

Serial No:

Strictly Private & Confidential

This Information Memorandum is not an offer to sell securities and is not soliciting an offer to buy securities described herein in any jurisdiction where the offer or sale is not permitted



Hong Leong Assurance Berhad
(Company No. 94613-X)

INFORMATION MEMORANDUM

**PROPOSED ISSUE OF, OFFER FOR SUBSCRIPTION OR PURCHASE OF, OR INVITATION
TO SUBSCRIBE FOR OR PURCHASE OF SUBORDINATED NOTES UNDER A
SUBORDINATED NOTE PROGRAMME OF UP TO RM500.0 MILLION IN NOMINAL VALUE**

Principal Adviser/Lead Arranger/Lead Manager



HONG LEONG INVESTMENT BANK BERHAD
(formerly known as MIMB Investment Bank Berhad)
(Company No. 10209-W)

This Information Memorandum is dated 14 January 2013

RESPONSIBILITY STATEMENT

This Information Memorandum has been approved by the directors of Hong Leong Assurance Berhad (“**HLA**” or the “**Issuer**”) and they collectively and individually accept full responsibility for the accuracy of the information given and confirm 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 in this Information Memorandum in the context of the issue, offer, sale or invitation to subscribe or purchase the subordinated notes (“**Subordinated Notes**”) under a subordinated note programme of up to RM500.0 million in nominal value to be established by the Issuer (“**Subordinated Note Programme**”). The opinions expressed in this Information Memorandum with regard to the Issuer have been reached after considering all relevant circumstances and are based on reasonable assumptions. Enquiries have been made by the Issuer to ascertain all material facts and to verify the accuracy of all such information and statements. In this context, the Issuer accepts responsibility for such information contained in this Information Memorandum.

IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER

This Information Memorandum is provided to prospective investors by the Issuer on a private and confidential basis for use solely in connection with the issue, offer, sale or invitation to subscribe or purchase the Subordinated Notes under the Subordinated Note Programme.

The Issuer has authorised Hong Leong Investment Bank Berhad (formerly known as MIMB Investment Bank Berhad) (“**HLIB**”) as Principal Adviser, Lead Arranger and Lead Manager (the “**Lead Arranger**”) to distribute this Information Memorandum, which is now being provided by the Lead Arranger on a confidential basis to potential investors for the sole purpose of assisting them to decide whether to subscribe or purchase the Subordinated Notes. The Subordinated Notes shall not be offered, sold, transferred or otherwise disposed, directly or indirectly other than to persons falling within any of the categories of persons or in the circumstances specified under Schedule 6 (or Section 229(1)(b)) and 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 may be amended from time to time) (“**CMSA**”) if they are considering to purchase the Subordinated Notes at issuance and Schedule 6 (or Section 229(1)(b)) read together with Schedule 9 (or Section 257(3)) of the CMSA if they are considering to purchase the Subordinated Notes after issuance.

The Subordinated Note Programme has been assigned an initial rating of AA₃ by RAM Rating Services Berhad. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency.

This Information Memorandum shall 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 written consent of the Issuer and the Lead Arranger unless as may be required under Malaysian laws, regulations and/or guidelines.

The Lead Arranger does not accept any responsibility (to the extent permitted by law) for the information and data contained in this Information Memorandum and no responsibility or liability is accepted by the Lead Arranger as to the adequacy, legality, effectiveness, validity, genuineness, enforceability, admissibility, reasonableness, authenticity, origin, validity, accuracy or completeness of such information and data or for any other information, data or statement provided by the Issuer or made or purported to be made by the Lead Arranger or on its behalf in connection with the Issuer, its future performance, or the issue and offering or distribution of the Subordinated Notes. The Lead Arranger accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Information Memorandum or any such statement. No

statement, representation, warranty or undertaking, express or implied, is made, given or assumed by the Lead Arranger as to the authenticity, origin, validity, accuracy or completeness of such information and data or that the information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum.

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 Lead Arranger or any other person.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction other than 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 issue, offer or sale of, or an invitation to subscribe or purchase the Subordinated Notes or any other securities of any kind by any party in any Foreign Jurisdiction.

This Information Memorandum 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. Unless otherwise specified in this Information Memorandum, the information contained in this Information Memorandum is current as at the date hereof. No action has been or will be taken in any country or jurisdiction by the Issuer or the Lead Arranger that would permit an issue or offering or an invitation to subscribe for or purchase the Subordinated Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Any person who possesses this Information Memorandum is required by the Issuer and the Lead Arranger to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Subordinated Notes or have in their possession or distribute such offering material, in all cases at their own expense.

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

Neither the Issuer nor the Lead Arranger represents that the Subordinated Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction other than Malaysia, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

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 and will not reproduce it howsoever and whatsoever manner, without the consent of the Issuer and the Lead Arranger;
- (b) it is lawful for the recipient to subscribe for or purchase the Subordinated Notes under all jurisdictions to which the recipient is subject;
- (c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Subordinated Notes;
- (d) the Issuer and the Lead Arranger and their respective directors, officers, employees 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 or purchase of the Subordinated Notes, and they shall not have any responsibility or liability in the event that such subscription or

- purchase of the Subordinated Notes is or shall become unlawful, unenforceable, voidable or void;
- (e) it is aware that the Subordinated Notes can only be offered, sold, transferred or otherwise disposed of directly or indirectly 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 or purchasing the Subordinated Notes, and is able and is prepared to bear the economic and financial risks of investing in or holding the Subordinated Notes;
 - (g) it is subscribing or accepting the Subordinated Notes for its own account; and
 - (h) it is a person to whom an issue, offer or invitation to subscribe or purchase the Subordinated Notes would constitute a person falling within any one or more of the categories of persons specified in Schedule 6 (or Section 229(1)(b)) and Schedule 7 (or Section 230(1)(b)) read together with Schedule 9 (or Section 257(3)) of the CMSA as amended from time to time.

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

Neither this Information Memorandum nor any other information supplied in connection with the Subordinated Notes is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer and/or the Lead Arranger that any recipient of this Information Memorandum should purchase any of the Subordinated Notes. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive.

Each recipient contemplating to purchase the Subordinated Notes should perform and is deemed to have made its own independent investigation and analysis of the financial condition, status and affairs, and its own appraisal of the creditworthiness and nature, of the Issuer and of its subsidiaries and associated companies, the terms of the offering of the Subordinated Notes, including the merits and risks involved, and all other relevant matters, and each recipient should consult its own professional advisers. All information and statements herein are subject to the detailed provisions of the respective agreements referred to herein and are qualified in their entirety by reference to such documents.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Subordinated 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 Subordinated Notes is correct as of any time subsequent to the date indicated in the document containing the same. Neither the Lead Arranger nor any other advisers for the issue of Subordinated Notes undertake to review the financial condition or affairs of Issuer or to advise any investor in any Subordinated Notes of any information coming to their respective attention.

This Information Memorandum includes certain historical information, estimates, or reports thereon derived from sources mentioned in this Information Memorandum and other parties with respect to the material businesses in which Issuer and its subsidiaries (if applicable) operate and certain other matters. Such information, estimates, or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy or completeness of any information, estimate and or report thereon derived from such and other third party sources.

FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE “*INVESTMENT CONSIDERATIONS*” IN SECTION 8 HEREOF.

Certain statements in this Information Memorandum are based on historical data, which may not be reflective of the future, and others are forward-looking in nature and are subject to risks and uncertainties. While the Issuer believes that these forward-looking statements are reasonable, these statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward looking statements. The Issuer is not under any obligation to update or revise such forward-looking statements to reflect any change in expectations or circumstances. In light of all this, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by the Issuer that the plans and objectives of the Issuer will be achieved.

INDUSTRY AND MARKET DATA

Industry and market data throughout this Information Memorandum was obtained from a combination of internal company surveys, the good faith estimates of management, and data from various research firms or trade associations. While the Issuer believes that its internal surveys, estimates of management, and data from research firms or trade associations are reliable, neither of the Issuer, the Lead Arranger or their respective affiliates have verified this data with independent sources. Accordingly, neither the Issuer nor the Lead Arranger makes any representations as to the accuracy or completeness of that data. The Issuer is not aware of any misstatements regarding industry or market data contained in this Information Memorandum; however, such data involves risks and uncertainties and is subject to change based on various factors, including those factors discussed in the “Investment Considerations” section herein.

ACKNOWLEDGEMENT

The Issuer hereby acknowledges that it has authorised the Lead Arranger to circulate or distribute this Information Memorandum on its behalf in respect of or in connection with the proposed offer or invitation to subscribe for and issue of the Subordinated Notes to prospective investors to whom an issue, offer or invitation to subscribe or purchase the Subordinated Notes would constitute persons falling within any one or more of the categories specified in Schedule 6 (or Section 229(1)(b)) and Schedule 7 (or Section 230(1)(b)) read together with Schedule 9 (or Section 257(3)) of the CMSA as amended from time to time and that no further evidence of authorisation is required.

STATEMENTS OF DISCLAIMER BY THE SECURITIES COMMISSION

In accordance with the CMSA, a copy of this Information Memorandum will be deposited with the Securities Commission, which takes no responsibility for its contents.

The issue, offer or invitation in relation to the Subordinated Notes in this Information Memorandum or otherwise is subject to the fulfillment of various conditions precedent including without limitation the approval of the SC.

The Securities Commission vide its letter dated 20 December 2012 has approved the establishment of the Subordinated Note Programme pursuant to Section 212(5) of the CMSA. Please note that the approval of the Securities Commission shall not be taken to indicate that the Securities Commission recommends the subscription or purchase of the Subordinated Notes under the Subordinated Note Programme.

The Securities Commission 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 in this Information Memorandum.

EACH TRANCHE OF THE SUBORDINATED NOTES CARRY DIFFERENT RISKS. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT.

IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR SUBSCRIBING THE SUBORDINATED NOTES.

CONFIDENTIALITY

To the recipient of this Information Memorandum:

This Information Memorandum and its contents are strictly confidential and are provided strictly on the basis that the recipient will ensure the same remains confidential. Accordingly, this Information Memorandum and its contents, and/or any information which is made available in connection with any further enquiries, must be held in complete confidence.

THIS INFORMATION MEMORANDUM IS SUBMITTED TO SELECTED PERSONS SPECIFICALLY TO WHOM AN ISSUE, OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE THE SUBORDINATED NOTES WOULD CONSTITUTE PERSONS FALLING WITHIN ANY ONE OR MORE OF THE CATEGORIES SPECIFIED IN SCHEDULE 6 (OR SECTION 229(1)(B)) AND SCHEDULE 7 (OR SECTION 230(1)(B)) READ TOGETHER WITH SCHEDULE 9 (OR SECTION 257(3)) OF THE CMSA AS AMENDED FROM TIME TO TIME AND MAY NOT BE REPRODUCED OR USED, IN WHOLE OR IN PART, FOR ANY PURPOSE, NOR FURNISHED TO ANY PERSON OTHER THAN THOSE TO WHOM COPIES HAVE BEEN PROVIDED BY THE LEAD ARRANGER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF APPLICABLE LAWS. IF YOU HAVE RECEIVED THIS INFORMATION MEMORANDUM CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SUBORDINATED NOTES DESCRIBED THEREIN.

