Group Strategy

The HLB Group's stated vision is to be "an outstanding financial services organisation, highly competitive and profitable, where people make the difference".

The HLB Group's strategic philosophy is underpinned by both its long-term vision and its focus on long-term economic sustainability and value creation. The HLB Group continues to focus on building a high performance business and strengthening the foundations for sustainable profitability. In the meantime, HLB Group also concentrates on the convergence of digital banking and customer analytics capabilities to give HLB Group the critical edge. Focusing on service as a key differentiator, the HLB Group has embarked on several key projects involving talent development and technology enhancement to further improve service delivery and process efficiency.

The major components of the HLB Group's strategy are as follows:

4.3.1 Further strengthen the HLB Group's domestic core businesses in Malaysia

Domestically, HLB Group operates through a full universal banking model, leveraging on its Personal, Business and Islamic Banking customers to offer comprehensive community banking proposition, while continuing to build its deposit franchise and strengthening its Wealth Management, Treasury and Transaction Banking offerings.

The HLB Group has and continues to put in strategic initiatives, transforming its branch distribution network through a Community Banking Proposition, by re-organising branches around existing customer segments and further reinforcing the connections between the branches and their respective communities to build branch value and presence. Linking to this, is a series of Service Quality Programs in order to enhance customer experience, as well as technology improvement efforts to enable multi-channels integration and improve customer analytics for deeper customer engagement. Its efforts are aimed primarily at broadening branch distribution, strengthening the reach and enhancing long-term relationships with its customers and communities, for sustainable and profitable business growth.

4.3.2 Broaden the HLB Group's Islamic financial services franchise

The Islamic financing arm of HLB Group, HLISB, maintains its focus on the continuation of initiatives designed to further strengthen existing businesses, while at the same time expanding its capabilities to provide improved products and services to customers. Additionally, HLISB continues to place emphasis on the development of non-financing income streams as well as the accelerated development of its digital and transactional banking initiatives. Enhancements in distribution networks are also being pursued to ensure maximum exposure in key strategic markets which potentially see increased reliance on electronic delivery systems. In addition to the local market, it continues to scour for opportunities for foreign expansion riding on the vast global network of the larger HLB Group.

4.3.3 Leverage strong Malaysian operations to pursue focused regional expansion

The HLB Group aims to leverage its existing strong Malaysian operations to pursue focused regional expansion, specifically in Greater China and Southeast Asia, both through organic transformational growth and through acquisitions when appropriate opportunities arise.

The HLB Group has demonstrated its commitment to its long-term presence in China through its strategic investment in, and its joint-venture consumer finance company with, BOCD. The Chinese market continues to exhibit strong growth and the HLB Group continues to position itself strategically by transferring its skill-sets and knowledge base to transform BOCD into a market-oriented regional bank in China. The HLB Group also anticipates broadening its Singapore and Hong Kong branches business model with competences in treasury, private banking, wealth management, investment banking and Islamic banking.

To further embed the HLB Group into the region and emerge as a strong regional player, the HLB Group has also built its wholly-owned subsidiary banks in Vietnam and Cambodia into a recognisable franchise under the HLB brand.

4.4 The HLB Group's Business

The HLB Group's business operations, inclusive of its Islamic operations, are divided into the following principal business divisions: (i) Personal Financial Services (ii) Business and Corporate Banking (iii) Global Markets and (iv) International Operations as tabled:

Unaudited interim financial statements for the six-month period ended 31 December 2013

	Personal Financial Services RM'Million	Business & Corporate Banking RM'Million	Global Markets RM'Million	Overseas/ International Operations RM'Million	Others and Inter-Segment Elimination RM'Million	Total RM'Million
Revenue						
- external	1,194	275	692	93	(169)	2,085
- inter-segment	42	225	(429)	-	162	-
Segment revenue	1,236	500	263	93	(7)	2,085
Segment Profit before taxation	555	414	220	27	(29)	1,187
Share of profit after tax of equity accounted associated company	-	-	-	172	-	172
Share of profit after tax of equity accounted jointly controlled entity	-	-	-	4	-	4
Profit before taxation						1,363
Taxation						(298)
Profit after taxation						1,065
Segment assets	67,287	29,157	52,435	8,818	-	157,697
Unallocated assets						7,739
Total assets						165,436

4.4.1 Personal Financial Services

PFS is a core business division and a major contributor to the HLB Group's profits, predominantly in its domestic operations. Its products and services extended to customers include mortgages, auto loans, credit cards, personal loans, share margin financing, retail wealth management services and retail deposit products.

As at 31 December 2013, PFS had total gross loans of RM68 billion, representing 67% of the HLB Group's gross loans. PFS also accounted for RM555 million or 47% of the HLB Group's profit before tax for the six month period ended 31 December 2013.

Mortgages

The mortgage loan portfolio stood at RM44 billion and remains the core retail lending business activity within PFS undertaken by the HLB Group, accounting for 43% of the HLB Group's gross loans as at 31 December 2013. The mortgage loan business grew by RM2 billion or 6% compared to the corresponding period in 30 June 2013.

Mortgage loans comprise primarily loans to the residential and non-residential (including shop houses) housing sectors and are typically secured by the property being purchased or refinanced and are generally term loans or overdrafts, or a combination of both.

The HLB Group's loans for the purchase of residential properties (housing loans typically have repayment terms of 10 to 20 years with a maximum tenure of up to thirty (30) years. The HLB Group's policy is to lend up to 90% plus 5% Mortgage Reducing Term Assurance ("**MRTA**") of the assessed market value of the relevant property. For the non-residential sector, the maximum tenure is 20 years, with lending up to 80% plus 5% MRTA of the assessed market value of the relevant property.

Auto Loans

Auto loans are the second largest component of the HLB Group's consumer credit business. This type of financing is offered on both a fixed and variable rate basis and is secured by the vehicle being purchased, with financing typically amounting to 80% of the assessed collateral value of the relevant vehicle, although the HLB Group's policy enables a maximum of 90% of the value of the relevant vehicle to be financed. This form of financing typically has a repayment term of three (3) to seven (7) years with a maximum tenure of nine (9) years. The auto loan portfolio stood at RM17 billion as at 31 December 2013, representing 17% of the HLB Group's gross loans.

Credit Cards

The HLB Group commenced its credit card operations in 1996. Revenues from the HLB Group's credit card operations consist principally of annual fees paid by cardholders, finance charges on outstanding balances, cash advance fees and merchant discount rates payable by service establishments. As at 31 December 2013, receivables on the HLB Group's credit cards were RM4.1 billion, amounting to 4% of the HLB Group's gross loans outstanding as at that date. The HLB Group is licensed to issue Visa, MasterCard and Amex credit cards, Visa debit cards and also to conduct merchant acquiring business for Visa and MasterCard.

Since its inception, the HLB Group's credit card business has seen significant growth in its card membership due to the HLB Group's marketing and promotional efforts and cross-selling within the HLB Group. The credit card products offered include Hong Leong Infinite, Wise Card, Classic Card, Gold Card, Platinum Card, Platinum Business Card, Essential Card, co-branded cards such as ACCCIM, MTV, MATTA, GSC, The Store & Pacific, MRCA and American Express.

Customer Deposits

The HLB Group offers its customers a variety of deposit products. Deposit products offered by the HLB Group fall into the following categories:

(i) fixed deposits ("**FD**"), which generally require the customer to maintain a deposit for a fixed term during which interest accrues at a fixed rate and withdrawals may be made upon maturity or before maturity with interest penalties;

(ii) flexi FD, which gives customers the flexibility to auto transfer funds from their flexi One current account when the balance exceeds a pre-determined amount to earn FD interest rates which are higher than current deposits. It also allows customers to make early partial withdrawals and still earn FD interest rates on the remaining balance. In addition, the flexi

FD can also be auto transferred to the flexi One current account when the latter has insufficient funds for cheque issuance or standing instruction payments.

(iii) savings deposits, which allow the customer to deposit and withdraw funds at any time and accrue interest at variable rates (typically lower rates than that for fixed deposits);

(iv) current deposits, which generally do not accrue interest and which can be withdrawn at any time; and

(v) debit card, which is linked to the customer's savings or current account whereby customers can withdraw money through ATMs (local and international), pay bills, perform direct debit and make retail or internet purchases at more than 29 million VISA and Malaysian Electronic Payment System (MEPS) merchants nationwide.

The majority of the HLB Group's deposits are in the form of fixed deposits that in general carry higher interest rates than savings deposits and current deposits. The total amount of retail customer deposits of the HLB Group was RM66 billion as at 31 December 2013. This portfolio saw a growth of more than RM47 million when compared to the corresponding period in 30 June 2013.

The HLB Group continues to capitalise on the high standards of service delivery at its branches in order to attract lower-cost savings and current deposits.

4.4.2 Business and Corporate Banking

BCB is a core business division of the HLB Group. BCB targets three (3) segments of customers namely small and medium-sized enterprises, commercial and corporates which comprise main board public companies, Government-linked companies or agencies and multinational companies.

BCB promotes a broad range of financial products and services, including term loans, trade finance facilities such as letters of credit, bankers acceptance and trust receipts, overdraft facilities, bilateral payment arrangements, revolving credit and foreign exchange contract facilities.

As at 31 December 2013, BCB had total gross loans of RM35 billion, representing 35% of the HLB Group's gross loans. BCB also accounted for RM414 million or 34% of the HLB Group's profit before tax for the six month period ended 31 December 2013.

