

BACKGROUND INFORMATION

1. *Issuer*

- (i) *Name* : Hong Leong Assurance Berhad (“**HLA**” or the “**Issuer**”).
- (ii) *Address* : Correspondence Address

Level 3, Tower B, PJ City Development
No 15A, Jalan 219
Seksyen 51A
46100 Petaling Jaya
Selangor Darul Ehsan

Registered Address

Level 8, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
- (iii) *Business Registration No.* : 94613-X.
- (iv) *Date and Place of Incorporation* : 20 December 1982 / Malaysia.
- (v) *Date of Listing (in case of a public listed company)* : Not applicable.
- (vi) *Status* : Resident controlled company.
- (vii) *Principal Activities* : Underwriting of life insurance business.
- (viii) *Board of Directors (as at 19 November 2012)* :
- (i) YBhg Tan Sri Quek Leng Chan
 - (ii) Ms Loh Guat Lan
 - (iii) YBhg Dato’ Chua Chuan Lim @ Chua Chuan Teong
 - (iv) Mr Choong Yee How
 - (v) Mr Quek Kon Sean
 - (vi) Mr Alan John Wilson
 - (vii) YBhg Dato’ Siow Kim Lun @ Siow Kim Lin
 - (viii) YM Tunku Dato’ Mahmood Fawzy bin Tunku Muhiyiddin
 - (ix) YBhg Datin Linda Ngiam Pick Ngoh

(ix) <i>Structure of shareholdings and name of shareholders or, in the case of public company, names of all substantial shareholders (as at 19 November 2012)</i>	:	Shareholders	No. of Ordinary Shares	%
			Direct	
		HLA Holdings Sdn Bhd	139,999,000	69.9995
		Assets Nominees (Tempatan) Sdn Bhd	1,000	0.0005
		Mitsui Sumitomo Insurance Company, Limited	60,000,000	30.0

- (x) *Authorised share capital (as at 19 November 2012)* : RM200,000,000 comprising 200,000,000 ordinary shares of RM1.00 each.
- Paid-up share capital (as at 19 November 2012)* : RM200,000,000 comprising 200,000,000 ordinary shares of RM1.00 each.

PRINCIPAL TERMS AND CONDITIONS

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

- (i) *Principal Adviser* : Hong Leong Investment Bank Berhad (formerly known as MIMB Investment Bank Berhad) ("**HLIB**").
- (ii) *Lead Arranger* : HLIB.
- Principal Adviser/Lead Arranger to be referred to as the "**PA/LA**".
- (iii) *Co-arranger* : Not applicable.
- (iv) *Solicitors* : Zul Rafique & partners as legal counsel for the PA/LA.
- (v) *Financial Adviser* : Not applicable.

- (vi) *Technical Adviser* : Not applicable.
 - (vii) *Trustee* : TMF Trustees Malaysia Berhad (formerly known as Equity Trust (Malaysia) Berhad).
 - (viii) *Guarantor* : Not applicable.
 - (ix) *Valuer* : Not applicable.
 - (x) *Facility Agent* : HLIB.
 - (xi) *Primary Subscribers (under a bought-deal) arrangement and amount subscribed* : 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) *Underwriter(s) and amount underwritten* : Not applicable.
 - (xiii) *Central Depository* : Bank Negara Malaysia (“**BNM**”).
 - (xiv) *Paying Agent* : BNM.
 - (xv) *Reporting Accountant* : Not applicable.
 - (xvi) *Calculation agent* : HLIB.
 - (xvii) *Others (please specify)*
 - Lead Manager* : HLIB.
3. *Facility Description* : Up to RM500.0 million in nominal value of subordinated notes (“**Subordinated Notes**”) under a subordinated note programme (“**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 Risk Based Capital Framework for Insurers (“**RBC**”) published

by BNM.

4. *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.

5. *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 (“**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).

“**Call Date**” is defined as any Coupon Payment Date (as defined herein) falling within the period of five (5) years prior to the respective maturity date of the relevant Subordinated Notes.

6. *Availability period of the debt programme (or facility)* : Upon completion of documentation and compliance of all Conditions Precedent (as defined in item (18) 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.

7. *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.
8. *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.
9. *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).
10. *Security /Collateral (if any)* : None.
11. *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.
12. *Sinking Fund and designated accounts (if any)* : None.
13. *Rating* : The rating agency is RAM Rating Services Berhad ("**RAM**").

The initial rating for the Subordinated Note Programme is AA₃ from RAM.
14. *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).

15. *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 Capital Markets and Services Act, 2007, ("**CMSA**") as amended from time to time.

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 as amended from time to time.

The Subordinated Notes are tradable and transferable.

16. *Listing Status and types of listing* : The Subordinated Notes will not be listed on Bursa Malaysia Securities Berhad ("**Bursa Securities**") or any other stock exchange.

17. *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.

18. *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 Securities

Commission (“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.

19. *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.

20. *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.

21. *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.

22. *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).

- 22.1 *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).

- 22.2 *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).

22.3 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".

22.4 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.

23. Other principal terms and conditions for the issue

23.1. 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”**).

- 23.2. *Yield to Maturity (%)* : To be determined prior to the issue date of the Subordinated Notes.
- 23.3. *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.
- 23.4. *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.
- 23.5. *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.
- 23.6. *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.

- 23.7. *Transaction Documents* : (i) Subscription Agreement;
- (ii) Programme Agreement;
- (iii) Trust Deed; and
- (iv) Any other agreements as may be advised by the Solicitors.
- 23.8. *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.
- 23.9. *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.
- 23.10. *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.
- 23.11. *Governing Laws* : The Subordinated Notes shall be governed by the laws of Malaysia.
- 23.12. *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.