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 and the Lead Arranger may, at their discretion apply for any remedy available to the Issuer and the Lead Arranger whether at law or equity, including without limitation, injunctions. The Issuer and the Lead Arranger are entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered, in this regard on a full indemnity basis. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisors, directors, employees and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

The recipient must return this Information Memorandum and all copies whether in whole or in part and any other information in connection therewith to the Lead Arranger promptly upon the Lead Arranger's or the Issuer's request.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Information Memorandum which contain words or phrases such as "will", "would", "aimed", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "seeking to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could",

“may” and similar expressions or variations of such expressions, that are “forward-looking statements”. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Issuer with respect to, but not limited to, their ability to successfully implement their strategy, their ability to integrate future mergers or acquisitions into their operations, future levels of non-performing assets and restructured assets, their growth and expansion, the adequacy of their allowance for credit and investment losses, technological changes, investment income, their ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings they are or becomes a party to, the future impact of new accounting standards, their ability to implement their dividend policy, their ability to roll over their short-term funding sources, their exposure to market risks and the market acceptance of and demand for property.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Information Memorandum include, but are not limited to general economic and political conditions in Malaysia and the other countries which have an impact on the Issuer’s business activities or investments, political or financial instability in Malaysia or elsewhere or any other acts of terrorism worldwide, any anti-terrorist or other attacks by any country, inflation, deflation, unanticipated turbulence in interest rates, changes in foreign exchange rate, equity prices or other rates or prices, the performance of the financial markets in Malaysia and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and pricing environment in Malaysia and regional or general changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under “*Investment Considerations*” contained in this Information Memorandum.

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GLOSSARY OF DEFINITIONS AND ABBREVIATIONS

Except where the context otherwise requires, the following abbreviations shall apply throughout this Information Memorandum:

“BNM”	Bank Negara Malaysia
“BARMC”	Board Audit and Risk Management Committee of the Issuer
“Board”	Board of directors of the Issuer
“Bursa Securities”	Bursa Malaysia Securities Berhad (Company No. 635998-W)
“Calculation Agent”	HLIB
“Call Date”	any coupon payment date falling within the period of five (5) years prior to the respective maturity date of the relevant Subordinated Notes
“CMSA”	Capital Markets and Services Act, 2007 of Malaysia (as amended from time to time)
“Facility Agent”	HLIB
“Government”	the Government of Malaysia
“HLAH”	HLA Holdings Sdn Bhd (Company No. 846141-D)
“HLCM”	Hong Leong Company (Malaysia) Berhad (Company No. 7802-V)
“HLFG”	Hong Leong Financial Group Berhad (Company No. 8024-W)
“HLIB”	Hong Leong Investment Bank Berhad (formerly known as MIMB Investment Bank Berhad) (Company No. 10209-W)
“Issuer” or “HLA”	Hong Leong Assurance Berhad (Company No. 94613-X)
“Lead Arranger”	HLIB
“Lead Manager”	HLIB
“M&A Event”	the event as defined in item 21.3 of the PTC
“MSIM”	MSIG Insurance (Malaysia) Bhd (Company No. 46983-W)
“Noteholders”	the bearers of that tranche of Subordinated Notes or the persons entitled to that tranche of Subordinated Notes
“NC”	Nominating Committee of the Issuer
“Programme Agreement”	the programme agreement between the Issuer, the Lead Arranger, the Facility Agent, the Calculation Agent and the Lead Manager in relation to the Subordinated Note Programme
“PTC”	the principal terms and conditions of the Subordinated Note Programme as contained in Section 2 of this Information

Memorandum

“RAM Rating”	RAM Rating Services Berhad (Company No. 763588-T)
“RBC Framework”	the Risk Based Capital Framework for Insurers issued by BNM
“RC”	Remuneration Committee of the Issuer
“Redemption Conditions”	the redemption conditions for the Subordinated Notes as stated in item 21.4 of the PTC
“Redemption Amount”	the amount as defined in item 22.6 of the PTC
“Regulatory Event”	the event as defined in item 21.1 of the PTC
“SC”	Securities Commission of Malaysia
“Subordinated Notes”	the subordinated notes to be issued under the Subordinated Note Programme
“Subordinated Note Programme”	the subordinated notes programme of up to RM500.0 million in nominal value established by the Issuer with a tenure of up to fifteen (15) years from the date of first issue of the Subordinated Notes under the Subordinated Note Programme
“Tax Event”	the event as defined in item 21.2 of the PTC
“Tranche”	the tranche of Subordinated Notes having the same issue date and maturity date
“Transaction Documents”	collectively, the Programme Agreement, the Trust Deed and any other documents in connection with the Subordinated Note Programme agreed by the Issuer and the Lead Arranger
“Trust Deed”	the trust deed between the Issuer and Trustee in relation to the Subordinated Notes
“Trust Deeds Guidelines”	the Trust Deeds Guidelines issued by the SC and effective on 12 August 2011
“Trustee”	TMF Trustees Malaysia Berhad (Company No. 610812-W)

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1.0 EXECUTIVE SUMMARY

The summary below aims to provide an overview of the information contained in the Information Memorandum. As such, it does not contain all the information that may be important to you and should therefore be read with this entire Information Memorandum.

1.1 Introduction

The Issuer was incorporated in Malaysia as a private company limited by shares under the Companies Act 1965 on 20 December 1982 under the name Hong Leong Assurance Sendirian Berhad as a composite insurance company eventually acquiring the entire general and life business of Malaysia Pacific Insurance Berhad. The Issuer converted to a public company on 6 March 1993 with the current name Hong Leong Assurance Berhad.

The Issuer is principally engaged in underwriting of life insurance business.

The registered office of the Issuer is at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

1.2 The Subordinated Note Programme

The Issuer proposes to establish the Subordinated Note Programme with a programme limit of RM500.0 million in nominal value and to issue the Subordinated Notes from time to time under the Subordinated Note Programme.

BNM's approval for the Issuer's establishment of the Subordinated Note Programme and the issue of the Subordinated Notes thereunder to qualify as Tier 2 capital of the Issuer has been obtained on 14 November 2012 ("**BNM's Approval Letter**"). SC's approval for the Issuer's establishment of the Subordinated Note Programme and the issue of the Subordinated Notes thereunder has been obtained on 20 December 2012.

The Subordinated Note Programme has been accorded an initial rating of AA3 by RAM Rating.

The Subordinated Notes to be issued under the Subordinated Note Programme will qualify as Tier 2 Capital of the Issuer subject to compliance with the requirements as specified in the RBC Framework.

Each Subordinated Note issued under the Subordinated Note Programme shall have a tenure of not less than ten (10) years and not more than fifteen (15) years from the issue date subject to the Call Option as described below and provided that the maturity of the Subordinated Notes shall not extend beyond the expiry of the Subordinated Note Programme. The tenure of the Subordinated Note Programme is up to fifteen (15) years from the date of first issue of the Subordinated Notes under the Subordinated Note Programme.

Each Tranche of Subordinated Notes shall have a call option ("**Call Option**") which entitles the Issuer to redeem (in whole, but not in part) that Tranche of Subordinated Notes on the Call Date at the Redemption Amount (subject to Redemption Conditions being satisfied). Unless previously redeemed at the Redemption Amount on the Call Date (if applicable) or redeemed pursuant to a Regulatory Event or an M&A Event or a Tax Event (subject to the Redemption Conditions being satisfied) or purchased from the market and cancelled, the Subordinated Notes will be redeemed at the Redemption Amount on the respective maturity date(s).

For avoidance of doubt, the optional redemption of at the Redemption Amount (subject to the Redemption Conditions being satisfied) of one Tranche of Subordinated Notes whether in the case of early redemption pursuant to the Call Option or due to the occurrence of a Regulatory Event or a Tax Event shall not trigger the redemption of other Tranches of Subordinated Notes (if applicable).

In addition, the Issuer may, at its option, redeem all outstanding Subordinated Notes (in whole, but not in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied, upon the occurrence of an M&A Event.

The Subordinated Notes will not be underwritten.

The coupon rate shall be determined prior to each issuance of the Subordinated Notes. The respective coupon rate shall be applicable throughout the tenure of the respective Tranche of the Subordinated Notes. Each Tranche of the Subordinated Notes may carry a different coupon rate. For avoidance of doubt, there is no step up coupon after the first Call Date of the Subordinated Notes, in the event the Call Option is not exercised by the Issuer.

The Subordinated Notes will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Transaction Documents, ranking *pari passu* among themselves. The Subordinated Notes will, in the event of winding up or liquidation of the Issuer, be subordinated in right of payment to all 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 Subordinated Notes.

1.3 Utilisation of the Proceeds

The proceeds of the Subordinated Notes will be utilised, without limitation, for its general working capital and/or business operations.

1.4 Rating by RAM Rating

The Subordinated Note Programme has been accorded an initial rating of AA3 by RAM Rating.

1.5 Regulatory Approvals

The following regulatory approvals have been obtained for the Subordinated Note Programme:

- 1.5.1 Approval from BNM for the establishment of the Subordinated Note Programme and the issuance of Subordinated Notes thereunder dated 14 November 2012.
- 1.5.2 Approval from the SC for waivers from compliance with paragraphs 12.01(a)(iv), 12.01(a)(v), 12.01(a)(vi), 12.01(a)(vii), 12.01(a)(viii), 12.01(b), 14.01(h) and 14.01(i) of the Trust Deeds Guidelines in respect of the Subordinated Notes dated 25 October 2012.
- 1.5.3 Approval from the SC for the establishment of the Subordinated Note Programme and the issuance of Subordinated Notes thereunder pursuant to section 212 of the CMSA dated 20 December 2012.

However, the approvals of the SC and BNM should not be taken to indicate that the SC or BNM recommends subscription or purchase of the Subordinated Notes. Investors should rely

on their own evaluation to assess the merits and risk of investment of the said Subordinated Notes.

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2.0 PRINCIPAL TERMS AND CONDITIONS OF THE SUBORDINATED NOTE PROGRAMME

PRINCIPAL TERMS AND CONDITIONS

1. *Names of parties involved in the proposed transaction (where applicable)*

- | | | | |
|--------|--|---|---|
| (i) | <i>Principal Adviser</i> | : | HLIB |
| (ii) | <i>Lead Arranger</i> | : | HLIB. |
| | | | Principal Adviser/Lead Arranger to be referred to as the “ PA/LA ”. |
| (iii) | <i>Co-arranger</i> | : | Not applicable. |
| (iv) | <i>Solicitors</i> | : | Zul Rafique & partners as legal counsel for the PA/LA. |
| (v) | <i>Financial Adviser</i> | : | Not applicable. |
| (vi) | <i>Technical Adviser</i> | : | Not applicable. |
| (vii) | <i>Trustee</i> | : | TMF Trustees Malaysia Berhad. |
| (viii) | <i>Guarantor</i> | : | Not applicable. |
| (ix) | <i>Valuer</i> | : | Not applicable. |
| (x) | <i>Facility Agent</i> | : | HLIB. |
| (xi) | <i>Primary Subscribers (under a bought-deal) arrangement and amount subscribed</i> | : | To be determined prior to the issuance in respect of issuance via bought deal basis only.
Not applicable for issuance via private placement and book building. |
| (xii) | <i>Underwriter(s) and amount underwritten</i> | : | Not applicable. |
| (xiii) | <i>Central Depository</i> | : | BNM. |
| (xiv) | <i>Paying Agent</i> | : | BNM. |
| (xv) | <i>Reporting Accountant</i> | : | Not applicable. |
| (xvi) | <i>Calculation agent</i> | : | HLIB. |
| (xvii) | <i>Others (please specify)</i> | : | |

Lead Manager : HLIB.

2. *Facility Description* : Up to RM500.0 million in nominal value of subordinated notes under a subordinated note programme.

The Subordinated Notes issued under the Subordinated Note Programme will qualify as Tier 2 capital of HLA subject to compliance with the requirements as specified in the RBC Framework published by BNM.