The HLB Group aims to use its sizeable marketing team, its nationwide coverage (through its extensive branch network and business centres), its existing strong customer relationships, particularly in the manufacturing, general commerce and construction sectors, and its diverse product range to become a more dominant business bank in Malaysia.

4.4.3 Global Markets

Global Markets is a core business division of the HLB Group. This treasury division focus on the management of the HLB Group's assets and liabilities in terms of interest rate risk across various currencies and its franchise sales business which covers the main products of foreign exchange, fixed income, derivatives and structured products. This is supported by a disciplined trading business with overall activity run on a regional basis covering Malaysia, Singapore, Hong Kong, Vietnam and Cambodia for both Islamic and Conventional Banking.

The business activity is governed and guided by the interest rate framework of the HLB Group's Asset and Liability Management Committee and the Market Risk Framework monitored by Group Integrated Risk Management and Compliance ("**GIRMC**").

As at 31 December 2013, the treasury division had total assets of RM52 billion, representing 32% of the HLB Group's total assets. For the six month period ended 31 December 2013, the treasury division accounted for a profit before tax of RM220 million.

4.4.4 Islamic Banking

The HLB Group commenced its Islamic banking business as a "window" operation and thereafter incorporated HLISB in March 2005 as a wholly owned subsidiary of the HLB, dedicated to offering Islamic banking products and services. HLISB's merger with EONCap Islamic Bank, which was completed in November 2011, marked the first of such mergers between two Islamic banks in Malaysia and had provided HLISB with improved scale and a deepened foothold within the highly competitive Islamic banking industry.

Strategically focused on the provision of holistic solutions based on the tenets and principles of Shariah law, HLISB continues to offer its customers a wide range of innovative solutions which amongst others include structured finance, business and corporate banking, personal financial services, Islamic global markets and wealth management. In addition to these, HLISB also pursues the development of its own business niche in fee-based income and Islamic Capital Markets to further solidify its position as a leading Islamic bank in Malaysia.

As at 31 December 2013, Islamic banking assets amounted to RM21 billion, representing 13.0% of HLB Group's total assets.

4.4.5 International Operations

HLB Group's international operations include branch, subsidiary, associate and joint-venture operations in Singapore, Hong Kong, Vietnam, Cambodia and China.

The Singapore branch is a boutique investment bank offering investment banking, private banking, treasury and asset management services.

The Hong Kong branch operates a treasury and wealth management business. It is the first bank in Hong Kong to launch an Islamic banking "window".

Hong Leong Bank Vietnam Limited and Hong Leong Bank (Cambodia) PLC, both 100% wholly-owned subsidiaries of the HLB, are granted license to operate commercial banking operations in

Vietnam and Cambodia respectively, offering a full range of personal financial services and business banking products.

BOCD is a leading city commercial bank in western and central China, with its base in Chengdu, the capital of Sichuan Province, China. With a network of over 140 branches and outlets, including 19 outside Chengdu City, it carries out a full-fledged commercial banking business. The 19.99% strategic shareholding in BOCD is a platform for the HLB Group to expand its activities in China. BOCD accounted for RM172 million or 12.6% of the HLB Group's profit before taxation and zakat for the six month period ended 31 December 2013.

4.5 Share Capital

The authorised, issued and paid up capital of the Issuer as at 31 March 2014 are as follows:

<u>Authorised capital:</u>
RM3,000,000,000 divided into 3,000,000,000 ordinary shares of RM1.00 each

<u>Paid-up capital:</u>
RM1,879,909,100 divided into 1,879,909,100 ordinary shares of RM1.00 each, including treasury shares of RM81,099,700 divided into 81,099,700 ordinary shares of RM1.00 each.

4.6 Shareholdings

The shareholding structure of the Issuer (with shareholding of 5% and above) as at 31 March 2014 is as follows:

Shareholder (Direct / Indirect Interest)	No. of Ordinary Shares		%
	Direct	Indirect	
Hong Leong Financial Group	1,143,931,005	13,995,880	64.37
Hong Leong Company (Malaysia) Berhad	-	1,160,501,285	64.52
HL Holdings Sdn Bhd	-	1,160,501,285	64.52
Tan Sri Quek Leng Chan	-	1,160,549,285	64.52
Hong Realty (Private) Limited	-	1,160,501,285	64.52
Hong Leong Investment Holdings Pte Ltd	-	1,160,501,285	64.52
Kwek Holdings Pte Ltd	-	1,160,501,285	64.52
Kwek Leng Beng	-	1,160,501,285	64.52
Davos Investment Holdings Private Limited	-	1,160,501,285	64.52
Kwek Leng Kee	243,400	1,160,501,285	64.53
Quek Leng Chye	-	1,160,501,285	64.52
Guoco Assets Sdn Bhd	-	1,157,926,885	64.37

GuoLine Overseas Limited	-	1,158,107,885	64.38
Guoco Group Limited	-	1,158,107,885	64.38
GuoLine Capital Assets Limited	-	1,160,501,285	64.52
Employees Provident Fund Board	256,540,503	-	14.26

4.7 Subsidiaries and associated companies of the company

As at 31 March 2014, the Issuer's subsidiaries and associated companies are as below:

Subsidiaries	Percentage (%) of equity held by HLB	Principal Activities
HLB Nominees (Tempatan) Sdn Bhd	100.00	Agent and nominee for Malaysian clients
HLB Nominees (Asing) Sdn Bhd	100.00	Agent and nominee for foreign clients
HL Bank Nominees (Singapore) Pte Ltd	100.00	Agent and nominee for clients
HLF Credit (Perak) Bhd and its subsidiary companies	100.00	Investment holding
• Gensource Sdn Bhd	100.00	Investment holding
• WTB Corporation Sdn Bhd and its subsidiary companies	100.00	Investment holding
- Wah Tat Nominees (Tempatan) Sdn Bhd	100.00	Agent and nominee for Malaysian clients
- Wah Tat Nominees (Asing) Sdn Bhd	100.00	Agent and nominee for foreign clients
• Chew Geok Lin Finance Sdn Bhd	100.00	Investment holding
• Hong Leong Leasing Sdn Bhd	100.00	Investment holding
• HL Leasing Sdn Bhd	100.00	Investment holding
• HLB Realty Sdn Bhd	100.00	Real property investment and investment holding
Hong Leong Islamic Bank Berhad	100.00	Islamic banking business and related financial services
HLB Principal Investments (L) Limited	100.00	Holding of or dealing in offshore securities and investment holding
EB Nominees (Tempatan) Sendirian Berhad	100.00	Nominees services
EB Nominees (Asing) Sendirian Berhad	100.00	Nominees services
EB Realty Sendirian Berhad	100.00	Property investment
OBB Realty Sdn Bhd	100.00	Property investment

Subsidiaries	Percentage (%) of equity held by HLB	Principal Activities
Prominic Berhad	100.00	To issue Subordinated Notes under a stapled securities structure and to on-lend the proceeds from the issuance to Hong Leong Bank, the issuer of the capital securities
Hong Leong Bank Vietnam Limited	100.00	Commercial banking business
Hong Leong Bank (Cambodia) PLC	100.00	Commercial banking business
Bank of Chengdu Co., Ltd	19.99	Commercial banking
Sichuan Jincheng Consumer Finance Limited Company	49.00	Consumer finance
Community CSR Sdn Bhd	20.00	Investment holding
Famehub Quest Sdn Bhd (*)	-	Special purpose vehicle
Famehub Capital Sdn Bhd (*)	-	Special purpose vehicle
Allegra Capital Investments Ltd (*) @	-	Special purpose vehicle
Gold Pearl International Ltd @	-	Special purpose vehicle

Note:
(*) *Deemed subsidiary pursuant to Interpretation Committee ("IC") 112 – Consolidation: Special Purpose Entities*
@ *Compartment subsidiary consolidated pursuant to IC 112 – Consolidation: Special Purpose Entities.*

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4.8 Information on Directors and Senior Management

4.8.1 Board

The members of the Board as at 31 March 2014 are as follows:

Name	Designation
YBhg Tan Sri Quek Leng Chan	Chairman/Non-Executive/Non-Independent
Mr Tan Kong Khoon	Group Managing Director/Chief Executive Officer/Non-Independent
Mr Kwek Leng Hai	Non-Executive Director/Non-Independent
YBhg Dato' Mohamed Nazim bin Abdul Razak	Non-Executive Director/Independent
Mr Choong Yee How	Non-Executive Director/Non-Independent
Mr Quek Kon Sean	Non-Executive Director/Non-Independent
Ms Lim Lean See	Non-Executive Director/Independent
YBhg Tan Sri A. Razak bin Ramli	Non-Executive Director/Independent
Mr Lim Beng Choon	Non-Executive Director/Independent
Ms Chok Kwee Bee	Non-Executive Director/Independent

4.8.2 Profile of Directors

The profiles of the members of the Board as at 31 March 2014 are as follows:

Name	Profile
YBhg Tan Sri Quek Leng Chan Chairman/Non-Executive/Non-Independent	Aged 70, YBhg Tan Sri Quek Leng Chan, a Malaysian, qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate. YBhg Tan Sri Quek is the Chairman of HLB and was appointed to the Board of HLB on 3 January 1994. He is the Chairman of the BCSC and a member of the EXCO, RC and NC of HLB. YBhg Tan Sri Quek is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad, a public company; Executive Chairman of GuocoLand (Malaysia) Berhad; Chairman of HLFG and HLCB, companies listed on the Main Market of Bursa Securities; Chairman of HLA and Hong Leong Foundation; and a member of the Board of Trustees of The

