

HONG LEONG ISLAMIC BANK BERHAD
PRINCIPAL TERMS AND CONDITIONS OF THE SUBORDINATED SUKUK IJARAH
PROGRAMME OF UP TO RM1.0 BILLION IN NOMINAL VALUE

1. BACKGROUND INFORMATION

(a) Issuer

- (i) **Name** : Hong Leong Islamic Bank Berhad (“**HLISB**” or “**Issuer**” or “**Bank**”)
- (ii) **Address** : **Registered Address**
Level 8, Wisma Hong Leong, 18 Jalan Perak,
50450 Kuala Lumpur
- Business Address**
Level 1, Wisma Hong Leong, 18 Jalan Perak,
50450 Kuala Lumpur
- (iii) **Business registration number** : 686191-W
- (iv) **Date and place of incorporation** : 28 March 2005 / Malaysia
- (v) **Date of listing, where applicable** : Not applicable
- (vi) **Status on residence, i.e. whether it is a resident controlled company or non-resident controlled company** : Resident controlled company
- (vii) **Principal activities** : Islamic banking business and related financial services
- (viii) **Board of directors (as at 15 March 2014)** : (i) YBhg Tan Sri A. Razak bin Ramli;
(ii) YM Raja Teh Maimunah binti Raja Abdul Aziz;
(iii) Mr Kwek Leng Hai;
(iv) YBhg Dato’ Abdul Majit bin Ahmad Khan;
(v) YBhg Dato’ Mohamed Nazim bin Abdul Razak; and
(vi) YM Tunku Dato’ Mahmood Fawzy bin Tunku Muhiyiddin.

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- (ix) Structure of shareholdings and names of shareholders or, in the case of a public company, names of all substantial shareholders (as at 15 March 2014) :
- | Shareholders | No. of ordinary shares | Equity (%) |
|------------------------|------------------------|------------|
| Hong Leong Bank Berhad | 700,000,000 | 100 |
- (x) Authorised, issued and paid-up capital :
- Authorised share capital as at 15 March 2014**
 RM1,000,000,000 divided into 1,000,000,000 ordinary shares of RM1.00 each
- Issued and fully paid-up share capital as at 15 March 2014**
 RM700,000,000 divided into 700,000,000 ordinary shares of RM1.00 each
- (xi) Disclosure of the following:
- If the issuer or its board members have been convicted or charged with any offence under the securities laws, corporation laws or other laws involving fraud or dishonesty in a court of law, for the past five years prior to the date of application : None
 - If the issuer has been subjected to any action by the stock exchange for any breach of the listing requirements or rules issued by the stock exchange, for the past five years prior to the date of application : Not applicable

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2. PRINCIPAL TERMS AND CONDITIONS

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

- | | | | |
|--------|---|---|---|
| (i) | Principal adviser | : | HLISB |
| (ii) | Lead arranger | : | HLISB |
| (iii) | Co-arranger | : | Not applicable |
| (iv) | Solicitor | : | Messrs Adnan Sundra & Low |
| (v) | Financial adviser | : | Not applicable |
| (vi) | Technical adviser | : | Not applicable |
| (vii) | Sukuk Trustee | : | Malaysian Trustees Berhad |
| (viii) | Shariah adviser | : | HLISB |
| (ix) | Guarantor | : | Not applicable |
| (x) | Valuer | : | Not applicable |
| (xi) | Facility agent | : | HLISB |
| (xii) | Primary subscriber (under a bought-deal arrangement) and amount subscribed | : | To be determined prior to issuance in respect of issuance via bought deal only.