3. *Issue/Programme size* : Up to RM500.0 million in nominal value. The aggregate nominal value of outstanding Subordinated Notes issued pursuant to the Subordinated Note Programme shall not exceed RM500.0 million at any one point in time.

4. *Tenure of issue/debt programme (or facility)* : Tenure of the Subordinated Note Programme

Fifteen (15) years from the date of first issue of Subordinated Notes under the Subordinated Note Programme.

Tenure of the Subordinated Notes

Each Subordinated Note issued under the Subordinated Note Programme shall have a tenure of not less than ten (10) years and not more than fifteen (15) years from the issue date subject to the Call Option as described below and PROVIDED ALWAYS THAT the maturity of the Subordinated Notes shall not extend beyond the expiry of the Subordinated Note Programme.

Call Option

Each issuance of Subordinated Notes under the Subordinated Note Programme shall have a Call Option to allow the Issuer to redeem (in whole, but not in part) that tranche of Subordinated Notes on the Call Date at the Redemption Amount (as defined herein).

5. *Availability period of the debt programme (or facility)* : Upon completion of documentation and compliance of all Conditions Precedent (as defined in item (17) below) and other applicable conditions to the satisfaction of the PA/LA.

The Subordinated Note Programme is available for issuance within the period of five (5) years from the date of first issue under the Subordinated Note Programme PROVIDED ALWAYS THAT the maturity date of the Subordinated Notes shall not extend beyond the expiry of the Subordinated Note Programme.

6. *Interest/coupon rate* : To be determined prior to each issuance of the Subordinated Notes.
- The respective coupon rate shall be applicable throughout the tenure of the respective tranche of Subordinated Notes. Each tranche of the Subordinated Notes may carry a different coupon rate.
- For avoidance of doubt, there is no step up coupon after the first Call Date of the Subordinated Notes, in the event the Call Option is not exercised by the Issuer.
7. *Interest/coupon payment frequency* : Payable semi-annually in arrears from the issue date of that tranche of Subordinated Notes (“**Coupon Payment Date**”) with the last coupon payment to be made on the date falling on the maturity date or on the date of early redemption of that tranche of Subordinated Notes, whichever is earlier.
8. *Interest/Coupon payment basis* : The coupon of the Subordinated Notes will be calculated on the basis of the actual number of days in the relevant period divided by 365 or in any event, in accordance with MyClear Procedures (as defined herein).
9. *Security /Collateral (if any)* : None.
10. *Details on utilisation of proceeds by Issuer* : The proceeds of the Subordinated Notes shall be made available to the Issuer, without limitation, for its general working capital and/or business operations.
11. *Sinking Fund and designated accounts (if any)* : None.
12. *Rating* : RAM Rating
- The initial rating for the Subordinated Note Programme is AA3 from RAM Rating.
13. *Mode of Issue* : The Subordinated Notes may be issued via direct/private placement on a best effort basis or a bought deal basis or book running on a best effort basis without prospectus in accordance with the MyClear Rules and Procedures (as defined herein).
14. *Selling Restrictions* : Selling Restrictions at Issuance
- The Subordinated Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person falling within any of the categories of persons or in the circumstances specified under:

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

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

of the CMSA.

Selling Restrictions after Issuance

The Subordinated Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person falling within any of the categories of persons or in the circumstances specified under:

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

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

of the CMSA.

The Subordinated Notes are tradable and transferable.

15. *Listing Status and types of listing* : The Subordinated Notes will not be listed on Bursa Securities or any other stock exchange.
16. *Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained (please specify)* : Approval from BNM for the Issuer's proposed issuance of Subordinated Notes of up to RM500.0 million under the Subordinated Note Programme. BNM's approval (upon terms and conditions imposed by BNM) has been obtained via its letter dated 14 November 2012
17. *Conditions Precedent* : Conditions precedent for the issuance of the Subordinated Notes shall include but is not limited to the following (all of which shall be in form and substance acceptable to the PA/LA):

A. Main Documentation

(i) The Transaction Documents (as defined herein) 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 Subordinated Notes, the entry into and performance of the transaction contemplated thereby 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; and
- (vii) Reports or searches conducted at other relevant public registries (if any).

C. General

- (i) Written approval from the SC for the establishment of the Subordinated Note Programme and, where applicable, all other regulatory authorities;
- (ii) Written approval from BNM for the issuance of the Subordinated Notes under the Subordinated Note Programme;
- (iii) The Subordinated Notes shall have received the relevant rating acceptable to the PA/LA;
- (iv) A legal opinion from the Solicitors addressed to the PA/LA advising with respect to, among others, the legality, validity and enforceability of the Transaction Documents;
- (v) A written confirmation from the Solicitors addressed to the PA/LA that all the conditions precedent have been fulfilled ;
- (vi) The duly completed Securities Lodgement Form (substantially in the form set out in Appendix 1 of the Central Securities Depository and Paying Agency Rules issued by MyClear (as defined herein)) has been delivered to the Facility Agent;
- (vii) Satisfactory legal due diligence for the Subordinated Note Programme shall have been completed by the Solicitors and the results thereof

being acceptable to the PA/LA; and

(viii) Any other conditions as may be advised by the Solicitors.

18. *Representations and Warranties* : Representation and warranties typical and customary for the issuance of the Subordinated Notes of this nature, which shall include but is not limited to the following:

- (i) The Issuer is duly incorporated and validly in existence and has the full power and authority to carry out its business and to own its property and assets, and has full beneficial ownership of all its property and assets;
- (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 Issuer's acceptance, entry and execution (as the case may be) under the Transaction Documents have been or will be duly authorised by and constitute legal, valid, binding and enforceable obligations of the Issuer;
- (v) All necessary actions, authorisations and consents required under the Transaction Documents and the Subordinated Notes have been obtained and remain in full force and effect;
- (vi) The audited financial statements of the Issuer have been prepared in accordance with all relevant laws and the approved accounting standards issued by the Malaysian Accounting Standards Board (as may be modified from time to time by the Guidelines on Financial Reporting for Insurers issued by BNM and/or other regulatory bodies) 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; and
- (viii) Any other representations and warranties as advised by the Solicitors.

19. *Events of Default*

: The Events of Default shall be:

- (i) Default in payment for the Subordinated Notes of any nominal value and/or coupon payment and such default continues for seven (7) business days (“**Non-Payment Event of Default**”); and
- (ii) if a court order is made or an effective resolution is passed for the winding up of the Issuer.

There will be no other events of default for the Subordinated Notes.

Upon the occurrence of the Non-Payment Event of Default in relation to a tranche of Subordinated Notes (“**Affected Tranche**”), subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by the holders of the Affected Tranche via a special resolution) by written notice to the Issuer declare that the Affected Tranche shall immediately become due and payable at its nominal value together with the accrued coupon payment notwithstanding the stated maturity of the Affected Tranche and the Trustee and the holders of the Affected Tranche shall be entitled to institute proceedings to enforce the obligations of HLA for payment of the nominal value and/or coupon, including to institute proceedings in Malaysia for the winding up of the Issuer.

For the avoidance of doubt, the declaration of a Non-Payment Event of Default in relation to the Affected Tranche will not constitute an Event of Default in relation to other tranches of the Subordinated Notes.

Upon the occurrence of the Event of Default described in (ii) under “**Events of Default**” clause above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by the holders of the Subordinated Notes of all tranches (“**Subordinated Noteholders**”)) via a special resolution) by written notice to the Issuer declare that the Subordinated Notes shall immediately become due and payable at their respective nominal value together with the accrued coupon payment notwithstanding the stated maturity of the Subordinated Notes and the Trustee and the Subordinated Noteholders shall be entitled to institute proceedings to enforce the obligations of HLA for payment of the nominal value and/or coupon.

20. *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, unless waived, 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) The Issuer will comply with all provisions and perform its respective obligations under the Transaction Documents;
- (iii) At all times to comply with all relevant laws and regulations;
- (iv) Maintain a paying agent in Malaysia;
- (v) Maintain proper books and accounts and deliver financial statements to the Trustee in a timely manner;
- (vi) Inform the Trustee of any actual or potential Event of Default;
- (vii) Deliver to the Trustee an annual certificate of compliance;
- (viii) That the Issuer will only enter into a transaction, whether directly or indirectly with interested persons subject to-
 - (a) such transaction shall be on terms that are no less favourable to the Issuer than those which could have been obtained in a comparable transaction from persons who are not interested persons; and
 - (b) with respect to transactions involving an aggregate payment or value equal to or greater than an amount as stated in the Trust Deed (in value term and not in percentage ratio), or in the case of a listed issuer or related corporate of a listed issuer, an agreed percentage ratio as provided in the listing requirements of the stock exchange, the Issuer obtains certification from an independent adviser that the transaction is carried out on fair and reasonable terms; provided

that the Issuer certifies to the Trustee that the transaction complies with paragraph (a), that the Issuer has received the certification referred to in paragraph (b) (where applicable) and that the transaction has been approved by the majority of the board of directors or shareholders in a general meeting as the case may require; and

- (c) in the case of listed issuer, with respect to transactions constituting a recurrent related-party transaction of a revenue or trading nature (“**RRPT**”) which are provided for and permitted under the listing requirements of the stock exchange,

provided that the Issuer certifies to the Trustee that the transaction complies with paragraph (a), that the Issuer has obtained or renewed, where applicable, the shareholders’ mandate in accordance with the said listing requirements and that the Issuer furnishes at least one certificate to the Trustee in respect of the RPPT contemplated under one shareholders’ mandate.

21. *Provisions on buyback and early redemption of the Subordinated Notes* : Buyback of the Subordinated Notes

The Issuer may at any time, subject to the prior approval of BNM, buyback any Subordinated Notes at any price in the open market or by private treaty. If a buyback is made by tender, such tender must (subject to any applicable rules and regulations) be made available to all holders of the relevant tranche equally.

The subsidiaries and related corporations of the Issuer may at any time purchase any Subordinated Notes at any price in the open market or by private treaty.

All Subordinated Notes purchased by the Issuer, its agents or its subsidiaries shall be cancelled and all Subordinated Notes purchased by other related corporations of the Issuer (other than its agents and 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 Subordinated Notes subject to any exceptions in the Trust Deeds Guidelines. All Subordinated Notes purchased and cancelled shall not be available for reissuance by the Issuer.

Early Redemption of the Subordinated Notes

For each tranche of the Subordinated Notes the Issuer may, at its option, and subject to the Redemption Conditions (as defined herein) being satisfied, redeem the Subordinated Notes of that tranche (in whole, but not in part) on the Call Date at the Redemption Amount (as defined herein). The optional redemption of one tranche of the Subordinated Notes does not trigger the redemption of the other tranches of the Subordinated Notes (if applicable).

- 21.1 *Regulatory Redemption for the Subordinated Notes* : If any tranche of the Subordinated Notes no longer qualify as Tier 2 capital of the Issuer for the purposes of BNM's capital adequacy requirements under any regulations applicable to the Issuer or at any time there is more than an insubstantial risk that any tranche of the Subordinated Notes will no longer qualify as such ("**Regulatory Event**"), the Issuer may, at its option, redeem such tranche of the Subordinated Notes (in whole, but not in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.

The regulatory redemption of one tranche of the Subordinated Notes does not oblige the Issuer to redeem the other tranches of the Subordinated Notes (if applicable).

- 21.2 *Tax Redemption for the Subordinated Notes* : If there is more than an insubstantial risk that the Issuer has or will become obliged to pay any additional taxes, duties, assessments or government charges of whatever nature in relation to any tranche of the Subordinated Notes, and as a result of a change in, or amendment to, the 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 becomes effective on or after the issue date of the relevant tranche of the Subordinated Notes and the Issuer cannot, by taking reasonable measures available to it, avoid such obligations ("**Tax Event**"), then the Issuer may, at its option, redeem such tranche of the Subordinated Notes (in whole, but not in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.