	Community Chest, all public companies.
Mr Tan Kong Khoon Group Managing Director/Chief Executive Officer/Non-Independent	Aged 56, Mr Tan Kong Khoon, a Singaporean, holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advance Management Programme. He was the Group Executive, Consumer Banking Group of the Development Bank of Singapore ("**DBS**") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS group. Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank. From March 2007 to December 2009, Mr Tan was President and Chief Executive Officer of Bank of Ayudhya, the fifth largest bank in Thailand listed on the Thailand Stock Exchange. Under his leadership, Bank of Ayudhya had expanded rapidly in its business and turnover. Mr Tan was appointed as the Group Managing Director/Chief Executive Officer of HLB on 1 July 2013.
Mr. Kwek Leng Hai Non-Executive Director/Non-Independent	Aged 61, Mr Kwek Leng Hai, a Singaporean, qualified as a chartered accountant and has extensive experience in financial services, manufacturing and property investment. Mr Kwek is the President and Chief Executive Officer of Guoco Group Limited ("**GGL**"), a company listed in Hong Kong and has been an Executive Director of GGL since 1990. Mr Kwek is also a Director of GGL's key subsidiaries including GuocoLand Limited and GuocoLeisure Limited, both public listed companies in Singapore. He is also a Director of BOCD. Mr Kwek was appointed to the Board of HLB on 3 January 1994. He is also a Director of HLISB and Hong Leong Company (Malaysia) Berhad, both public companies.
YBhg Dato' Mohamed Nazim bin Abdul Razak Non-Executive Director/Independent	Aged 52, YBhg Dato' Mohamed Nazim bin Abdul Razak, a Malaysian, an architect by profession, graduated from the Architectural Association, School of Architecture, London. He served with YRM Architects in London, a multi-disciplinary building design consultancy and has more than 20 years' experience in the architectural field, 18 of which were in Kuala Lumpur. YBhg Dato' Mohamed Nazim is the Chief Executive Officer of NRY Architects Sdn Bhd. YBhg Dato' Mohamed Nazim was appointed to the Board of

	Hong Leong Bank on 30 June 2003 and is the Chairman of the NC and RC of HLB. YBhg Dato' Mohamed Nazim is also a Director of HLCB and Xindelang Holdings Ltd, both companies listed on the Main Market of Bursa Securities, and HLISB, The Legends Golf and Country Resort Berhad and 7-Eleven Malaysia Holdings Berhad (formerly known as Seven Convenience Berhad), all public companies.
Mr Choong Yee How Non-Executive Director/Non-Independent	Aged 57, Mr Choong Yee How, a Malaysian, obtained a Bachelor of Science in Biochemistry (Honours) degree in 1979 and a Master of Business Administration in 1981 from the University of Otago, New Zealand. Mr Choong has over 28 years of experience in banking, of which 23 were with Citibank in Malaysia. Mr Choong started his career with Citibank Malaysia as a Management Associate and was promoted to assume various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Choong is currently the President & Chief Executive Officer of HLFG. Mr Choong was appointed to the Board of HLB on 9 March 2006 and is a member of the BCSC, NC, RC, EXCO and BAC of HLB. Mr Choong is also a Director of HLFG and HLCB, both companies listed on the Main Market of Bursa Securities, and HLA, Hong Leong Asset Management Bhd, Hong Leong MSIG Takaful Berhad ("**HLMT**") and HLIB, all public companies.
Mr Quek Kon Sean Non-Executive Director/Non-Independent	Aged 33, Mr Quek Kon Sean, a Malaysian, obtained a Bachelor of Science degree and Master of Science in Economics from the London School of Economics and Political Science. He started his career in investment banking prior to assuming the role of Executive Director of HLFG. He is currently Managing Director, Centre for Business Value of HL Management Co Sdn Bhd. Mr Quek was appointed to the Board of HLB on 10 July 2006 and is a member of the BCSC. Mr Quek is also a Director of HLFG and HLCB, both companies listed on the Main Market of Bursa Securities and HLA, a public company.
Ms Lim Lean See Non-Executive Director/Independent	Aged 60, Ms Lim Lean See, a Malaysian, holds an Associateship in Accounting and an Associateship in Secretarial and Administrative Practice both from the Curtin University, Australia. Her professional qualifications include being a Fellow of the Australian Society of Certified Practicing Accountants, Registered Accountant with the Malaysian Institute of Accountants, a Trade Member of Financial Planning Association

	of Malaysia and a member of the Institut Bank-Bank Malaysia. Ms Lim has 33 years of experience in the banking industry and has held various senior positions including the Head of Corporate Banking and Head of Business Banking Division, the last being the Chief Representative of a foreign bank Representative Office with the corporate rank of an Executive Director. Ms Lim was appointed to the Board of HLB on 5 May 2010 and she is the Chairman of the BAC and a member of the NC and BRMC of HLB. Ms Lim is also a Director of HLFG, a company listed on the Main Market of Bursa Securities.
YBhg Tan Sri A. Razak Bin Ramli Non-Executive Director/Independent	Aged 65, YBhg Tan Sri A. Razak bin Ramli, a Malaysian, obtained a Bachelor of Arts (Honours) degree in Public Administration from the University of Tasmania, Australia and has a diploma in Gestion Publique from Institut International d'Administration Publique, Paris, France. He has served in various Ministries including the Public Services Department and Economic Planning Unit in the Prime Minister's Department and the Ministry of International Trade and Industry ("**MITI**"). YBhg Tan Sri A. Razak was the Chairman of APEC Senior Officials when Malaysia hosted APEC, and held various positions in MITI including Deputy Secretary General (Industry), Deputy Secretary General (Trade) and retired as the Secretary General of MITI. YBhg Tan Sri A. Razak was appointed to the Board of HLB on 11 January 2011 and is a member of the NC of HLB. YBhg Tan Sri A. Razak is the Chairman of Shangri-La Hotels (Malaysia) Berhad, the Deputy Chairman of Favelle Favco Berhad and a Director of Lafarge Malaysia Berhad (formerly known as Lafarge Malayan Cement Berhad) and Ann Joo Resources Berhad, companies listed on the Main Market of Bursa Securities. He is also the Chairman of HLISB, HLMT and Ophir Holdings Berhad and a Director of HLIB, all public companies.
Mr Lim Beng Choon Non-Executive Director/Independent	Aged 54, Mr Lim Beng Choon, a Malaysian, holds a Bachelor of Sciences (Hons, First Class) degree in Mathematics and Computer Science from The Australian National University, Australia. Mr Lim was with the global consulting, technology and outsourcing giant, Accenture for 28 years before he retired in 2009. He was leading Accenture's Malaysia practice as the Country Managing Director. Simultaneously, he was leading the management consulting practice Asia Pacific within Accenture's "Resources" industry group (Oil & Gas, Chemicals, Utilities, Natural Resources). During his tenure with Accenture, he attended numerous management and leadership training

	programmes across Accenture's global centres as well as at IMD in Lausanne, Switzerland. Mr Lim has extensive and international experience in management consulting which spans strategy, operational consulting and merger integrations and has led complex projects to deliver transformational change for multinationals and top Malaysian companies. Prior to moving into management consultancy, Mr Lim had extensive experience in technology consulting covering IT strategies and system integration work. Mr Lim was appointed to the Board of HLB on 31 January 2011 and is the Chairman of the BRMC and a member of the BAC of HLB. Mr Lim is also a Director of Petronas Gas Berhad, Petronas Dagangan Bhd and MISC Berhad, companies listed on the Main Market of Bursa Securities.
Ms Chok Kwee Bee Non-Executive Director/Independent	Aged 61, Ms Chok Kwee Bee, a Malaysian, received her Bachelor of Arts degree (Honours) in Business Studies from Kingston University, United Kingdom and is also a member of the Associate of the Chartered Institute of Bankers. Ms Chok is presently the Managing Director of Teak Capital Sdn Bhd, a venture capital management company. Prior to that, she was with Walden International, a Silicon Valley based venture capital firm, overseeing the operations and investments of Walden International and BI Walden in Malaysia. Ms Chok was also previously Head of the Corporate Finance at AmInvestment Bank Berhad. She previously held posts as Director of Malaysian Exchange of Securities Dealing & Automated Quotation Bhd (MESDAQ), the Chairman of the Corporate Finance Sub-Committee of Association of Merchant Banks, a member of the Securities Commission Capital Market Advisory Council and the Chairman of the Malaysian Venture Capital and Private Equity Association (MVCA). Ms Chok is currently a member of the Malaysian Venture Capital Development Council of the Securities Commission and a non-executive Board member of the Audit Oversight Board. She also sits on the board of several portfolio companies. Ms Chok was appointed to the Board of HLB on 2 December 2013 and is a member of the BRMC of HLB.