Not applicable for issuance via private placement and book building. |
| (xiii) | Underwriter and amount underwritten | : | Not applicable |
| (xiv) | Central depository | : | Bank Negara Malaysia (" BNM ") |
| (xv) | Paying agent | : | BNM |
| (xvi) | Reporting accountant | : | Not applicable |
| (xvii) | Calculation agent | : | Not applicable |

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- (xviii) Others (please specify)
- (i) **Lead Manager(s)** : HLISB and such other financial institution(s) as may be appointed prior to any particular issuance of the Subordinated Sukuk Ijarah.
- (b) **Islamic principles used** : Ijarah.
- (c) **Facility description** : **Facility Description**

An Islamic subordinated medium term notes programme based on the shariah principle of Ijarah involving the issuance of subordinated medium term notes ("**Subordinated Sukuk Ijarah**") of up to RM1.0 billion in nominal value ("**Subordinated Sukuk Ijarah Programme**").

HLISB shall, from time to time, sell the beneficial interest over certain identified Shariah-compliant leasable assets ("**Ijarah Assets**") to the Sukuk Trustee acting for and on behalf of the Sukukholders for such series of Subordinated Sukuk Ijarah issued and the Sukuk Trustee shall purchase, at a purchase price ("**Asset Purchase Price**") pursuant to a sale and purchase agreement ("**Sale and Purchase Agreement**") entered into. The Asset Purchase Price shall be equivalent to the issue price payable under the Subordinated Sukuk Ijarah by the Sukukholders to the Issuer and shall comply with the asset pricing requirements as stipulated under the Guidelines on Sukuk, as may be amended, supplemented or replaced from time to time.

The Ijarah Assets comprise the vehicles owned by HLISB which are currently leased to its customers under hire purchase financing arrangement ("**HP Financing**") pursuant to Hire Purchase-i Agreements ("**HP-i Agreement**") entered into between the Bank and the customers ("**Customers**").

There shall be a very short interruption to the existing lease under the HP-i Agreement during the sale of the Ijarah Assets by HLISB to the Sukuk Trustee (on behalf of the Sukukholders) in order to allow the Sukukholders (via the Sukuk Trustee) to lease the Ijarah Assets to HLISB.

The Issuer shall, from time to time, issue the Subordinated Sukuk Ijarah to the Sukukholders representing the Sukukholders' undivided beneficial

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ownership and interest in the Ijarah Assets, and any right arising thereof, including but not limited to the Purchase Undertaking (as defined herein) (including the rights to the Exercise Price (as defined in item 2(y)(vi)) and other Transaction Documents (collectively, the “**Ijarah Trust Assets**”).

Upon the purchase of the Ijarah Assets, the Sukuk Trustee, for and on behalf of the Sukukholders as the lessor (“**Lessor**”) shall then lease the Ijarah Assets to HLISB as the lessee (“**Lessee**”) pursuant to a lease agreement (“**Ijarah Agreement**”) entered into.

The Issuer (as Lessee) shall pay the rental to the Sukuk Trustee (as Lessor), which in turn pay the Sukukholders equivalent to the periodic payment due under the Subordinated Sukuk Ijarah on Periodic Distribution Date (as defined in item 2(j)).

The Sukuk Trustee (as the Lessor) and the Issuer will enter into a Service Agency Agreement whereby the Lessor will appoint the Lessee as the servicing agent (“**Servicing Agent**”). The Servicing Agent will be responsible for amongst others, major maintenance and/or structural repair and the cost associated with procuring sufficient takaful coverage in respect of the Ijarah Assets (“**Ownership Expenses**”). The Ownership Expenses are reimbursable by the Lessor to the Lessee and will be set-off against the Exercise Price pursuant to the Purchase Undertaking.

If the takaful coverage in respect of the Ijarah Assets is insufficient, the Lessee as the Servicing Agent shall be responsible to compensate the difference between the takaful proceeds and the actual cost incurred. In other words, the Lessee shall be responsible to cover any insufficiency or additional cost arising from his negligence/failure in taking full takaful coverage for the Ijarah Assets. In this respect, this additional cost will not be reimbursed by the Sukuk Trustee and will not be set-off against the Exercise Price.

HLISB (“**Sub Lessor**”) shall then sub lease the Ijarah Assets to the Customers which terms and conditions shall be based on terms and conditions of the HP-i Agreement.