The tax redemption of one tranche of the Subordinated Notes does not oblige the Issuer to redeem the other tranches of the Subordinated Notes (if applicable).

- 21.3 *M&A Option* : The Issuer shall have the option to redeem all outstanding Subordinated Notes (in whole, but not in part) at the Redemption Amount, subject to the Redemption Conditions being met, upon the occurrence of an M&A Event.

"**M&A Event**" is defined as "an event whereby the Issuer is acquired or all of its business(es) is or are disposed of pursuant to a merger or acquisition exercise or if there is a change of the single largest shareholder of either the Issuer or its holding company".

- 21.4 *Redemption Conditions* : Redemption Conditions for the Subordinated Notes means:

- (i) the Issuer is solvent at the time of any redemption of the relevant tranche of the Subordinated Notes and immediately thereafter;
- (ii) the Issuer is not in breach of BNM's minimum capital requirements under the RBC; and
- (iii) the Issuer has obtained the written approval of BNM prior to redemption of the relevant tranche of the Subordinated Notes.

22. *Other principal terms and conditions for the issue*

- 22.1. *Issue Price* : The Subordinated Notes are to be issued at par or at a discount in accordance with (1) the "Participation and Operation Rules for Payment 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 the **"MyClear Rules and Procedures"**).
- 22.2. *Yield to Maturity (%)* : To be determined prior to the issue date of the Subordinated Notes.
- 22.3. *Default Interest* : Interest on overdue amounts shall be payable at 1% per annum plus the base lending rate of Hong Leong Bank Berhad from and including the relevant due date to but excluding the date of actual payment, calculated based on the actual number of days elapsed and a year of 365 days.
- 22.4. *Form and Denomination* : The Subordinated Notes shall be issued in accordance with the MyClear Rules and Procedures. Each tranche of the Subordinated Notes shall be represented by a global certificate to be deposited with BNM, and is exchanged for a definitive bearer form only in certain limited circumstances. The denomination of the Subordinated Notes shall be RM1,000 or in multiples of RM1,000 at the time of issuance.
- 22.5. *Status of Subordinated Notes* : The Subordinated Notes will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Transaction Documents, ranking pari passu among themselves. The Subordinated Notes will, in the event of a winding up or liquidation of the Issuer, be subordinated in right of payment to all 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 Subordinated Notes.

- 22.6. *Redemption maturity* at : Unless previously redeemed on Call Date (if applicable) or redeemed pursuant to a Regulatory Event or an M&A Event or a Tax Event or purchased and cancelled, the Subordinated Notes will be redeemed at the Redemption Amount on the respective maturity dates.
- “**Redemption Amount**” means an amount equal to 100% of the nominal value together with accrued but unpaid coupon (if any) relating to the then current coupon period (if any) up to (and excluding) the date on which the Subordinated Notes are redeemed.
- 22.7. *Transaction Documents* : (i) Subscription Agreement;
- (ii) Programme Agreement;
- (iii) Trust Deed; and
- (iv) Any other agreements as may be advised by the Solicitors.
- 22.8. *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.
- 22.9. *No Further Rights to Participate in Profits and Assets* : The Subordinated Noteholders shall not be conferred any right or claim as regards to participation in the profits and assets of the Issuer.
- 22.10. *Voting Rights* : The Subordinated Noteholders will not be entitled to receive notice of or attend or vote at any meeting of the ordinary shareholders of the Issuer or to participate in the management of the Issuer. No company-shareholder relationship is intended or has been contemplated between the Issuer and the Subordinated Noteholders, and as such, the relationship between the Issuer and the Subordinated Noteholders shall not be governed by the Memorandum and Articles of Association of the Issuer.
- 22.11. *Governing Laws* : The Subordinated Notes shall be governed by the laws of Malaysia.
- 22.12. *Other Conditions* : The Subordinated Notes shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM, MyClear and/or any other authority having jurisdiction over matters pertaining to

the Subordinated Notes.

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3.0 SELLING RESTRICTIONS

Selling Restrictions at Issuance

The Subordinated Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person falling within any of the categories of persons or in the circumstances specified under:

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

of the CMSA.

Selling Restrictions after Issuance

The Subordinated Notes may only be offered, sold, transferred or otherwise disposed directly or indirectly, to a person falling within any of the categories of persons or in the circumstances specified under:

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

of the CMSA.

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4.0 DESCRIPTION OF HONG LEONG ASSURANCE BERHAD

4.1 Information on HLA

The Issuer was incorporated in Malaysia as a private company limited by shares under the Companies Act 1965 on 20 December 1982 under the name Hong Leong Assurance Sendirian Berhad as a composite insurance company eventually acquiring the entire general and life business of Malaysia Pacific Insurance Berhad. The Issuer converted to a public company on 6 March 1993 with the current name Hong Leong Assurance Berhad.

On 18 June 2010, HLAH, the holding company of HLA, and HLA, entered into various agreements with Mitsui Sumitomo Insurance Company, Limited (“**MSIJ**”) and its subsidiary, MSIM, in relation to the insurance businesses of HLA and MSIM (“**Strategic Partnership**”).

The Strategic Partnership involved the following:

- (i) The merger of both the Non-Life Businesses of HLA and MSIM via a transfer of the Non-Life business of HLA (except for certain excluded assets and liabilities) to MSIM for a consideration of RM618,646,291 which was satisfied via the issuance to HLAH of such number of new shares representing 30% of the enlarged ordinary issued and paid-up capital of MSIM, in accordance with the term of the conditional business transfer agreement dated 18 June 2010 between HLA and MSIM (“**Non-Life Business Merger**”); and
- (ii) Upon completion of the Non-Life Business Merger, HLAH disposed 60,000,000 ordinary shares of RM1.00 each (representing a 30% equity interest) in HLA to MSIJ for a cash consideration of RM940 million in accordance with the terms of the conditional sale and purchase agreement dated 18 June 2010 between HLAH and MSIJ (“**Disposal**”).

The Non-Life Business Merger and Disposal were completed on 1 October 2010, and on the same date, HLAH transferred 30% of its equity interest in HLA to MSIJ (“**Transfer of HLA Shares**”). At the same time, HLA transferred its 30% equity interest in MSIM to HLAH (“**Transfer of MSIM Shares**”). With the completion of the Transfer of HLA Shares and the Transfer of MSIM Shares, HLAH and MSIJ hold 70% and 30% equity interest in HLA respectively and HLAH holds 30% of the equity interest in MSIM.

The Issuer is currently principally engaged in the business of underwriting of all classes of life insurance business and is regulated by BNM. The Issuer does not own any subsidiaries.

The immediate, penultimate and ultimate holding companies are HLAH, HLFG and HLCM respectively, all incorporated in Malaysia.

HLA is the largest domestic life insurer as well as a top 3 insurer among all life insurance companies in Malaysia, as measured by new business annualized regular premiums and as at 30 June 2012, HLA had over 9,300 insurance agents.

4.2 Selected Financial Information

The following tables set out the HLA selected financial information for the periods and as at the dates indicated. The financial statements are presented in accordance with the Malaysian Accounting Standards Board’s Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the Guidelines on Financial Reporting for Insurers issued by BNM pursuant to the Insurance Act, 1996 and the provisions of the Companies Act, 1965.

The selected financial information set out below as at and for the financial year ended 30 June 2011 and 2012 have been derived from the audited financial statements included as Appendix 1 and 2 in this Information Memorandum. A prospective investor should read the following selected financial information in conjunction with the historical financial statements and their related notes.

Prior to 1 July 2012, HLA recognized unallocated surplus and available for sale (“AFS”) reserves of non-participating funds as part of actuarial insurance contract liabilities as required under Guideline BNM GL 003-28, guidelines on Financial Reporting for Issuers issued by BNM on 22 July 2010.

On 21 February 2012, BNM issued a revised Guideline BNM GL 003-28, which is effective for financial period commencing 1 January 2012. Under this new guideline, only life insurance contract liabilities with discretionary participating features (including actuarial liabilities, unallocated surplus and fair value/revaluation reserves, if any, of the life fund) shall be presented as a liability in the statement of financial position. Accordingly, HLA changed its accounting policy to classify the unallocated surplus and AFS reserves of non-participating funds from insurance contract liabilities to equity. This change in accounting policy is adopted retrospectively. As such, certain of the audited information as at and for the financial years ended 30 June 2011 and 30 June 2012 have been restated to conform with current year’s presentation (financial year ended 30 June 2013).

The summary of the selected financial information as at and for the three months periods ended 30 September 2012 have been derived from the unaudited interim financial statements.

The restated financial information as at and for the financial years ended 30 June 2011 and 30 June 2012 due to the adoption of revised Guideline BNM GL 003-28 and the unaudited financial information have not been audited or reviewed. Accordingly, there can be no assurance that, had an audit 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.

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Statement of Comprehensive Income (RM million)

	Audited for the financial year ended 30 June		Restated for the financial year ended 30 June*		Unaudited for the three months period ended 30 September 2012
	2011	2012	2011	2012	
Operating Revenue	1,706	2,055	1,706	2,055	532
Gross earned premiums	1,306	1,653	1,306	1,653	439
Premium ceded to reinsurers	(63)	(55)	(63)	(55)	(12)
Net earned premiums	1,243	1,598	1,243	1,598	427
Investment income	318	402	318	402	93
Realised gains	69	24	69	24	24
Fair value gains/(losses)	57	(17)	57	(17)	(11)
Fee and commission income	3	4	3	4	-
Other operating income-net	6	6	6	6	3
Other revenue	453	419	453	419	109
Gross benefits and claims paid	(612)	(726)	(612)	(726)	(226)
Claims ceded to reinsurers	50	46	50	46	12
Gross change to contract liabilities	(511)	(801)	(647)	(731)	(176)
Change in contract liabilities ceded to reinsurers	-	1	-	1	-
Net benefits and claims	(1,073)	(1,480)	(1,209)	(1,410)	(390)
Fee and commission expenses	(245)	(316)	(245)	(316)	(81)
Management expenses	(91)	(107)	(91)	(107)	(26)
Other expenses	(336)	(423)	(336)	(423)	(107)
Profit before taxation	287	114	151	184	39
Taxation	(74)	(37)	(48)	(50)	(13)
Profit for the financial year from continuing operations	213	77	103	134	26
Discontinued operations					
Profit from discontinued operations, net of tax	1	-	1	-	-
Gain on disposal of general Insurance, net	630	-	630	-	-
Profit for the financial year from discontinued operations	631	-	631	-	-
Net profit for the financial year	844	77	734	134	26
Earnings per share (sen)					
- continuing operations	106.75	38.60	51.63	66.81	12.96
- discontinuing operations	315.41	-	315.41	-	-
	422.16	38.60	367.04	66.81	12.96

Statement of Financial Position (RM million)

	Audited as at 30 June		Restated as at 30 June*		Unaudited as at 30 September 2012
	2011	2012	2011	2012	
Assets					
Property, plant and equipment	94	92	94	92	92
Intangible assets	2	4	2	4	4
Investments properties	232	232	232	232	232
Other investments	5,838	6,832	5,838	6,832	7,208
Derivative assets	-	-	-	-	6
Tax recoverable	-	2	-	2	3
Reinsurance assets	26	28	26	28	29
Insurance receivables	44	61	44	61	47
Other receivables	27	16	27	16	28
Cash and cash equivalents	1,024	971	1,024	971	749
Total Assets	7,287	8,238	7,287	8,238	8,398
Liabilities					
Insurance contract liabilities	5,839	6,642	5,349	6,089	6,284
Deferred tax liabilities	39	29	131	133	140
Tax payables	18	3	18	3	2
Insurance payables	42	49	42	49	41
Other payables	736	886	736	886	878
Dividend payables	54	54	54	54	-
Derivative liabilities	2	2	2	2	-
Total Liabilities	6,730	7,665	6,332	7,216	7,345
Share capital	200	200	200	200	200
Reserves	357	373	755	822	853
Total Equity	557	573	955	1,022	1,053
Total equity and liabilities	7,287	8,238	7,287	8,238	8,398

* Restated as per revised Guideline BNM GL 003-28 stated above

4.3 BOARD OF DIRECTORS AND KEY MANAGEMENT OF HLA

4.3.1 Board

The Board comprises the Chairman who is a Non-Independent Non-Executive Director, an Executive Director, three Non-Independent Non-Executive Directors and four Independent Non-Executive Directors. In accordance with the Insurance Act, 1996, all directors are appointed to the Board after prior approval has been obtained from BNM.