4.8.3 Senior Management

As at 31 March 2014, the HLB Group's banking business is managed by the following key management personnel:

Executive Director of the Issuer	:	Mr Tan Kong Khoon (Group Managing Director/Chief Executive Officer)
Heads of Division of HLB	:	Foong Pik Yee (Chief Financial Officer), Moey Tan (Chief Operating Officer, Personal Financial Services), Vincent Lim (Head, Commercial & SME), Benson Ow (Head, Corporate & Structured Finance), Hor Kwok Wai (Chief Operating Officer, Global Markets), Leong Wai Mun (Chief Credit Officer, Personal Financial Services Credit), Janet Choo Kam Leng (Chief Special Assets Officer), Chee Li Har (Chief Operating Officer, Group Asset & Liability Committee), Edward Pinto (Chief Operating Officer, Customer Experience & Analytics), Zulkiflee bin Hashim (Chief Operating Officer, Group Strategic Support), Kang Yew Jin (Chief Information & Technology Officer), Justin Soong Jia Seng (Chief Risk Officer) and Roselaini binti Muhamad Faiz, (Head of Human Resources)
HLB's subsidiaries	:	HLISB, YM Raja Teh Maimunah binti Raja Abdul Aziz (Managing Director/Chief Executive Officer), Hong Leong Bank Vietnam Limited, Le Minh Tam (General Director) and Hong Leong Bank (Cambodia) PLC, Joseph Farrugia (Chief Executive Officer)
HLB's associate company	:	BOCD, Aaron Ho (Vice Chairman of BOCD)

4.9 Board Committees of HLB

Under its governance structure, the Board has established the following Board committees and the functions and responsibilities of the respective Board committees are set out in their terms of reference as described below.

4.9.1 Board Audit Committee

The BAC currently comprises three members: Ms Lim Lean See (Chairman of the BAC, Independent Non-Executive Director), Mr Lim Beng Choon (Independent Non-Executive Director) and Mr Choong Yee How (Non-Independent Non-Executive Director).

The terms of reference of the BAC are as follows:

- To nominate and recommend for the approval of the Board, a person or persons as external auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To consider the provision of non-audit services by the external auditors.

- To review the assistance given by the officers of the HLB Group to the external auditors.
- To review the quarterly reports and annual financial statements of the Issuer and of the HLB Group prior to approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit division.
- To review the report and findings of the internal audit division including any findings of internal investigations and the management's response thereto.
- To review the adequacy and effectiveness of internal controls and risk management.
- To review any related party transactions that may arise within the Issuer or the HLB Group.
- To approve any credit transactions and exposures with connected parties.
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Chief Internal Auditor as per BNM's Guideline on Internal Audit Function.
- Other functions as may be agreed to by the BAC and the Board.

4.9.2 Board Risk Management Committee

The BRMC currently comprises three members: Mr Lim Beng Choon (Chairman of the BRMC, Independent Non-Executive Director), Ms Lim Lean See (Independent Non-Executive Director), and Ms Chok Kwee Bee (Independent Non-Executive Director).

The terms of reference of the BRMC are as follows:

Risk Management and Compliance

- To oversee senior management's activities in managing credit, market, liquidity, operational, Shariah compliance and information technology risks and to ensure that the risk management process is in place and functioning.
- To review and report to the Board on measures taken to identify and examine principal risks faced by the Bank.
- To review, recommend and/or endorse the Bank's major risk management strategies, policies and risk tolerance for Board's approval.
- To endorse the Bank's risk appetite, internal capital target, Internal Capital Adequacy Assessment Process ("**ICAAP**") and Capital Management framework for Board's approval.
- To ensure that senior management discharges its responsibilities for the development and effective implementation of the internal capital adequacy assessment process.
- To review periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- To review and assess adequacy of risk management and compliance policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- To ensure infrastructure, resources and systems are in place for risk management functions and to ensure that the staff responsible for implementing risk management systems perform those duties independently of the HLB Group's risk taking activities.
- To provide oversight of the HLB Group's compliance activities and ensuring the HLB Group is in compliance to all established policies, guidelines and external regulations.

- To review all non-compliance incidences and recommend corrective actions where necessary.
- To review and consider the impact of new laws, regulations, guidelines affecting the Bank's operations and ensuring adequate resources are committed and realistic action plans are carried out within the stipulated deadline set.
- Other risk management and compliance functions as may be agreed to by the BRMC and the Board.

4.9.3 Nominating Committee

The NC currently comprises five members: YBhg Dato' Mohamed Nazim bin Abdul Razak (Chairman of the NC, Independent Non-Executive Director), YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director), Mr Choong Yee How (Non-Independent Non-Executive Director), Ms Lim Lean See (Independent Non-Executive Director) and YBhg Tan Sri A. Razak bin Ramli (Independent Non-Executive Director).

The terms of reference of the NC are as follows:

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- Review and recommend to the Board all Board appointments and re-appointments and removals including of the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required.
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual director to the effectiveness of the Board and various Board committees based on criteria approved by the Board.
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- Ensure that the Board receives an appropriate continuous training programme.

4.9.4 Remuneration Committee

The RC currently comprises three members: YBhg Dato' Mohamed Nazim bin Abdul Razak (Chairman of the RC, Independent Non-Executive Director), YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director) and Mr Choong Yee How (Non-Independent Non-Executive Director).

The terms of reference of the RC are as follows:

- Recommend to the Board the framework governing the remuneration of Directors, Chief Executive Officer and key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.

4.9.5 Board Credit Supervisory Committee

The BCSC currently comprises five members: YBhg Tan Sri Quek Leng Chan (Chairman of the BCSC and Non-Independent Non-Executive Director), Mr Tan Kong Khoon (Group Managing Director/Chief Executive Officer), Mr Choong Yee How (Non-Independent Non-Executive Director), Mr Quek Kon Sean (Non-Independent Non-Executive Director) and YM Raja Teh Maimunah binti Raja Abdul Aziz (Managing Director/Chief Executive Officer of HLISB).

The BCSC oversees the management of credit risk and other credit related activities of the Issuer and all its subsidiaries.

4.9.6 Executive Committee

The EXCO currently comprises three members: YBhg Tan Sri Quek Leng Chan (Chairman of the EXCO and Non-Independent Non-Executive Director), Mr Tan Kong Khoon (Group Managing Director/Chief Executive Officer) and Mr Choong Yee How (Non-Independent Non-Executive Director).

The duties and responsibilities of the EXCO include, amongst others, approving all financial markets transactions, opening, operating and closing of various types of accounts with various financial institutions and performing such other duties and functions as may be determined by the Board from time to time.

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5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set out the HLB Group's selected consolidated financial information and the HLB Group's operating data, in each case for the periods and as at the dates indicated. A prospective investor should read the following selected consolidated financial information in conjunction with the HLB Group's historical consolidated financial statements and their related notes included elsewhere in this Information Memorandum. The HLB Group's consolidated financial statements are reported in RM and presented in accordance with the Malaysian Companies Act 1965, Malaysian Accounting Standard Board ("**MASB**") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and BNM Guidelines (collectively, known as Generally Accepted Accounting Principles in Malaysia or Malaysian GAAP).

The selected consolidated financial information of the HLB Group set out below as at and for financial years ended 30 June 2012 and 30 June 2013 has been derived from the audited consolidated financial statements of the HLB group included elsewhere in this Information Memorandum, and is qualified in its entirety by reference to those consolidated financial statements and notes thereto. Certain of the information set out below as at and for the FYE 30 June 2012 has been restated in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities in order to be comparable to HLB Group's consolidated financial statement as at and for the year ended 30 June 2013.

The selected consolidated financial information of the HLB Group set out below as at and for the six-month periods ended 31 December 2012 and 31 December 2013 has been derived from the unaudited condensed consolidated interim financial statements of the HLB Group included elsewhere in this Information Memorandum, and is qualified in its entirety by reference to those unaudited condensed consolidated financial statements and the notes thereto. Such condensed consolidated interim financial statements has not been audited or reviewed. Accordingly, there can be no assurance that, had an audited or review been conducted in respect of such financial information, the information presented therein would not have been materially different, and investors should not place undue reliance upon them. Results for the interim periods should not be considered indicative of results for any other period or for the full financial year of the relevant interim periods. The unaudited financial statements of the Issuer for the quarter ended 31 December 2011 is available on the website of Bursa Securities at www.bursamalaysia.com.

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5.1 Consolidated Financial Statement

Statements of Financial Position as at:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Assets				
Cash and short-term funds	18,047	19,636	14,705	12,999
Deposits and placements with banks and other financial institutions	5,928	4,566	4,866	2,313
Securities purchased under resale agreements	1,025	591	1,010	1,016
Financial assets held-for-trading	15,196	21,818	12,137	21,123
Financial investments available-for-sale	13,827	9,863	17,484	12,493
Financial investments held-to-maturity	4,161	3,670	6,407	4,091
Loans, advances and financing	95,431	88,573	98,854	91,052
Other assets	889	542	809	483
Derivative financial instruments	877	955	811	687
Statutory deposits with Central Banks	3,433	3,331	3,467	3,355
Investment in jointly controlled entity	80	77	1,869	1,618
Investment in associated company	1,753	1,540	84	78
Property and equipment	738	727	768	739
Intangible assets	369	446	334	405
Goodwill	1,831	1,831	1,831	1,831
Total assets	**163,586**	**158,167**	**165,437**	**154,283**

Statements of Financial Position as at (continued):

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Liabilities				
Deposits from customers	123,637	123,096	125,864	123,835
Deposits and placements of banks and other financial institutions	11,567	9,791	7,156	4,159
Obligations on securities sold under repurchase agreements	1,749	634	4,607	1,056
Bills and acceptances payable	801	486	828	670
Derivative financial instruments	954	1,069	3,738	2,735
Other liabilities	3,266	2,740	836	763
Senior bonds	1,902	1,908	1,974	1,840
Tier 2 subordinated bonds	4,383	4,390	4,386	4,384
Non-innovative Tier 1 stapled securities	1,409	1,407	1,410	1,408
Innovative Tier 1 capital securities	556	575	549	564
Taxation	214	228	245	359
Deferred tax liabilities	111	141	106	147
Total liabilities	**150,549**	**146,463**	**151,699**	**141,920**
Equity				
Share capital	1,880	1,880	1,880	1,880
Reserves	11,819	10,539	12,512	11,177
Less: Treasury shares	(662)	(715)	(654)	(694)
Total equity	**13,037**	**11,704**	**13,738**	**12,363**
Total equity and liabilities	**163,586**	**158,167**	**165,437**	**154,283**
Commitments and contingencies	**159,579**	**148,989**	**170,136**	**144,525**