As the sub lease agreement (“**Sub Lease Agreement**”) will adopt the entire terms and conditions of the existing HP-i Agreement (i.e., with the same rights and liabilities of both parties), there shall be no new Sub Lease Agreement required to be entered into between HLISB and the Customers. The tenure of the HP-i Agreement

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relating to the Subordinated Sukuk Ijarah shall be equivalent to or shorter than the tenure of the Subordinated Sukuk Ijarah. Hence, each time HLISB enters into Sub Lease Agreement with the Customers, HLISB shall have the right over the Ijarah Agreement entered into between HLISB and the Sukukholders.

The Ijarah Assets that are already used under any of the Subordinated Sukuk Ijarah shall not be used as Ijarah Assets for any other Subordinated Sukuk Ijarah unless such outstanding Subordinated Sukuk Ijarah has been redeemed and cancelled.

The Issuer shall grant a purchase undertaking ("**Purchase Undertaking**") to the Sukuk Trustee, whereby the Issuer undertakes that upon the maturity date of the Subordinated Sukuk Ijarah or declaration of an Event of Default (as defined in item 2(v)), whichever is the earlier, the Issuer will purchase the Ijarah Assets from the Sukukholders through the Sukuk Trustee at the relevant Exercise Price.

The Sukuk Trustee, on behalf of the Sukukholders shall grant a sale undertaking ("**Sale Undertaking**") to the Issuer whereby the Sukuk Trustee undertakes that on an early redemption date (as defined in item 2(x)) or Regulatory Redemption (as defined in item 2(y)(iv)) or Tax Redemption (as defined in item 2(y)(v)) , the Sukuk Trustee will sell the relevant Ijarah Assets to the Issuer at exercise price to be mutually agreed between the Issuer and the Sukuk Trustee (for and on behalf of the Sukukholders).

Pursuant to a substitution undertaking ("**Substitution Undertaking**"), the Sukuk Trustee (on behalf of the Sukukholders) undertakes to substitute any part of the Ijarah Assets from time to time throughout the tenure of the Subordinated Sukuk Ijarah with other qualified Ijarah Assets ("**Substitute Ijarah Assets**") upon the occurrence of any of the following events ("**Substitution Event**"):

- a) Customers opt to purchase the Ijarah Assets and HLISB to use the purchase proceeds received for acquiring other qualified Ijarah Assets as in the case of:
 - (i) early redemption and cancellation of the HP Financing prior to the maturity of HP-i Agreement; or

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- (ii) redemption and cancellation of the HP Financing on the maturity date of the HP-i Agreement; or
- b) Customers default in HP Financing and HLISB will substitute the Ijarah Assets with other qualified Ijarah Assets; or
- c) Occurrence of Total Loss Event (defined herein) and HLISB to use the takaful proceeds to purchase the qualified Ijarah Assets..

(collectively, “**Affected Ijarah Assets**”)

Upon occurrence of the Substitution Event, the Sukuk Trustee (on behalf of the Sukukholders) shall appoint HLISB to replace the Affected Ijarah Assets with the Substitute Ijarah Assets, or in the case of Total Loss Event, to use the takaful proceeds to purchase other qualified Ijarah Assets, which value shall at least equal to the original acquisition value of the Affected Ijarah Assets.

The Substitute Ijarah Assets shall form part of the Ijarah Assets and thereby the Ijarah Trust Assets.

“**Total Loss Event**” is the total loss or destruction of, or damage to the whole of the Ijarah Assets or any event or occurrence that renders the whole of the Ijarah Assets permanently unfit for any economic use and repair or remedial work in respect thereof is wholly uneconomical.

Following the occurrence of the Non Viability Event (as defined in 2(y)(xii)), BNM and Malaysia Deposit Insurance Corporation (“**PIDM**”) shall have the option to require the entire principal outstanding or such portion thereof and all other amount owing under the Subordinated Sukuk Ijarah be written off, and if BNM and PIDM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event, each of the Sukukholders as the Lessor via the Sukuk Trustee hereby:

- (i) irrevocably waives its right to receive the principal amount of the Subordinated Sukuk Ijarah and also irrevocably waives its right to any Ijarah lease payment (including periodic payments accrued and unpaid up to the date of the occurrence of a Non-Viability Event) with HLISB as the Lessee; and
- (ii) undertakes to transfer his beneficial ownership and interests over the Ijarah Assets to the Lessee

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without consideration, via a Wa'ad.