As at 19 November 2012, the directors of the Issuer are as follows:

Name	Position
YBhg Tan Sri Quek Leng Chan	Chairman
Ms Loh Guat Lan	Group Managing Director/ Chief Executive Officer
YBhg Dato' Chua Chuan Lim @ Chua Chuan Teong	Independent Non-Executive Director
Mr Choong Yee How	Non-Independent Non-Executive Director
Mr Quek Kon Sean	Non-Independent Non-Executive Director
Mr Alan John Wilson	Non-Independent Non-Executive Director
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	Independent Non-Executive Director
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	Independent Non-Executive Director
YBhg Datin Linda Ngiam Pick Ngoh	Independent Non-Executive Director

4.3.2 Profiles of Directors of the Issuer

The profiles of the members of the Board, as at 19 November 2012 are set forth below:

YBhg Tan Sri Quek Leng Chan

Aged 69, 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 HLA and was appointed to the Board on 20 December 1982. He is a member of the NC and RC.

YBhg Tan Sri Quek is the Chairman and Chief Executive Officer of HLCM, a public company; Executive Chairman of GuocoLand (Malaysia) Berhad; Chairman of HLFG, Hong Leong Bank Berhad (“**HLB**”) and Hong Leong Capital Berhad (“**HLCB**”), companies listed on the Main Market of Bursa Securities; Chairman of Hong Leong Islamic Bank Berhad (“**HLISB**”) and Hong Leong Foundation; and a member of the Board of Trustees of the Community Chest, all public companies.

Ms Loh Guat Lan

Aged 47, Ms Loh Guat Lan, a Malaysian, holds a Bachelor of Science in Nutrition Science and is a fellow member of Life Management Institute (FLMI), Customer Service Management (CSM) and Life Office Management (LOMA). She is also a Certified Financial Planner (CFP) and Registered Financial Planner (RFP). Ms Loh has extensive experience in the insurance industry, including agency management, branch management, and agency development and training. She was previously the Chief Operating Officer (Life Division) of HLA and was subsequently appointed as the Group Managing Director and Chief Executive Officer of HLA on 1 September 2009. Prior to joining HLA, she was in the employment of American International Assurance Company Limited where her last position was Vice President and Senior Director of Agency (Malaysia).

Ms Loh is also a Director of Hong Leong MSIG Takaful Berhad (“**HLMT**”) and MSIM, both public companies.

YBhg Dato’ Chua Chuan Lim @ Chua Chuan Teong

Aged 66, YBhg Dato’ Chua Chuan Lim @ Chua Chuan Teong, a Malaysian, is a Fellow of the Institute of Chartered Accountants in England & Wales and a member of the Malaysian Institute of Certified Public Accountants and the Malaysia Institute of Accountants. YBhg Dato’ Chua is presently the Managing Director of Perumahan Menara Sdn Bhd, a position he had held since January 1997.

YBhg Dato’ Chua was appointed to the Board on 24 May 2001. He is the Chairman of the BARMC, RC and NC.

Mr Choong Yee How

Aged 56, 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 and Chief Executive Officer of HLFG.

Mr Choong was appointed to the Board on 15 March 2006. He is a member of the NC.

Mr Choong is also a Director of HLFG, HLB and HLCB, companies listed on the Main Market of Bursa Securities, and HLISB, HLMT and HLIB, all public companies.

Mr Quek Kon Sean

Aged 32, Mr Quek Kon Sean, a Malaysian, obtained a Bachelor of Science and Master of Science degree in Economics from the London School of Economics and Political Science. In 2002, he joined Goldman Sachs International, London as an Analyst in the Investment Banking Division and in 2003 he joined HSBC, London in Debt Capital Markets. Mr Quek is currently the Executive Director of HLFG. Prior to joining HLFG, Mr Quek was the Management Executive of HL Management Co Sdn Bhd.

Mr Quek was appointed to the Board on 10 July 2006.

Mr Quek is also a Director of HLFG, HLB and HLCB, companies listed on the Main Market of Bursa Securities.

Mr Alan John Wilson

Aged 56, Mr Alan John Wilson, a British, holds a Bachelor of Arts (Honours) degree in Economics and Economic History from the University of Liverpool and is a Fellow of the Chartered Insurance Institute. Mr Alan Wilson has extensive experience in the insurance industry. He forged his early career in the Guardian Royal Exchange Assurance Group (“**GRE**”) in the United Kingdom. He was transferred to Asia in 1982 and was later appointed as the Managing Director for GRE in Asia. In 1999, he was appointed by Allianz SE Group (“**Allianz**”) as its Chief Executive Officer (“**CEO**”) for Asia managing more than 20 General, Life and Healthcare subsidiaries for Allianz across 14 countries in the region. In 2004, he was appointed the non-executive Director of 8 Allianz boards in Asia and as an advisor and

non-executive Director for the Parkway Group's insurance interests in Singapore. He joined MSIG Holdings (Asia) Pte Ltd in January 2008 and was appointed as co-CEO in April 2008 and CEO in April 2011.

Mr Alan Wilson was appointed to the Board on 1 October 2010.

Mr Alan Wilson is also a Director of MSIG Berhad and MSIM, both public companies.

YBhg Dato' Siow Kim Lun @ Siow Kim Lin

Aged 62, YBhg Dato' Siow Kim Lun @ Siow Kim Lin, a Malaysian, holds an MBA from the Catholic University of Leuven, Belgium and a Bachelor of Economics (Hons) from the National University of Malaysia. He has also attended the Advanced Management Program at Harvard Business School.

YBhg Dato' Siow started his career in investment banking with Malaysia International Merchant Bankers Berhad in 1981 and had served as a Manager in its Corporate Finance Division. In 1985, he joined Permata Chartered Merchant Bank Berhad (now known as Affin Investment Bank Berhad) as Manager of Corporate Finance and subsequently became the Divisional Head of its Corporate Finance Division. From 1993 to 2006, YBhg Dato' Siow was with the SC, where he served as the Director of its Issues and Investment Division and the Director of its Market Supervision Division. He has also served as a member of the Listing Committee of Bursa Securities from May 2007 to May 2009.

YBhg Dato' Siow is currently a board member of Kumpulan Wang Persaraan (Diperbadankan), Citibank Berhad, UMW Holdings Berhad, W Z Steel Berhad, EITA Resources Berhad and Main Street Advisers Sdn Bhd. He is also a member of the Land Public Transport Commission.

YBhg Dato' Siow was appointed to the Board on 30 September 2011 and he is a member of the BARMC and NC.

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

Aged 54, YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin, a Malaysian, holds a BA (Hons) Business Studies degree from the Polytechnic of Central London (now known as Westminster University), an MBA from the University of Warwick and a Diploma in Marketing from the Chartered Institute of Marketing. He is a member of the Institute of Public Accountants Australia, Malaysian Institute of Management and the Malaysian Institute of Corporate Governance. He is also an Associate Fellow with Universiti Kebangsaan Malaysia - Graduate School of Business.

YM Tunku Dato' Mahmood Fawzy started out as a foreign exchange analyst with NCR UK Limited and then moved to Svenska Handelsbanken, London as a Risk Analyst. He then joined Shell Malaysia Trading Sdn Bhd in 1990 and thereafter was cross posted to Shell New Zealand Limited in 1991. In 1997, he joined an investment holding company, Wira Security Holdings Sdn Bhd as Executive Director and later moved to Tajo Bhd as Chief Executive Officer.

In 2000, YM Tunku Dato' Mahmood Fawzy joined PricewaterhouseCoopers as Executive Director. In 2002, he was appointed Managing Director and Chief Executive Officer of Engen Limited, an integrated oil company in South Africa, a subsidiary of Petrolim Nasional Berhad (Petronas).

YM Tunku Dato' Mahmood Fawzy was appointed as Non-Executive Director of Energy Africa Limited until January 2004 and was a member of the Board of Governors of the South African Petroleum Industry Association (SAPIA). He left Engen Limited in June 2005 and thereafter became the Chief Executive Officer of a shipping company until December, 2006.

YM Tunku Dato' Mahmood Fawzy joined Khazanah Nasional Berhad in May 2007 and retired as Executive Director, Investments in May 2010. He was previously on the board of Ethos Capital One Sendirian Berhad and on the LP Advisory Committee (LPAC) of Ancora Opportunities Fund (Indonesia) and stepped off both the board and the LPAC as he retired from Khazanah Nasional Berhad. He was previously a member of the board of Pos Malaysia Berhad and stepped down in June 2011 after serving for four years.

YM Tunku Dato' Mahmood Fawzy was appointed to the Board on 3 January 2012 and he is a member of the BARMC, NC and RC.

YM Tunku Dato' Mahmood Fawzy is also a Director of Telekom Malaysia Berhad and Sapura-Kencana Petroleum Berhad, companies listed on the Main Market of Bursa Securities. He is also a Director of HLMT, HLISB and VADS Berhad, all public companies.

YBhg Datin Linda Ngiam Pick Ngoh

Aged 57, YBhg Datin Linda Ngiam Pick Ngoh, holds a Bachelor of Arts (Hons) in Social Sciences from the University of Malaya and a Diploma in Advertising and Marketing from the Institute of Communication, Advertising and Marketing (CAM), United Kingdom.

YBhg Datin Linda Ngiam was the Group Managing Director/Chief Executive Officer of The Star Publications (M) Bhd ("**The Star**") from 1 July 2008 to 30 June 2011. She was first employed in The Star as the General Manager, Advertising & Business Development in 1985. In 2004, she was appointed as Deputy Group General Manager in The Star and in 2005 she was promoted to Executive Director/Group Chief Operating Officer before assuming the office as Group Managing Director/Chief Executive Officer of The Star in 2008, a position she held till her retirement in 2011.

YBhg Datin Linda Ngiam was a board member of the Audit Bureau of Circulations ("**ABC**") Malaysia and Chairman of the ABC Content and Communications Committee. She represented The Star on the Malaysian Newspaper Publishers Association ("**MNPA**") as its Honorary Secretary and was a board member of the Advertising Standards Authority ("**ASA**") Malaysia.

Currently, YBhg Datin Linda Ngiam sits on the board of directors of The Star as a Non-Independent Non-Executive Director. She also sits on the board of directors of MUI Properties Berhad as an Independent Non-Executive Director.

YBhg Datin Linda Ngiam was appointed to the Board on 1 June 2012.