Statements of income for the financial year:

	Audited for the year ended 30 June		Unaudited for the six-month period ended 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Interest income	5,529	5,441	2,836	2,747
Interest expense	(3,015)	(2,839)	(1,528)	(1,507)
Net interest income	2,514	2,602	1,308	1,240
Income from Islamic Banking business	455	448	221	231
	2,969	3,050	1,529	1,471
Non-interest income	1,038	828	556	536
Net income	4,007	3,878	2,085	2,007
Overhead expenses	(1,847)	(1,925)	(915)	(894)
Operating profit before allowances	2,160	1,953	1,170	1,113
Allowance for impairment losses on loans, advances and financing	(41)	15	(3)	28
Write back of impairment losses	7	50	19	5
	2,126	2,018	1,186	1,146
Share of results of associated company	264	217	172	129
Share of results of jointly controlled entity	3	1	4	1
Profit before taxation	**2,393**	**2,236**	**1,362**	**1,276**
Taxation	(537)	(492)	(298)	(290)
Net profit for the financial year	**1,856**	**1,744**	**1,064**	**986**
Attributable to:				
Owners of the parent	1,856	1,744	1,064	986
Earnings per share for profit attributable to owners of the parent (sen):				
- basic	105.8	105.0	60.5	56.2
- diluted	105.7	104.6	60.4	56.1

5.2 Capital Adequacy and Funding

5.2.1 Capital Adequacy

BNM guidelines on capital adequacy require the Bank to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. The capital adequacy ratio is computed based on the eligible capital in relation to the total risk-weighted assets as determined by BNM.

Effective 1 January 2013, the capital ratios of the Bank have been computed based on BNM's Capital Adequacy Framework (Capital Components) issued on 28 November 2012.

The following table sets out the capital adequacy ratios of the Group and the Bank as at:

	Audited as at 30 June 2013		Unaudited as at 31 December 2013	
	The Group	The Bank	The Group	The Bank
Before deducting proposed dividends				
CET I capital ratio	10.627%	10.156%	10.488%	10.329%
Tier I capital ratio	12.319%	12.062%	12.090%	12.160%
Total capital ratio	15.179%	13.592%	14.675%	13.622%
After deducting proposed dividends				
CET I capital ratio	10.236%	9.715%	10.240%	10.046%
Tier I capital ratio	11.927%	11.621%	11.842%	11.877%
Total capital ratio	14.787%	13.150%	14.428%	13.339%

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5.2.1 Capital Adequacy (continued)

	Audited as at 30 June 2013		Unaudited as at 31 December 2013	
	The Group	**The Bank**	**The Group**	**The Bank**
	RM' million	**RM' million**	**RM' million**	**RM' million**
CET I capital				
Paid-up share capital	1,880	1,880	1,880	1,880
Share premium	2,832	2,832	2,832	2,832
Retained profits	6,197	4,835	6,307	5,096
Other reserves	2,699	2,361	2,993	2,580
Less: Treasury shares	(662)	(662)	(654)	(654)
Less: Other Intangible Assets	(369)	(363)	(334)	(321)
Less: Goodwill	(1,831)	(1,772)	(1,831)	(1,772)
Total CET I capital	**10,746**	**9,112**	**11,193**	**9,641**
Additional Tier I capital				
Non-innovative Tier I stapled securities	1,260	1,260	1,260	1,260
Innovative Tier I capital securities	450	450	450	450
Total additional Tier I capital	1,710	1,710	1,710	1,710
Total Tier I capital	**12,456**	**10,822**	**12,903**	**11,351**
Collective assessment allowance ^	801	666	788	658
Subordinated bonds	3,924	3,924	3,924	3,924
Total Tier II capital	**4,725**	**4,590**	**4,712**	**4,582**
Less: Investment in subsidiary companies	-	(2,195)	-	(2,195)
Less: Investment in associated company	(1,753)	(947)	(1,869)	(947)
Less: Investment in jointly controlled company	(80)	(76)	(84)	(76)
	(1,833)	(3,218)	(1,953)	(3,218)
Total capital	**15,348**	**12,194**	**15,662**	**12,715**

^ Excludes collective assessment allowance attributable to loans, advances and financing classified as impaired but not individually assessed for impairment.

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5.2.2. Funding

The HLB Group's main source of funding is deposits from its customers, which were RM125.9 billion as at 31 December 2013, accounting for 83.0% of its total liabilities as at that date. Historically, a substantial proportion of the HLB Group's deposits have been rolled over maturity and the HLB Group's deposit base has provided a stable source of funding.

The following table illustrate the profile of HLB Group's customer deposits as at:

Profile of Customer Deposits by type:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Fixed deposits	73,424	74,739	73,598	72,934
Negotiable instruments of deposit	8,147	5,829	9,398	8,503
	81,571	80,567	82,996	81,437
Demand deposits	17,564	14,676	18,146	17,015
Savings deposits	14,439	14,816	14,618	13,522
Short term corporate placements	9,743	12,641	9,771	11,589
Others	320	395	384	272
Gross deposits from customers	123,637	123,096	125,915	123,835
Fair value changes arising from adoption of fair value option*	-	-	(51)	-
Total net deposits from customers	**123,637**	**123,096**	**125,864**	**123,835**

*Note:

During the financial period , the Group had applied a fair value option on a certain class of structured deposits (Callable Range Accrual Notes) , which was economicaly hedged via Callable Range Accrual swaps. The structured deposits was recorded at fair value to avoid an accounting mismatch.

The maturity structure of fixed deposits and negotiable instruments of deposit are as follows:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Due within:				
- six months	57,646	60,720	61,281	59,554
- six months to one year	19,875	14,406	18,276	18,032
- one year to five years	3,940	5,441	3,154	3,851
- more than five years	110	-	285	
	81,571	**80,567**	**82,996**	**81,437**

Other sources of funding are interbank deposits, subordinated bonds and other liabilities.
As at 31 December 2013, the HLB Group's loan-to-deposit ratio was 79.9%.

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5.3 Asset Quality

5.3.1 Loan Portfolio

The HLB Group has an expanding and diversified loan portfolio. The HLB Group extends loans to its corporate, retail and individual customers. The HLB group extends credit in various forms including overdrafts, term loans, hire purchase loans, credit card receivables and trade financing facilities. The HLB group's largest exposures are loans granted for the purchase of landed property (both residential and non-residential), the purchase of transport vehicles and from manufacturing sector.

HLB Group's loans portfolio by product type as at:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Overdrafts	4,346	4,073	4,214	4,193
Term loans/financing:				
- Housing and shop loans/financing	41,135	37,067	43,597	38,928
- Syndicated term loans/financing	6,300	5,303	7,434	5,450
- Hire purchase receivables	17,408	17,373	17,521	17,428
- Lease receivables	-	-	-	103
- Other term loans/financing	9,830	10,221	10,023	10,234
Credit/charge card receivables	4,088	4,233	4,274	4,190
Bills receivable	1,293	651	1,082	654
Trust receipts	302	343	339	297
Claims on customers under acceptance credits	7,362	7,252	6,596	6,992
Block discounting	6	7	6	6
Revolving credit	4,891	3,769	5,178	4,230
Staff loans/financing	193	241	183	220
Other loans/financing	55	38	116	32
Gross loans, advances and financing	**97,209**	**90,571**	**100,563**	**92,957**
Fair value changes arising from fair value hedges	(7)	24	-	3
Unamortised fair value changes arising from terminated fair value hedges	15	22	2	19
Allowance for impaired loans, advances and financing:				
- Collective assessment allowance	(1,260)	(1,502)	(1,206)	(1,448)
- Individual assessment allowance	(526)	(542)	(505)	(479)
	(1,786)	(2,044)	(1,711)	(1,927)
Total net loans, advances and financing	**95,431**	**88,572**	**98,854**	**91,052**

HLB Group's loans and advances by economic purpose as at:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Purchase of securities	981	1,030	927	1,044
Purchase of transport vehicles	17,346	17,252	17,464	17,353
Residential property (housing)	34,216	30,689	36,463	32,299
Non-residential property	10,859	9,985	11,632	10,371
Purchase of fixed assets (excluding landed properties)	556	638	611	684
Personal use	3,502	3,577	3,491	3,537
Credit card	4,088	4,233	4,275	4,190
Construction	1,164	925	1,181	1,001
Mergers and acqusition	448	389	350	585
Working capital	21,770	19,907	21,682	19,711
Other purpose	2,279	1,946	2,487	2,182
Gross loans, advances and financing	**97,209**	**90,571**	**100,563**	**92,957**

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HLB Group's impaired loans, advances and financing analysed by their economic purposes are as follows:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Purchase of securities	7	10	7	7
Purchase of transport vehicles	220	216	240	241
Residential property (housing)	246	343	255	270
Non-residential property	59	73	58	67
Purchase of fixed assets (excluding landed properties)	15	22	16	18
Personal use	72	87	55	93
Credit card	61	67	51	61
Purchase of consumer durables	-	-	-	-
Construction	9	26	12	13
Working capital	635	649	604	573
Others	35	39	43	42
Gross impaired loans, advances and financing	**1,359**	**1,532**	**1,341**	**1,385**