For further details please refer to **Annexure 1**.

(d) **Identified assets** : Shariah-compliant leasable assets (Ijarah Assets) owned by HLISB that are leased to the Customers pursuant to the HP-i Agreement.

(e) **Purchase and selling price/rental (where applicable)** : The rental is the Ijarah lease payment which the Issuer in its capacity as the Lessee is obliged to pay the Sukuk Trustee in its capacity as the Lessor pursuant to the Ijarah Agreement. During the tenure of the Subordinated Sukuk Ijarah Programme, the Issuer will utilize such Ijarah lease payment to meet the periodic payment due to the Sukukholders under the Subordinated Sukuk Ijarah on the Periodic Distribution Date (as defined in item 2(j)).

For the avoidance of doubt, the payment obligation of the Issuer to the Sukukholders are not dependent on the payment received from the Customers pursuant to the HP-i Agreement and the Sukukholders shall not have any recourse to the Customers under the Subordinated Sukuk Ijarah Programme.

(f) **Issue/sukuk size** : The Subordinated Sukuk Ijarah Programme will have limit of RM1.0 billion in nominal value.

The total outstanding Subordinated Sukuk Ijarah issued under the Subordinated Sukuk Ijarah Programme shall not exceed RM1.0 billion in nominal value at any one point in time.

(g) **Tenure of Issue/sukuk programme** : **Tenure of the Subordinated Sukuk Ijarah Programme**

The tenure of the Subordinated Sukuk Ijarah Programme shall expire fifteen (15) years from the date of the first issuance of the Subordinated Sukuk Ijarah under the Subordinated Sukuk Ijarah Programme.

Tenure of the Subordinated Sukuk Ijarah

Each issuance of Subordinated Sukuk Ijarah under the Subordinated Sukuk Ijarah Programme shall have tenure of not less than five (5) years and shall, if applicable, be callable at the option of the Issuer on the Call Date (as defined below) subject to the requirements set out in item 2(x) below. The first issue date shall be within two (2) years from the date of SC's approval.

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For the avoidance of doubt, the maturity of the Subordinated Sukuk Ijarah shall not exceed the tenure of the Subordinated Sukuk Ijarah Programme.

Call Option

Each issuance of the Subordinated Sukuk Ijarah under the Subordinated Sukuk Ijarah Programme having a tenure of more than five (5) years may have a callable option (“**Call Option**”) (to be determined prior to each issuance). Under the Call Option, if applicable for the relevant Subordinated Sukuk Ijarah, the Issuer shall have the option to redeem the Subordinated Sukuk Ijarah on the Call Date (as defined below) subject to the requirements set out in item 2(x) below.

“**Call Date**” is defined as the Periodic Distribution Date (as defined under item 2(j)) falling no earlier than five (5) years after the issue date of the Subordinated Sukuk Ijarah and any Periodic Distribution Date thereafter as may be applicable to a particular issuance of Subordinated Sukuk Ijarah that the Issuer and the Lead Manager(s) agree prior to the issuance of such Subordinated Sukuk Ijarah.