4.3.3 Key Management Personnel

As at 19 November 2012, the Issuer's business is managed by the following key management personnel:

Loh Guat Lan	Group Managing Director/Chief Executive Officer
Tang Loon Khoon	Group Financial Controller

Seow Fan Chong	General Manager/Appointed Actuary
Cheong Onn Kee	General Manager, Operations
Joanne Marie Lopez @ Joanne Lopez Abudllah	General Manager, Investment
Tan Kheng Seng	Acting General Manager, Agency Development
Tadashi Maekawa	Senior Advisor, Banca, Affinity Business & Alt Channels and Japan Desk

4.4 SHARE CAPITAL AND SHAREHOLDERS

4.4.1 Share Capital

The authorised and issued and paid-up share capital of HLA as at 19 November 2012 is as follows:

	No. of ordinary shares	Par Value (RM)	Total Value (RM)
Authorised share capital	200,000,000	1.00	200,000,000
Issued and paid-up share capital	200,000,000	1.00	200,000,000

4.4.2 Shareholders

The shareholders of HLA as at 19 November 2012 are as follows:-

Shareholders	No. of ordinary shares held (Direct Interest)	Percentage (%) of shareholding
HLAH	139,999,000	69.9995
Assets Nominees (Tempatan) Sdn Bhd	1,000	0.0005
Mitsui Sumitomo Insurance Company, Limited	60,000,000	30.0

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5.0 CAPITALISATION AND INDEBTEDNESS

As at 19 November 2012, the total authorised share capital of the Issuer is RM200,000,000.00 divided into 200,000,000 ordinary shares of par value RM1.00 each, and the issued share capital is RM200,000,000.00 divided into 200,000,000 ordinary shares of RM1.00 each. All of the Issuer's issued share capital comprises fully paid shares.

The following table sets forth the total liabilities and shareholder's equity of the Issuer as at 30 June 2012 derived from the audited financial statements of the Issuer and the adjusted total liabilities and shareholder's equity to reflect the proposed issuance of the Subordinated Notes:

	Audited As at 30 June 2012 RM million	Audited Adjusted As at 30 June 2012 RM million
LIABILITIES		
Insurance contract liabilities	6,642	6,642
Insurance payables	49	49
Tax payable	3	3
Borrowings	-	-
Proposed issuance of Subordinated Notes	-	500
Other payables	971	972*
TOTAL LIABILITIES	7,665	8,166
EQUITY		
Share capital	200	200
Retained profits	349	349
Revaluation reserve	-	-
Available-for-sale reserve	24	24
TOTAL EQUITY	573	573
TOTAL LIABILITIES & EQUITY	8,238	8,739

*Includes estimated expenses relating to the proposed issuance of Subordinated Notes.

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6.0 FUNDING AND CAPITAL ADEQUACY

6.1 Funding

The Issuer's main sources of fundings are the premium received from policyholders and proceeds from realisation of investments.

6.2 Capital Adequacy

Under the RBC Framework, each insurer is required to determine the adequacy of the capital available in its insurance and shareholders' funds to support the total capital required. Total capital available is based on BNM permitted Tier-1 and Tier-2 capital while total capital required is an aggregate of the required capital for credit, market, insurance and operational risks. These are calculated based on BNM's prescribed risk capital charges. Insurers are required to maintain their capital adequacy ratios above the determined internal level, set by the company at more than the regulatory capital adequacy ratio of 130%.

As at 30 June 2012, the capital adequacy ratio of the Issuer was approximately 181%.

Based on an internal simulation, assuming the entire Subordinated Note Programme is issued, the Issuer's proforma capital adequacy ratio will increase to approximately 212% which is an increase of approximately 31%.

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7.0 RISK MANAGEMENT FRAMEWORK

HLA integrates the RBC Framework as the platform of Enterprise Risk Management (“**ERM**”) Framework which provide systematic approach to identifying, evaluating, monitoring and reporting of critical risks. The scope of risks covering (i) capital adequacy and structure; (ii) market risk; (iii) credit risk; (iv) insurance risk; and (iv) operational risk.

The RBC Framework allows HLA to perform benchmarking and objectively qualifying the Capital Adequacy Ratio (“**CAR**”) position with its industrial peers. The risk management and compliance department of HLA keeps the senior management and the BARMC abreast of the developments on capital and risk profiles, Ringgit market movement, and material risks that require attention and action plans, if any.

Hence, the integrated RBC-ERM Framework fosters an operating environment:

- (i) to manage HLA’s risk exposure to potential earnings and capital volatility,
- (ii) to optimise the values to HLA’s various stakeholders (i.e. policyholders, shareholders, regulators, financial institutions, etc.).

HLA is measuring and managing the portfolio of risks in a harmonised and consistent manner, with a better understanding between returns, risk and performance measures. Risk-based performance management helps HLA in measuring, targeting and managing the portfolio of businesses, products, assets and liabilities consistently, and ensures risks are adequately taken into account.

Capital Management

HLA recognised the importance of effective capital management. The capital management plan of HLA is embedded into the RBC-ERM Framework and assumes a critical role in steering HLA and stakeholder value. Having established the internal CAR requirement, HLA will evaluate the allocation of capital to businesses, products and risks where HLA has optimum opportunity to add value.

The capital management plan of the Issuer, which is approved by the Board, outlines the risk policies and strategies for the senior management to take proactive steps to conserve or consolidate the capital position.

On a half-yearly basis, HLA performs stress testing based on several adverse scenarios and stress level as part of the proactive measures in monitoring and managing the capital position. The report will be presented to the BARMC and the Board will be updated on the stress test results.

Risk Governance Structure

HLA emphasises good and effective governance structure with strong lines of defence and a healthy risk culture to provide reasonable assurance to the BARMC and the Board:

- (a) First line of defence: Under the leadership of the Chief Executive Officer, all operating and business units are responsible and accountable for the effective and timely implementation of action plans. The monthly executive committee meetings build an appropriate risk culture to encourage constant communication;
- (b) Second line of defence: The risk management and compliance department of HLA, a risk oversight department, is tasked to formulate and continuously improve the Risk Management

Framework and to promote risk awareness culture with regular meetings with the senior management and/or line managers in the light of risk analysis and risk action plan; and

- (c) Third line of defence: Internal auditors perform a “check and balance” role by conducting independent and regular reviews on HLA’s internal control systems and Risk Management Framework.

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8.0 INVESTMENT CONSIDERATIONS

The purchase or subscription of the Subordinated Notes may involve substantial risk and is suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Subordinated Notes.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Subordinated Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the risk associated with the Subordinated Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Subordinated Notes but the Issuer may be unable to pay the coupon, principal or other amounts on or in connection with any Subordinated Notes for other reasons and the Issuer represents that the statements below regarding the risks of holding any Subordinated Notes are not intended to be exhaustive and does not purport to be complete. Prospective investors should also read and consider carefully, in light of their own financial circumstances and investment objectives, the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision. Each Tranche of the Subordinated Notes will carry different risks and all potential investors are strongly encouraged to evaluate each Tranche of the Subordinated Notes on its own merit before investing in such Subordinated Notes.

8.1 Risk Factors in relation to HLA

In the course of its business activities, the Issuer is exposed to a variety of risks. The key risks are credit risk, operational risk, liquidity risk and market risk. While the Issuer believes that it has implemented the appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure on the part of the Issuer to adequately control these risks could be greater than anticipated and which could result in adverse effects on the Issuer's financial condition, results of operations, prospects and reputation.

8.1.1 Credit risk

Credit risk is the risk of loss due to inability or unwillingness of a counterparty to service its debt obligations. The Issuer has counterparty risk in relation to third parties through holdings of the debt securities and also reinsurance arrangements.

The Issuer uses investment policy constraints to manage the credit risk of asset. The Issuer sets stringent criteria in selecting quality and diversification of the investments made with counterparties. The credit risk and investment activities are monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity, in accordance with the investment guidelines and limits approved.

8.1.2 Liquidity risk

Liquidity risk arises due to inability of the Issuer to meet its financial obligations as and when they fall due. The Issuer is exposed to unexpected outflows of funds to meet claims or surrenders of the insurance policies.

The Issuer manages liquidity risk via short term cashflow projection to determine the cashflow required. The Issuer's investible funds are substantially placed in fixed and call deposits and other money market instruments. Should there be any abnormal and

unexpected cash outflow required, the Issuer would still be able to meet its obligation in short period via the liquidation of bonds holdings.

The Issuer endeavors to manage the maturity profiles of these financial instruments to meet financial obligations and working capital requirements. The Issuer also seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of the insurance policies issued.

8.1.3 Market risk

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

The segmentation of product liabilities facilitates an effective market risk analysis. The Issuer adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on asset mix, asset quality, sector mix, currency mix, interest rate risk exposure and liquidity targets.

(a) Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Issuer's main exposure to foreign currency risk arises from its foreign investments. The foreign exchange management policy already put in place aims to minimise its exposure arising from currency movements. Derivative financial instruments held are solely for purpose of managing foreign currency risk and are classified as financial assets and financial liabilities.

(b) Interest Rate Risk

Interest rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises due to differences in pricing or tenure of investments and liabilities. For the insurance business, interest rate risk is managed by limiting the interest rate guarantees that are embedded in the insurance plans. The interest rate risk is also managed through setting the appropriate asset allocation reflecting the liability profile and the availability of the suitable instrument in the investment market. The nature of the participating fund gives the Issuer the flexibility to adjust the policyholders' bonus or dividends.

(c) Price Risk

The Issuer's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of the change in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Issuer has acknowledged the inherent risk of investing in equities. The Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls. In addition, the Issuer's investment committee at its monthly meeting discusses the economic and market outlook, reviews transactions and deliberates on equity allocation. The nature of the participating fund gives the flexibility to adjust the policyholders' bonus or dividends.

8.1.4 Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events.

The Issuer seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Issuer. The Issuer uses an established programme of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls.

8.1.5 Products Risk

Product risk is the risk of potential defects in the development of a particular insurance product. If the Issuer charges premiums that are insufficient for the period covered, this could result in underwriting losses, leading to volatility in earnings.

The Issuer sets product development policy and pricing standard framework which are aligned to the Issuer's risk appetite and limits. All the products required completing pre-launch reviews and approval of products. The Issuer monitors closely the performance of new products and conducts annual review on the experience and profitability of the existing products. A significant component of the Issuer's insurance business is participating in nature where the Issuer has the flexibility to adjust the policyholders' bonus or dividends to reflect market conditions. This reduces the Issuer's exposure to changes in circumstances, in particular investment returns that may arise during the period of the insurance policies.

8.1.6 Regulatory Compliance Risk

Regulatory compliance risk is the risk that arises from the Issuer's non-conformance with laws, rules, regulations, prescribed practices or ethical standards. Failure to comply with any of the applicable laws, rules and regulations could result in fines or supervisory intervention by the regulator. As a result, it might lead to negative publicity on the Issuer's business practices which will affect the Issuer's prospects and future growth.

The Issuer establishes internal controls to ensure the Issuer compliance with established procedures, laws and applicable regulations stipulated by the regulator.

8.1.7 The Issuer may face potential pressure on its capital due to changes to the RBC Framework

There is no assurance that the Issuer will not face increased pressure on its capital in the future to comply with new standards to be implemented under the RBC Framework which may have an adverse effect on the Issuer's business, financial condition, results of operations and prospects.

8.1.8 The Issuer is dependent on its directors and senior management

The Issuer relies on its directors and senior management for its business direction and business strategy. The loss of a substantial number of directors or members of the senior management team could adversely affect its ability to operate its business or to compete effectively, and in turn, affect its financial performance and prospects. The senior management has developed succession plans and training programmes for the development of talent within the Issuer. However, there can be no assurance that such measures will be sufficient to prevent any substantial loss of directors or members of the senior management team throughout the tenure of any Subordinated Notes.