HLB Group's Movements in the impaired loans, advances and financing are as follows:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
At 1 July	1,532	1,915	1,359	1,532
Impaired during the financial year	1,852	2,078	869	875
Performing during the financial year	(966)	(1,081)	(452)	(503)
Amount written back in respect of recoveries	(504)	(800)	(226)	(281)
Amount written off	(554)	(584)	(212)	(237)
Exchange difference	-	4	3	(2)
At 30 June	**1,360**	**1,532**	**1,341**	**1,384**
Gross impaired loans as a % of gross loans, advances and financing	**1.4%**	**1.7%**	**1.3%**	**1.5%**

HLB Group's impaired loans, advances and financing analysed by their geographical distribution are as follows:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	2012	2013	2012
	RM' million	RM' million	RM' million	RM' million
In Malaysia	1,330	1,489	1,329	1,343
Outside Malaysia:				
- Singapore operations	29	43	7	42
- Vietnam operations	-	-	5	-
Gross impaired loans, advances and financing	**1,359**	**1,532**	**1,341**	**1,385**

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HLB Group's Movements in the allowance for impaired loans, advances and financing are as follows:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Collective assessment allowance				
At 1 July	1,882	1,790	1,260	1,881
- effect of full adoption of MFRS139	(380)	(254)	-	(380)
As restated	1,502	1,536	1,260	1,501
Net allowances made during the financial year	184	335	126	436
Amount transferred (to)/from individual assessment	(5)	56	(1)	(5)
Disposal of subsidiary	-	(1)	-	-
Amount written off	(402)	(416)	(172)	(317)
Unwinding income	(19)	(9)	(8)	(178)
Exchange difference	(0)	1	1	11
At 30 June	**1,260**	**1,502**	**1,206**	**1,448**
Individual assessment allowance				
At 1 July	542	793	526	542
Allowances made during the financial year	191	61	35	39
Amount transferred from/(to) collective assessment	5	(56)	1	5
Amount transferred to allowance for impairment losses on securities	(14)	-	-	(13)
Amount written back in respect of recoveries	(91)	(136)	(40)	(50)
Amount written off	(95)	(117)	(16)	(36)
Unwinding income	(12)	(10)	(4)	(6)
Exchange difference	(0)	6	3	(2)
At 30 June	**526**	**542**	**505**	**479**

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5.4 Financial Assets

The HLB Group classify their financial assets into the following categories:

- Financial assets held at fair value through profit or loss, mainly comprise of financial assets held-for-trading ("**HFT**"). HFT are securities that are acquired and held principally for the purpose of selling in the short term.
- Financial investments available-for-sale (AFS), which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.
- Financial investments held-to-maturity (HTM), which are classified as non-derivative instruments with fixed or determinable payments and fixed maturities that the HLB Group's management has the positive intent and ability to hold to maturity.

Financial assets held-for-trading:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Money market instruments				
Bank Negara Malaysia bills	4,962	11,045	1,366	9,963
Government treasury bills	353	253	279	139
Malaysian Government securities	705	237	1,138	436
Malaysian Government investment certificates	693	2,178	901	1,498
Bankers' acceptances and Islamic accepted bills	3,237	4,204	199	3,376
Negotiable instruments of deposit	4,401	2,976	7,423	4,268
Cagamas bonds	20	72	192	59
Quoted securities				
Shares in Malaysia	1	9	-	8
Shares outside Malaysia	11	64	4	70
	14,383	21,038	11,502	19,817
Unquoted securities				
Private and Islamic debt securities	584	422	585	1,002
Foreign currency bonds	229	358	50	304
	15,196	**21,818**	**12,137**	**21,123**

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Financial investments available-for-sale:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Money market instruments				
Government treasury bills	372	375	621	359
Malaysian Government securities	153	-	1,533	
Malaysian Government investment certificates	3,105	1,370	2,284	2,844
Negotiable instruments of deposit	142	12	148	111
Other Government securities	456	121	535	421
Cagamas bonds	761	625	767	781
Khazanah bonds	-	-	148	-
	4,988	**2,502**	**6,036**	**4,516**
Quoted securities				
Shares quoted in Malaysia	81	85	66	86
Loan stocks quoted in Malaysia	7	6	-	10
Wholesale fund	1,500	1,000	2,000	1,500
	6,577	**3,593**	**8,102**	**6,112**
Unquoted securities				
Private debt securities in Malaysia	2,594	2,849	3,347	2,667
Shares in Malaysia	332	313	328	313
Shares outside Malaysia	3	3	4	3
Foreign currency bonds in Malaysia	3,396	2,229	4,277	2,650
Foreign currency bonds outside Malaysia	940	881	1,433	753
	13,843	**9,868**	**17,491**	**12,498**
Allowance for impairment losses	(16)	(5)	(7)	(5)
	13,827	**9,863**	**17,484**	**12,493**

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Financial investments held-to-maturity:

	Audited as at 30 June		Unaudited as at 31 December	
	2013	**2012**	**2013**	**2012**
	RM' million	**RM' million**	**RM' million**	**RM' million**
Money market instruments				
Malaysian Government securities	1,616	1,868	2,693	1,592
Malaysian Government investment certificates	2,304	1,086	3,372	2,242
Cagamas bonds	77	248	97	77
Negotiable instruments of deposit	6	21	4	6
Other Government securities	3	152	116	17
	4,005	3,375	6,282	3,934
Unquoted securities in Malaysia				
Loan stocks	11	12	10	11
Private and Islamic debt securities	103	196	72	104
Unquoted bonds	156	205	143	165
Investment in preference shares	52	52	53	53
	4,327	3,839	6,560	4,267
Allowance for impairment losses	(166)	(169)	(153)	(176)
	4,161	**3,670**	**6,407**	**4,091**

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6. RISK MANAGEMENT

6.1 Risk Management

The HLB Group has implemented an integrated risk management framework with the objective to ensure the overall financial soundness and stability of the HLB Group's business operations. The HLB Group's integrated risk management framework outlines the overall governance structure, aspiration, values and risk management strategies that balance between risk profiles and returns objectives. Appropriate methodologies and measurements have been developed to manage uncertainties such that deviations from intended strategic objectives are closely monitored and kept within tolerable levels.

As part of the integrated risk management framework, the HLB Group has formulated and implemented an ICAAP and a capital management framework to ensure that it maintains the appropriate level of capital, the appropriate quality and structure of capital and the appropriate risk profile to support its strategic objectives. This also includes determining the HLB Group's minimum capital threshold and target capital levels.

From a governance perspective, the Board has the overall responsibility to define the HLB Group's risk appetite and ensure that a robust risk management and compliance culture prevails. The Board is assisted by the BRMC in approving the HLB Group's integrated risk management framework as well as the attendant capital management framework, risk appetite statement, risk management strategies and risk policies.

Dedicated management level committees are established by the HLB Group to oversee the development and the assessment of effectiveness of risk management policies, to review risk exposures and portfolio composition as well as to ensure appropriate infrastructures, resources and systems are put in place for effective risk management activities.

Operationally, the HLB Group operates multiple lines of defences to effect a robust control framework. The business units being the first line of defence are responsible for identifying, mitigating and managing risks within their lines of business. The HLB GIRMC function being the second line of defence is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and mitigation of risks.

In addition, GIRMC undertakes compliance validation to ensure that the business and operating units are in compliance to the HLB Group's risk appetite thresholds and to the regulatory requirements. The GIRMC's functions cover the oversight of the following areas:- market and liquidity risk, credit portfolio risk, technology and operations risk, ICAAP and integrated stress testing, regulatory compliance and Islamic banking risk and compliance.

The HLB Group Internal Audit function, being the third line of defence, is responsible to provide independent assurance on the effective functioning of the risk management and internal controls framework for the HLB Group.

6.2 Credit Risk

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfil their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other activities undertaken by the Issuer.

The HLB Group has established a credit risk management framework to ensure that exposure to credit risk is kept within the Issuer's financial capacity to withstand potential future losses. Lending activities are guided by the internal credit policies and guidelines that are reviewed and concurred by the Management Credit Committee ("**MCC**"), endorsed by the BRMC and the BCSC, and approved by the Board. These policies are subject to review and enhancements, at least on an annual basis.

Credit portfolio strategies and significant exposures are reviewed by both the BRMC and the Board. These portfolio strategies are designed to achieve a desired portfolio risk tolerance level and sector distribution.

The HLB Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the credit evaluation departments, the MCC and the BCSC. The Board delegates approving and discretionary authority to the MCC and the various personnel of the Issuer based on job function and designation.

For any new products, credit risk assessment also forms part of the new product sign-off processes to ensure that the new product complies with the appropriate policies and guidelines, prior to the introduction of the product.

The HLB Group's exposure to credit risk is mainly from its retail customers, small and medium enterprise ("**SME**"), commercial and corporate customers. The credit assessment for retail customers is managed on a portfolio basis and the risk scoring models and lending templates are designed to assess the credit worthiness and the likelihood of the obligors to repay their debts.

The SME, commercial and corporate customers are individually assessed and assigned with a credit rating, which is based on the assessment of relevant factors such as the customer's financial position, industry outlook, types of facilities and collaterals offered.

Credit limits are established to ensure that the HLB Group and the Issuer are not duly exposed to unnecessary credit risk with parties who are unable to meet or honour their financial obligations with the HLB Group and the Issuer. The counterparty limits for the HLB Group and the Issuer are established by taking into consideration the tenor of the obligation, rating assignment of the country, rating assignment of the counterparty, counterparty's shareholder's funds, the HLB Group's and the Issuer's shareholder's funds.

In addition, the Issuer also conducts periodic stress testing of its credit portfolios to ascertain credit risk impact to capital under the relevant stress scenarios.

6.3 Market Risk Management

Market risk is the risk of loss in financial instruments or the balance sheet due to adverse movements in market factors such as interest rates, foreign exchange rates, equities, spreads, volatilities and/or correlations.

The amount of market risk that the Issuer is prepared to take for each financial year is based on the budget, business direction, its risk-taking strategies, the impact on earnings and capital utilisation. These factors are used as a basis for setting market risk limits on an overall HLB Group and Issuer-wide basis.

Market risk limits, the monitoring and escalation processes, delegation of authority, model validation and valuation methodologies are built into the Issuer's market risk policies, which are reviewed and concurred by Asset and Liability Management Committee ("**ALCO**"), endorsed by the BRMC and approved by the Board.

The main market risk limits are stop loss limits, Value-at-Risk ("**VaR**") limits, counterparty limits, sensitivity limits, position/ instrument limits and holding period limits.

VaR is defined as the maximum loss at a specific confidence level over a specified period of time under normal market conditions. The Issuer computes the Historical Simulation VaR on a daily basis based on the recent 250-days of market observations at a 99.0% confidence level.

The Issuer performs backtesting on VaR on a hypothetical and actual basis and the results are tabled to the ALCO and the BRMC.

In addition, stress tests are conducted regularly on the trading book. In performing stress-testing, the Issuer uses the following:

(i) Scenario analysis, which is a combination of expected movements on risk factors.

(ii) Historical crisis event, which is based on actual movements that occurred in the relevant risk factors. The main risk factors that are stressed are the KL Financial Bursa Composite Index, movements in interest rates for RM, USD and other major currencies, migration in ratings and Foreign Exchange spot and volatilities.

In managing the interest rate risk exposure in the banking book, the Issuer adopts methodologies that measure exposure in both earnings at risk perspective and economic value or capital at risk perspective.

6.4 Liquidity Risk Management

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet financial obligations as they fall due. Financial obligations arise from withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Issuer's policy to ensure that there is adequate liquidity across all business units to sustain on-going operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

To manage liquidity risk, the Issuer adopts the BNM's New Liquidity Framework as one of the liquidity measurement methods. In addition to ensuring compliance with the New Liquidity Framework, the Issuer maintains a liquidity compliance buffer to meet any unexpected cash outflows.

This is supplemented by the Issuer's comprehensive liquidity risk management framework consisting of risk appetite, policies, triggers, limits and controls which are reviewed and concurred by the ALCO, endorsed by the BRMC and approved by the Board. The key elements of the framework cover proactive monitoring and management of cash flow, maintenance of high quality long-term and short-term marketable debt securities as well as diversification of funding base.

The Issuer has in place liquidity contingency funding plans and stress test programs to minimise the liquidity risk that may arise due to unforeseen adverse changes in the marketplace. Contingency funding plans set out the crisis escalation process and the various strategies to be employed to preserve liquidity including an orderly communication channel during liquidity crisis scenarios. Liquidity stress tests are conducted regularly to ensure there is adequate liquidity contingency fund to meet the shortfalls during liquidity crisis scenarios.

In addition, the Issuer has commenced, since June 2012, the Basel III observation period reporting to BNM on the 2 key liquidity ratios, namely the Liquidity Coverage Ratio and the Net Stable Funding Ratio.

6.5 Operational Risk Management

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Management oversight on operational risk management ("**ORM**") and compliance matters are effected through the Operational Risk Management and Compliance Committee ("**ORMCC**") whilst Board oversight is effected through the BRMC.

The HLB Group's ORM strategy is based on a framework of continuous improvements, good governance structure, policies and procedures as well as the employment of risk mitigation strategies. The Issuer is further enhancing its ORM tools such as loss event reporting, risk catalogue, control self assessment and key risk indicators in order to improve its ORM.

The results of the ORM processes using the above tools are reported to both the BRMC and the ORMCC.

These tools are based on international best practices for the management of operational risks and are explained in more detail below:

(i) Risk Catalogue (RC) records the operational risk profile of each Business/Support unit which enables them to proactively manage operational risks.
(ii) Control Self Assessment (CSA) provides the opportunity for the Business/Support units to identify and assess the effectiveness of its current controls in mitigating operational risk.
(iii) Key Risk Indicators (KRI) is a set of measures to allow the Issuer to monitor and facilitate early detection of operational risks.
(iv) Loss Event Reporting (LER) is a process for collecting and reporting operational risk events. These are further used for analysis of operational risks for the purpose of developing mitigating controls.

The operational risk mitigation strategies that are implemented at the HLB Group are:

(i) Policies, Guidelines and Standard Operating Procedures that define the roles and responsibilities of personnel and their respective operating limits.
(ii) Insurance against operational losses as a form of risk mitigation especially for risks which are deemed as high severity.
(iii) System of controls, established to provide reasonable assurance of effective and efficient operation.
(iv) Business Continuity Management to facilitate the continuance of business activities in the event of disaster or crisis situations by means of ensuring appropriate redundancy of systems is available.
(v) Processes to ensure compliance to laws, regulations, guidelines and policies.

7. THE MALAYSIAN ECONOMY AND INDUSTRY OVERVIEW

7.1 Overview of the Malaysian Economy

Economic and Financial Developments in Malaysia in the Fourth Quarter of 2013

Global economic activity improved in the fourth quarter of 2013 amid the gradual recovery in the major economies. Despite lingering fiscal uncertainties, the US economy registered stronger growth as consumption and investment improved. In the euro area, modest improvements in exports supported growth, but structural and fiscal issues weighed down domestic demand. Growth across Asia continued as moderating domestic demand was offset by better export performance. Similarly, the Malaysian economy expanded by 5.1% in the fourth quarter of 2013 (3Q 2013: 5.0%), supported by private sector demand and improvement in exports. On the supply side, the major economic sectors grew further, supported by both domestic and trade activities. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 2.1% (3Q 2013: 1.7%). For the year 2013, the Malaysian economy grew by 4.7%.

Private consumption growth remained high in the fourth quarter, although the pace of expansion moderated (7.3%; 3Q 2013: 8.2%). Household spending continued to be supported by stable employment conditions and sustained wage growth, especially in the domestic oriented sectors. Growth in public consumption moderated to 5.1% (3Q 2013: 7.8%), reflecting lower Government spending on emoluments.

Gross fixed capital formation grew by 5.8% (3Q 2013: 8.6%), led by robust private sector capital spending amidst a contraction in public investment growth. Growth in private investment improved to 16.5% (3Q 2013: 15.2%), on account of higher capital spending in the services and manufacturing sectors. Public investment declined by 2.7% (3Q 2013: -1.3%), reflecting moderating capital spending by the public enterprises amid a smaller contraction in Federal Government development expenditure.

On the supply side, growth was supported by the major economic sectors. The services sector grew in tandem with the improvement in trade and manufacturing activities. The manufacturing sector expanded further, supported by higher growth in both export and domestic-oriented industries. The construction sector growth remained firm, underpinned by the activity in the non-residential and residential sub-sectors. However, the commodities sector weakened, due to lower production of rubber, palm oil and crude oil.

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), increased to 3.0% in the fourth quarter (3Q 2013: 2.2%). This largely reflected the upward adjustment to prices of petroleum products and sugar, and the increase in excise duty on tobacco. Supply disruptions following adverse weather conditions also led to the higher food prices.

The trade surplus widened to RM27.4 billion in the fourth quarter (3Q 2013: RM18.6 billion). Both gross exports and imports grew at a faster pace largely reflecting the improvement in the global economy and the sustained expansion of domestic demand respectively. The financial account recorded a net outflow of RM9.7 billion in the fourth quarter (3Q 2013: net outflow of RM11.5 billion), as net inflows of direct investment were offset by outflows of other investments. The overall balance of payments registered a small deficit of RM2.9 billion in the fourth quarter (3Q 2013: surplus of RM11.8 billion).

The international reserves of Bank Negara Malaysia amounted to RM441.7 billion (equivalent to USD134.9 billion) as at 31 December 2013. This reserves level has taken into account the quarterly foreign exchange revaluation adjustments. As at 30 January 2014, the reserves position amounted to RM436.0 billion (equivalent to USD133.1 billion), sufficient to finance 9.4 months of retained imports and is 3.4 times the short-term external debt.

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the fourth quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. The average BLR of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-December 2013: 5.36%; end-September 2013: 5.40%), reflecting the maturity of loans that were contracted during the period of higher borrowing costs prior to the OPR reductions in 2008 and 2009, and the addition of new loans at relatively lower rates.

The monetary aggregates continued to experience positive growth during the fourth quarter. M1, or narrow money, increased by RM17.9 billion. On an annual basis, M1 expanded by 13.0% as at end-December (end-September 2013: 12.9%). M3, or broad money, increased by RM25.4 billion on a quarter-on-quarter basis to record an annual growth rate of 8.1% as at end-December (end-September 2013: 7.4%). The expansion of M3 during the quarter was mainly driven by higher credit extended to the private sector by the banking system. M3 was also lifted by a modest increase in the net foreign assets of the banking system.

Total gross financing raised by the private sector through the banking system and the capital market increased to RM302.8 billion in the fourth quarter (3Q 2013: RM260.6 billion). Outstanding banking system loans and PDS expanded at an annual growth rate of 9.9% as at end-December (end-September 2013: 8.8%). Meanwhile, net funds raised in the capital market increased to RM33.7 billion in the fourth quarter (3Q 13: RM17.8 billion).