8.2 Considerations Related to the Subordinated Notes Generally

8.2.1 Subordinated Notes subject to optional redemption by the Issuer

Each Tranche of Subordinated Notes under the Subordinated Note Programme shall have a Call Option which entitles the Issuer to redeem (in whole, but not in part) that Tranche of Subordinated Notes on the Call Date at an amount equal to the Redemption Amount subject to the Redemption Conditions being satisfied. The optional redemption of one Tranche of Subordinated Notes shall not trigger the redemption of other Tranches of Subordinated Notes (if applicable).

An optional redemption feature is likely to limit the market value of Subordinated Notes. During any period when the Issuer may elect to redeem Subordinated Notes, the market value of those Subordinated Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Subordinated Notes when its cost of borrowing is lower than the coupon rate on the Subordinated Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective coupon rate as high as the coupon rate on the Subordinated Notes being redeemed and may only be able to do so at a lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

8.2.2 The Issuer may redeem the Subordinated Notes under certain circumstances

The Issuer may, at its option, redeem any Tranche of Subordinated Notes (in whole, but not in part), subject to the Redemption Conditions being satisfied upon the occurrence of a Regulatory Event or a Tax Event.

The redemption of one Tranche of the Subordinated Notes pursuant to the occurrence of a Regulatory Event or Tax Event shall not trigger the redemption of the other Tranches of the Subordinated Notes (if applicable).

In addition, the Issuer may, at its option, redeem all outstanding Subordinated Notes (in whole, but not in part), subject to the Redemption Conditions being satisfied if an M&A Event occurs.

8.2.3 Subordinated Notes may not be a suitable investment for all investors

Each potential investor in any Tranche of Subordinated 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 relevant Subordinated Notes, the merits and risks of investing in the relevant Subordinated 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 relevant Subordinated Notes and the impact of 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 relevant Subordinated Notes, including where principal or coupon is payable in one 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 relevant Subordinated 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.

8.2.4 Investors should pay attention to any modification and waivers

The terms and conditions of the Subordinated 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 defined majority.

8.2.5 Global financial turmoil has led to volatility in international capital markets which may adversely affect the market price of the Subordinated Notes

Global financial turmoil has resulted in substantial and continuing volatility in international capital markets. Any 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 Subordinated Notes.

8.2.6 Limited rights of enforcement, recourse and subordination of the Subordinated Notes could impair an investor's ability to enforce its rights or realise any claims on the Subordinated Notes

The Subordinated Notes will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Transaction Documents, ranking *pari passu* among themselves. There are limited events of default in respect of the Subordinated Notes.

If the Issuer defaults on the payment of principal and/or coupon on any Tranche (“**Affected Tranche**”) of the Subordinated Notes and such default continues for seven (7) business days (“**Non-Payment Event of Default**”), the Trustee may or shall (if directed to do so by the Noteholders of the Affected Tranche via a special resolution) by written notice to the Issuer declare that the Affected Tranche shall

immediately become due and payable whereby the Noteholders may institute proceedings to enforce the obligations of the Issuer under such Subordinated Notes and may institute proceeding in Malaysia for the winding-up of the Issuer. The Noteholders will not have a right to accelerate payment of the Subordinated Notes in the case of default in payment or failure to perform a covenant under the Transaction Documents.

If a court order is made or an effective resolution is passed for the winding up of the Issuer (“**Winding Up Event of Default**”), the Trustee may or shall (if directed to do so by the Noteholders of all Tranches via a special resolution) by written notice to the Issuer declare that the Subordinated Notes shall immediately become due and payable whereby all payments for the principal amount and accrued coupon payable on the Subordinated Notes will be accelerated and subordinated in right of payment to the prior payment in full of all liabilities of the Issuer, except in each case those liabilities which by their terms rank equally with or are subordinate to the Subordinated Notes. In such event, the Noteholders may recover less than the holders of other unsubordinated liabilities of the Issuer, as applicable. There is uncertainty as to the manner in which such a proceeding would occur and the results thereof in respect of an insurance company. Although the Subordinated Notes may pay a higher rate of coupon than comparable Subordinated Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

Save and except for the Non-Payment Event of Default and Winding Up Event of Default, there are no other events of default in respect of the Subordinated Notes. The terms and conditions of the Subordinated Notes do not provide for the events of default such as a scheme of arrangement under Section 176 of the Companies Act, 1965 being instituted against the Issuer, breach of any provisions of the Subordinated Notes, appointment of receiver, cross default and revocation / withholding / invalidation / modification of licence, authorisation or approval which impairs the Issuer’s ability to comply with the provisions of the Subordinated Notes (collectively, the “**Waived Events of Default**”), as required under the Trust Deeds Guidelines. However, SC’s approval was sought and obtained for waiver from, amongst others, the Waived Events of Default in order for the Subordinated Notes to qualify as Tier 2 capital under the RBC Framework. Please see section 1.5.2 of this Information Memorandum.

As a consequence of the subordination provisions, in the event of a winding up of the Issuer, the Noteholders may recover less rateably than the holders of the Issuer’s other unsubordinated liabilities. Any Subordinated Notes and the terms and conditions of the Subordinated Notes do not limit the amount of the liabilities ranking senior to the Subordinated Notes which may be hereafter incurred or assumed by the Issuer.

There is also no restriction on the amount of securities which the Issuer may issue and which rank *pari passu* with the Subordinated Notes. The issue of any such securities may reduce the amount recoverable by the Noteholders on a winding-up of the Issuer. In the winding-up of the Issuer and after payment of the claims of senior creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders.

8.2.7 Malaysian Taxation

All payments by the Issuer shall be made without 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 or any authority thereof or therein having

power to tax, unless such withholding or deduction is required by law, in which event, the Issuer shall not be required to gross up for any such withholding or deduction. Under present Malaysian law, all coupon payable to non-residents in respect of the Subordinated 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 coupon shall be subject to withholding tax at the then prevailing withholding tax rate.

8.2.8 Change of law

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

8.2.9 The secondary market generally

There is no existing market for the Subordinated Notes and there can be no assurances that a secondary market for the Subordinated 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 Subordinated Notes. Therefore, investors may not be able to sell their Subordinated Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

The market value of the Subordinated Notes may fluctuate. Consequently, any sale of Subordinated 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 and credit rating, the Issuer's performance and the market for similar securities. No assurance can be given as to the liquidity of, or trading market for, the Subordinated Notes and an investor in such Subordinated Notes must be prepared to hold such Subordinated Notes for an indefinite period of time or until their maturity.

8.2.10 Interest rate risks

Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Investment in fixed rate Subordinated Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate Subordinated Notes.

8.2.11 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 Subordinated Notes. An unexpected increase in inflation could reduce the actual returns.

8.2.12 Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Subordinated Notes. The ratings 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 Subordinated 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.

8.2.13 A downgrade in ratings may affect the liquidity and market price of the Subordinated Notes

RAM Rating has assigned an initial rating of AA₃ for the issuances of the Subordinated Notes under the Subordinated Note Programme. There can be no assurance that the rating will remain in effect for any given period or that the ratings will not be revised by RAM Rating 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 Subordinated Notes but would not constitute an event of default or an event obliging the Issuer to pay the principal under the Subordinated Notes.

8.2.14 No limitation on raising of additional senior and/or subordinated borrowings/indebtedness

The Issuer may from time to time raise additional senior and/or subordinated notes/indebtedness, which confers greater rights for the holders/creditors thereof (including but not limited to acceleration rights). In so far as any additional subordinated notes/indebtedness to be raised, such subordinated notes/indebtedness shall rank pari-passu in right and priority of payment with or is subordinated to the Subordinated Notes in the case of any distribution of assets in any winding up of the Issuer. In line with BNM's guidelines which state that there should be no restrictive covenants for the Subordinated Notes, there will be no limitation imposed on the Issuer under the Subordinated Notes to incur further borrowings/indebtedness. The creation and issue of further senior and/or subordinated notes or raising of further borrowings/indebtedness does not require the consent of the Noteholders. Any such further borrowings/indebtedness may reduce the amount recoverable by the Noteholders in the event of dissolution or winding-up of the Issuer.

8.3 Considerations relating to Malaysian Insurance Industry

8.3.1 Regulatory Environment

The insurance industry in Malaysia is governed by the Insurance Act, 1996 ("**Insurance Act**") which came into force on 1 January 1997. The Insurance Act is supplemented by the Insurance Regulations (Regulations) which prescribe the details of mandatory requirements contained in certain provisions of the Insurance Act. In addition, the Insurance Act empowers BNM to specify matters pursuant to the provisions of the Insurance Act. Contravention of regulations, policies or guidelines of BNM (or any other regulatory agencies) therefore carries with it financial and reputational risks that could materially and adversely affect the Issuer's business, financial condition, results of operations and prospects.

8.3.2 Developments in the Life Insurance Industry

The Financial Sector Blueprint 2011-2020 ("**Blueprint**") marks a new phase in the development of the financial system in Malaysia and was officially launched by BNM on 21 December 2011. The Blueprint with the theme "'Strengthening Our Future'" builds on and reinforces the solid foundations that have been achieved in the previous decade and is intended as a 10-year strategic plan to propel the nation to be more competitive, dynamic, diversified and integrated, and will form the basis for Malaysia to becoming a high value added, high income economy.

The success of the first Financial Sector Masterplan produced a financial system that is well-positioned to respond to the new imperatives in the economic environment. The financial institutions in Malaysia are well-capitalised and have improved risk management and governance practices in place. This is largely derived from the cumulative effects of building strong institutions, developing an efficient financial infrastructure and enhancing the regulatory and supervisory framework. In total, the Blueprint sets out 69 recommendations to achieve the vision of the financial sector by 2020.

Some of the broad roles and areas to be addressed by insurers and takaful operators are identified in the Blueprint as follows:

- to support higher value added business activities and infrastructure investments;
- to meet the needs of the changing demography;
- to intensify the internationalisation of Islamic finance through regional and global takaful/retakaful outreach;
- to enhance financial inclusion by providing adequate levels of protection across all segments of the population;
- to promote extensive use of the e-payment systems;
- to further expand consumer education and protection;
- to enhance talent development; and
- in relation to the regulatory and supervisory regime, to inter alia examine and monitor the impact of uplifting of price restrictions.

Overall, the Blueprint will have positive impact to the life insurance industry especially to the established industry players like HLA.

8.4 Forward Looking Statements

Certain statements in this Information Memorandum are forward-looking in nature. These statements include, among other things, discussions of HLA's business strategy and expectation 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 HLA and third party consultants that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of HLA to be materially different from that expected or indicated by such statements and estimates and no assurance can be given that any of 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 HLA or any other person that the plans and objectives of HLA will be achieved.

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9.0 MALAYSIAN INSURANCE INDUSTRY

Information in this section includes statistical data and economic information obtained from various sources believed to be reliable but which have not been independently verified by the Issuer, the Lead Arranger and Lead Manager or any other party involved in preparing this Information Memorandum. The Issuer, the Lead Arranger and Lead Manager and such other party/parties make no guarantee, representation or warranty and accept no responsibility or liability as to such information's accuracy or completeness or currency. Prior to making an investment decision, prospective investors should make their own judgment on the accuracy and completeness of such information and that it is current. No consent has been sought from any of the organizations in respect of the reproduction of an excerpts or extracts of data or information from the sources referred to herein.