Movements of the ringgit and other regional currencies in the fourth quarter were driven mainly by external developments. The anticipation and eventual announcement of a scale-back of monetary injections by the Fed resulted in outflows of funds from regional financial markets. Overall, the ringgit depreciated by 0.7% against the US dollar during the quarter. The ringgit also depreciated against the pound sterling (-2.6%) and euro (-2.8%), but appreciated against the Japanese yen (6.3%). The ringgit exhibited a mixed performance against regional currencies.

Between 1 January and 10 February, the ringgit depreciated against the US dollar by 1.5%. The ringgit also depreciated against the Japanese yen (-3.8%), pound sterling (-1.1%) and euro (-0.2%), and several regional currencies.

Source: Economic and Financial Developments in Malaysia in the Fourth (4^{th}) Quarter of 2013

Prospects for 2014

Global growth is expected to strengthen moderately in 2014 as some developed economies emerged from recession amid the overall positive effects from the stimulus measures undertaken. However, emerging economies remain vulnerable to the reeling in of stimulus measures, especially by the USA. As such, the Malaysian economy is expected to grow between 5% and 5.5% supported by domestic demand. With the external sector likely to be sluggish, growth will be driven by resilient private consumption and the ongoing implementation of infrastructure projects. With stronger domestic financial institutions and reserves, the economy is well positioned to manage any vulnerability. Inflation is expected to be stable. Monetary policy will continue to focus on promoting price stability and support the expansion of economic activities.

The Financial Sector Blueprint (2011-2020) and the Capital Market Masterplan 2 (2011-2020) are expected to continue to drive the development of the domestic financial sector, including the expansion and internationalisation of Islamic finance. As the country transitions towards a high value-added, high-income economy, the financial sector will play a key role in spurring new areas of growth and facilitate the economic transformation. In this regard, a critical success factor is ensuring the supply of a deep pool of highly-skilled talent.

Source: Economic Report 2013/2014, Ministry of Finance

Global recovery and resilient domestic demand will continue to support growth

Going forward, the global economy is expected to be on a path of moderate recovery. The sustained improvements in the advanced economies will be a positive impulse for international trade. However, on-going uncertainties surrounding monetary and fiscal policy adjustments in the advanced economies remain a risk to growth.

Growth in the Asian economies is expected to be supported by improving external conditions amid moderating domestic demand.

For the Malaysian economy, domestic demand will remain supportive of growth. While domestic demand is expected to moderate following the on-going fiscal consolidation, the external sector is expected to benefit from the improving global conditions. The growth momentum is therefore expected to remain on a steady trajectory.

Source: BNM Economic and Financial Developments in Malaysia in the Fourth Quarter of 2013

7.2 Overview of the Malaysian Banking Industry

Development in the Financial Sector

During the first eight (8) months of 2013, the banking system and capital market were further strengthened to facilitate and catalyse growth in the economy as Malaysia transitions to a high-income and developed nation. Financial intermediation continued to support economic activities with total loans outstanding in the banking sector increasing 9.3% to RM1,180.3 billion as at end-August 2013. Meanwhile, total financing outstanding of development financial institutions increased 8.5% to RM117 billion, particularly to strategic economic sectors. Microfinancing was also extended through the Skim Pembiayaan Mikro, Amanah Ikhtiar Malaysia and Tabung Ekonomi Kumpulan Usaha Niaga to support microenterprises.

The capital market remains an important source of financing for companies, with total private bonds outstanding amounting to RM415.3 billion and market capitalisation of the equity market increasing to RM1,598.8 billion as at end-August 2013. In January 2013 a new sukuk asset class was launched on Bursa Securities, making sukuk and bonds available to all investors, for the first time. The Danainfra Retail Sukuk issued by Danainfra Nasional Berhad was used to partly fund the current MY Rapid Transit project.

Malaysia continues to be a global hub for Islamic finance with a deep primary and active secondary sukuk market, an efficient price discovery mechanism, a diverse talent base with global capabilities, and an efficient multi-currency clearing and settlement system. Furthermore, with the new IFSA that came into force in June this year, there will be greater clarity in the legal and prudential requirements underpinned by Shariah principles on the Islamic finance industry. The IFSA will strengthen the regulatory and legal system to meet the challenges and developments of an increasingly sophisticated and internationalised industry.

Source: Economic Report 2013/2014, Ministry of Finance

Banking System Performance

Gross private sector financing raised through the banking system and capital market rebounded 15.5% to RM302.8 billion in the fourth quarter of 2013 (Q3 2013: -4.1%; RM260.6 billion). This was driven by higher loan disbursements by the banking system as well as private debt securities (PDS) and equity issuances. Loan disbursements by the banking system increased 9.8% to RM259.3 billion (Q3 2013: 5.5%; RM245 billion). Similarly, gross PDS issuance, excluding Cagamas rose 81.9% to RM36 billion (Q3 2013: -59.4%; RM12.9 billion) while equity issuance increased 21.3% to RM7.4 billion (Q3 2013: -64.9%; RM2.8 billion).

During the fourth quarter of 2013, lending indicators remained firm with loan applications surging 22% to RM209.9 billion (Q3 2013: 18%; RM214.2 billion) on account of continued demand from the business and household sectors. Meanwhile, loan approvals rose at a slower pace of 2.8% to RM98 billion (Q3 2013: 9.4%; RM103.2 billion). However, loan disbursements grew further by 9.8% to RM259.3 billion (Q3 2013: 5.5%; RM245 billion). Business loans, which accounted for the bulk of total loans disbursed, were mainly channelled to the manufacturing (20.9%) as well as wholesale and retail trade, accommodation and restaurant (19.9%) sectors. The household sector maintained a significant share at 30.2% or RM78.4 billion of total loans disbursed by the banking system.

As at end-December 2013, total loans outstanding in the banking system continued to expand 10.6% to RM1,225.8 billion (end- September 2013: 9.5%; RM1,191.4 billion). As in the previous quarter, the household sector continued to account for the largest share of loans outstanding in the banking system totalling 56.3% or RM690.6 billion (end- September 2013: 56.2%; RM669.8 billion).

Source: Quarterly Update on the Malaysian Economy, Fourth Quarter 2013, Ministry of Finance

8. OTHER MATERIAL INFORMATION

8.1 Material Contracts

As at 31 March 2014 and save as disclosed below, there are no material contracts entered into outside the ordinary course of business by the Issuer or its material subsidiaries within the last two (2) years:

8.1.1 HLB's disposal of MIMB Investment Bank Berhad ("MIMB")

HLB entered into a sale and purchase agreement dated 10 April 2012 with HLCB to dispose all the issued and paid-up share capital of MIMB comprising 75,000,000 ordinary shares to HLCB for a cash consideration of RM157.90 million.

8.1.2 HLB's acquisition of HLIB

HLB entered into a sale and purchase agreement dated 10 April 2012 with HLCB to acquire HLIB from HLCB for a cash consideration of RM2.00.

8.2 Material Litigation

As at 31 March 2014, there are no material claims, demands, lawsuits or litigation (including those pending or threatened) by or against the Issuer, which are outside the ordinary course of business of the Issuer, or any proceedings pending or threatened which might materially and adversely affect the position or business of the Issuer, and in particular, any injunctions, winding up orders, any orders relating to the enforcement of judgments or other remedies which may if granted by the court, effectively cause the Issuer to have to cease all or parts of the Issuer's business.

8.3 Commitment and Contingent Liabilities

Save as those disclosed in the Bank's audited financial statements for the FYE 30 June 2013, the Issuer is not aware of any material commitment and contingent liabilities, which upon becoming enforceable may have substantial impact on the financial position and the business of HLB.

8.4 Potential Conflict of Interest and Appropriate Mitigating Measures

There may be a potential conflict-of-interest situation arising from the appointment of HLIB as the Principal Adviser, Lead Arranger and Lead Manager as well as the Facility Agent for the Multi-Currency Sub-Notes Programme in view that both HLIB and HLB are part of the HLFG.

Notwithstanding the above, HLIB as the Principal Adviser, Lead Arranger, Lead Manager and Facility Agent of the Multi-Currency Sub-Notes Programme has considered the factors involved and believes the objectivity and independence in carrying out its role has been and/or will be maintained at all times for the following reasons:

- the conduct of HLIB is regulated by the FSA and CMSA and HLIB has in place its own internal controls and checks with regards to transactions involving its related corporations; and

- HLIB is a licensed investment bank and its appointment as the Principal Adviser, Lead Arranger, Lead Manager and Facility Agent is in the ordinary course of its business. The appointments are governed by various mandate letters, agreements and/or documents which set out the rights, duties and obligations of HLIB acting in such capacities; and

in order to further mitigate or address any such potential conflict of interest, the following measures have been/will be taken:-

- the potential conflict of interest situation has been brought to the attention of the Board and hence the Board is fully aware of the same. The Board has acknowledged and confirmed that having considered the above situation, the Board is agreeable to proceed with the implementation of the Multi-Currency Sub-Notes Programme based on the present arrangement and terms;

- the potential conflict of interest situation is hereby disclosed by the Issuer to prospective subscribers; and

- the appointment of Messrs Adnan Sundra & Low as an external independent solicitor to conduct a legal due diligence inquiry on the Issuer.

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APPENDIX I: AUDITED FINANCIAL STATEMENTS OF HONG LEONG BANK FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

APPENDIX II: UNAUDITED INTERIM FINANCIAL STATEMENTS OF HONG LEONG BANK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013