9.1 Overview of the Economy of Malaysia

9.1.1 Overview

The world economic environment remained challenging in the third quarter of 2012. Growth in the advanced economies was uneven with the US economy experiencing an improvement while several other major advanced economies continued to experience weak growth, constrained by fiscal adjustments, sluggish labour markets and impaired financial intermediation. In Asia, economic activity moderated due mainly to further weakness in external demand arising from the uncertain global environment. Amid the challenging global economic conditions, the Malaysian economy recorded a growth of 5.2% (2Q 12: 5.6%) during the quarter. Growth was affected by slower external demand, which resulted in a further decline in net real exports of goods and services. Domestic demand however, continued to sustain growth, supported by the favourable performance of private consumption and investment activity by both the private and public sectors.

Domestic demand was also supported by the continued expansion in private consumption which grew by 8.5% (2Q 12: 8.8%), supported by favourable labour market conditions and sustained income growth. In addition, the bonus payment to civil servants, and the second (of three) payout of RM5,000 to FELDA settlers provided further impetus to consumer spending. Public consumption moderated to 2.3% (2Q 12: 10.9%), attributable to lower spending in and supplies and services.

(Source: BNM's Quarterly Bulletin – Third Quarter 2012)

9.1.2 Malaysian Economy in third quarter of 2012

The Malaysian economy recorded a growth of 5.2% in the third quarter of 2012 (2Q 12: 5.6%). Growth was driven by a continued robust expansion in domestic demand amid weaker external demand. Net exports contracted further, with exports declining due to the deterioration in exports of manufactured goods and commodities. The last time exports showed a decline was in 3Q 2009. On the supply side, activity in most economic sectors moderated in the third quarter.

(Source: BNM's Quarterly Bulletin – Third Quarter 2012)

9.1.3 Services Sectors

The services sector expanded further in the third quarter of 2012 (7.0%; 2Q 12: 6.6%), as growth continued to be driven by firm domestic demand. The wholesale and retail trade sub-

sector moderated to 4.4% (2Q 12: 5.9%), weighed down by the wholesale segment amidst slower trade activity. Nonetheless, growth in the retail segment was sustained, supported by firm household spending. In the communication sub-sector, growth remained robust (9.1%; 2Q 12: 9.5%), supported by continued demand for data communication services. The finance and insurance sub-sector expanded strongly by 11.8% (2Q 12: 6.6%), reflecting continued growth in net interest and fee-based income. In the utilities sub-sector, growth was lower (3.8%; 2Q 12: 4.3%), as slower manufacturing activity resulted in lower electricity demand by industrial users. Growth in the transport and storage sub-sector was also lower (3.6%; 2Q 12: 5.8%), amidst slower trade activity due to the weaker external environment.

(Source: BNM's Quarterly Bulletin – Third Quarter 2012)

9.1.4 Life Insurance Market in Malaysia

(i) New Business January – December 2011

Based on the data as at February 2012, the life insurance industry in Malaysia declined 6.0% in 2011, as measured by new business total premium. The new business total premium in 2011 was RM7.92 billion, as compared to RM8.42 billion in 2010. The decline was mainly due to the heavy scaling back of sale of single premium individual traditional products by one insurer. The annual premium individual business achieved a growth rate of 8.9% during the year with investment linked business outperforming traditional business.

Group insurance business enjoyed a small growth rate of 3.3% in 2011. In absolute terms, the size of individual traditional business with annualised premium of RM2.2 billion is still larger than the size of individual investment-linked business with annualised premium of RM1.8 billion although the gap has been narrowing in recent years. Traditional to investment-linked business mix as at 31 December 2011 was 54.9%:45.1% as compared with 55.6%:44.4% a year earlier.

(ii) In-force policies

In line with the growth in new business, the total premium for in-force policies also grew at 9.4% for individual and group policies combined. For individual policies, the growth came mainly from annual premium policies while single premium investment-linked business saw a decline in inforce premiums. Annual premium investment-linked business with a smaller base enjoyed a stronger growth of 12.5% against the traditional annual premium business which grew at 8.5%.

In absolute terms, traditional annual premium business added more than RM1 billion in-force premiums during the year. The corresponding addition in investment-linked annual premium business was RM771 million. Group insurance also recorded a strong growth in in-force premiums in year 2011 especially in the Single Premiums (Others) category.

(iii) Claims Payment

The life insurance industry paid out a total net benefit of RM9.93 billion in year 2011. This is 9.6% higher than the figure of RM9.06 billion in the corresponding period in 2010. The increase in benefit payout was mainly due to higher benefit payments in bonuses, medical claims and maturity.

(iv) Competition Act 2010

A major development that will affect the conduct of businesses is the Competition Act 2010 which came into force on 1 January 2012. As in other industries, the Competition Act 2010

has a wide impact on the business and operations of the life insurance industry. To ensure that the operations of life insurance companies are not anti-competitive, the Life Insurance Association of Malaysia (“**LIAM**”) took affirmative action by engaging an established legal firm to assess the impact of the Competition Act 2010 on the industry.

After several consultations, LIAM submitted an application for a decision or block exemption order under the Competition Act 2010 with the Malaysia Competition Commission. It was a crucial move to appeal on the grounds that activities of life insurance companies which are carried out in compliance with the Insurance Act 1996, guidelines from BNM and the Ministry of Finance are deemed to be a ‘legislative requirement’ and are permitted under the Competition Act 2010.

(Source: LIAM’s Annual Report 2011)

9.2 Development of the RBC Framework

For the insurance industry, a number of planned enhancements to the RBC Framework were completed in 2011. This included the necessary changes to converge the valuation rules for financial instruments under the RBC Framework with the Financial Reporting Standards 139. Following the adoption of the FTSE Bursa Malaysia KLCI as the main index for the equity market in July 2009, the calibration of market risk charges for indexed investments was also reviewed to ensure that the treatment for the new index reflects the relative volatility of the constituent stocks.

However, these changes had minimal impact on the capital adequacy positions of insurers. Work on more fundamental enhancements to the RBC Framework is continuing, including proposals to refine the valuation methodology for life insurance liabilities and the treatment of reinsurance arrangements. Another important area of review is ensuring consistency between current capital buffers provided under the RBC Framework and the implementation of more robust internal capital management processes for insurers. This will also take into account ongoing developments in the Common Framework for the Supervision of Internationally Active Insurance Group (“**ComFrame**”) that are being advanced by the International Association of Insurance Supervisors (“**IAIS**”). One of the objectives of the ComFrame is to foster global convergence of regulatory measures, including regulatory capital, and supervisory approaches for internationally-active insurance groups, a number of which have significant operations in Malaysia. The IAIS has also released the revised Insurance Core Principles that further define sound practices in solvency assessments which will inform BNM’s work. BNM will review the RBC Framework with the objective to further improve the alignment of capital with risk and support a more consistent approach to capital standards for financial groups, while at the same time preserving a prudent level of capital that is appropriate for the operating environment in Malaysia.

(Source: BNM’s Financial Stability and Payment Systems Report 2011)

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10. OTHER INFORMATION

10.1 Material Contracts

Save as disclosed below, there are no other material contracts which are not in the ordinary course of business entered into by the Issuer in the 2 years preceding 19 November 2012:

- (a) Agreement for the provision of services for the implementation of Imaging & Workflow Project (Phase 1) dated 15 December 2010 between the Issuer and RSTN Consulting Sdn Bhd (“**RSTN**”) whereby RSTN has agreed to provide its services for the design and development, consulting, implementation, education, training, project management or other services detailed in the said agreement for a consideration of RM1,600,000.00;
- (b) Maintenance Service Agreement dated 15 November 2011 between the Issuer and RSTN commencing from 25 October 2011 and which is valid for a period of 12 months subject to annual renewal for a consideration of RM90,000.00; and
- (c) Agreement for the provision of services for the implementation of Imaging & Workflow Project (Phase 2) dated 8 February 2012 between the Issuer and RSTN whereby RSTN has agreed to provide its services for the design and development, consulting, implementation, education, training, project management or other services detailed in the said agreement for a consideration of RM1,110,000.00.

10.2 Material Litigation

As at 19 November 2012, the Issuer is not engaged in any material litigation, claims or arbitration where the Issuer either acts as a plaintiff or defendant and which has an impact on the current and future financial position of the Issuer and the directors are not aware of any proceeding whether pending or threatened or of any facts likely to give rise to any proceeding, which might have an impact on the current and future financial position of the Issuer.

10.3 Conflict of Interests and appropriate Mitigating Measures

Save as disclosed below, the Issuer is not aware of any conflict of interest situation.

HLIB has considered the factors involved and believes that the objectivity and independence in carrying out its role has been/will be maintained at all times for reasons including the following:

- (i) HLIB is a licensed investment bank and its appointment as the principal adviser, the lead arranger, the lead manager, the calculation agent and the facility agent in relation to the Subordinated Note Programme is in the ordinary course of its business;
- (ii) The conduct of HLIB is regulated strictly by the Banking and Financial Institutions Act, 1989 and the CMSA and by its own internal controls and checks;
- (iii) The role of HLIB as the principal adviser, the lead arranger, the lead manager, the calculation agent and the facility agent, will be governed by the relevant agreements and documents which set out the rights, duties and responsibilities of the principal adviser, the lead arranger, the lead manager, the calculation agent and the facility agent; and
- (iv) Save for the professional fees charged in relation to its role as the principal adviser, the lead arranger, the lead manager, the calculation agent and the facility agent in

respect of the Subordinated Note Programme, HLIB will not be deriving any monetary benefit from the Subordinated Note Programme outside any of the aforesaid capacities.

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

- (i) the potential conflict of interest situation has been brought to the attention of the Board and it is hence fully informed and aware of the aforesaid and is agreeable to proceed with the Subordinated Note Programme;
- (ii) the potential conflict of interest situation which has been disclosed in this Information Memorandum; and
- (iii) Zul Rafique & partners acting as the independent legal counsel under the Subordinated Note Programme has been appointed to conduct a legal due diligence inquiry on the Issuer.

In relation to the Solicitors for the Subordinated Note Programme

Messrs. Zul Rafique & partners

As at the date hereof and after making enquiries as were reasonable in the circumstances, Messrs. Zul Rafique & partners confirms that to the best of its knowledge and belief, there is no existing or potential conflict of interest in its capacity as the Solicitors acting for the Principal Adviser and Lead Arranger in relation to the Subordinated Note Programme.

In relation to the Trustee for the Subordinated Note Programme

TMF Trustees Malaysia Berhad

As at the date hereof and after making enquiries as were reasonable in the circumstances, TMF Trustees Malaysia Berhad confirms that to the best of its knowledge and belief, there is no existing or potential conflict of interest in its capacity as the Trustee in relation to the Subordinated Note Programme.

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APPENDIX 1

Audited Annual Financial Statements of the Issuer for the Financial Year Ended 30 June 2011

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APPENDIX 2

Audited Financial Statements for the Financial Year Ended 30 June 2012

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The Issuer



HONG LEONG ASSURANCE BERHAD
(Company No. 94613-X)

Registered Office Address

Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur

Principal Adviser/Lead Arranger



HONG LEONG INVESTMENT BANK BERHAD
(formerly known as MIMB Investment Bank Berhad)
(Company No. 10209-W)

Facility Agent

Hong Leong Investment Bank Berhad
(formerly known as MIMB Investment Bank Berhad)
(Company No. 10209-W)

Trustee

TMF Trustees Malaysia Berhad
(Company No. 610812-W)

**Central Securities Depository and
Paying Agent**

Bank Negara Malaysia

Rating Agency

RAM Rating Services Berhad
(Company No. 763588-T)

**Legal Counsel
for the Principal Adviser/Lead Arranger**

ZUL RAFIQUE & partners