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| (h) | Availability period of sukuk programme | : | The Subordinated Sukuk Ijarah Programme shall have an availability period of fifteen (15) years from the date of first issuance under the Subordinated Sukuk Ijarah Programme provided that such first issuance date shall not be later than two (2) years from the date of approval and authorisation by the SC. |
| (i) | Profit/coupon/rental rate | : | The Subordinated Sukuk Ijarah will bear a periodic profit rate to be determined and agreed prior to each issuance. The periodic profit rate herein is applicable throughout the tenure of the relevant Subordinated Sukuk Ijarah (i.e. there shall be no step-up profit rate). |
| (j) | Profit/coupon/rental payment frequency | : | The periodic payment of the Subordinated Sukuk Ijarah shall be made semi-annually in arrears from the issue date of the Subordinated Sukuk Ijarah (“ Periodic Distribution Date ”) with the last periodic payment to be made on the maturity date, the Call Date or the Regulatory Redemption Date of the Subordinated Sukuk Ijarah, whichever is the earlier. |
| (k) | Profit/coupon/rental payment basis | : | The periodic payment of the Subordinated Sukuk Ijarah shall be calculated on the basis of the actual number of days elapsed and 365 days in a year (actual/365 days) or in any event in accordance with MyClear Procedures (as defined in item 2(p) below). |

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- (l) **Security/collateral, where applicable** : None
- (m) **Details on utilisation of proceeds by issuer / obligor and originator (in the case of ABS). If proceeds are to be utilised for project or capital expenditure, description of the project or capital expenditure, where applicable.** : The proceeds from the Subordinated Sukuk Ijarah shall be made available to the Issuer, without limitation, for working capital, general banking and other corporate purposes and/or if required, the refinancing of any existing financing obligations of the Issuer and/or any existing Subordinated Sukuk Ijarah issued under the Subordinated Sukuk Ijarah Programme.

For the avoidance of doubt, the utilisation of proceeds shall be for Shariah-compliant purposes only.
- (n) **Sinking fund and designated accounts, where applicable** : Not applicable
- (o) **Rating**
- **Credit ratings assigned and whether the rating is final or indicative.** : preliminary long-term rating of AA₂
 - **Name of rating agency** : RAM Rating Services Berhad (“**RAM**”)
- (p) **Mode of issue** : The Subordinated Sukuk Ijarah may be issued via direct/ private placement on a best effort basis or a book running on a best effort basis or bought deal basis, all without prospectus.

Issuance of the Subordinated Sukuk Ijarah shall be in accordance with the (1) the Participation and Operation Rules for Payments and Securities Services (“**MyClear Rules**”) issued by Malaysian Electronic Clearing Corporation Sdn Bhd (“**MyClear**”) and (2) the Operational Procedures for Securities Services issued by MyClear (“**MyClear Procedures**”), as amended or substituted from time to time (collectively, “**MyClear Rules and Procedures**”), subject to such variation, amendments or exemptions (if any) from time to time.
- (q) **Selling restriction, including tradability i.e. whether tradable or non-tradable** : **Selling Restrictions at Issuance**
The Subordinated Sukuk Ijarah 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:

(i) Schedule 6 (or Section 229(1)(b)); or

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(ii) Schedule 7 (or Section 230(1)(b));

read together with 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 Sukuk Ijarah shall not be offered, sold, transferred or otherwise disposed directly or indirectly other than to persons to whom an offer or invitation to subscribe the Subordinated Sukuk Ijarah falling within Schedule 6 (or Section 229(1)(b)) read together with Schedule 9 (or Section 257(3)) of the CMSA, as amended from time to time.

Tradability

The Subordinated Sukuk Ijarah are tradable and transferable (but subject to the Selling Restrictions described above) in the secondary market under the Rules on Scripless Securities under the Real Time Electronic Transfer of Funds and Securities System operated by MyClear.

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|-----|--|---|---|
| (r) | Listing status and types of listing, where applicable | : | The Subordinated Sukuk Ijarah may be listed under the Exempt Regime of Bursa Malaysia Securities Berhad or any other stock exchange. The SC will be notified accordingly in the event of such listing. |
| (s) | Other regulatory approvals required in relation to the issue, offer or invitation to subscribe or purchase sukuk, and whether or not obtained | : | Approval from BNM for the establishment of the Subordinated Sukuk Ijarah Programme which was obtained via its letter dated 17 March 2014. |
| (t) | Conditions precedent | : | Conditions precedent for the issuance of the Subordinated Sukuk Ijarah shall include but is not limited to the following (all of which shall be in form and substance acceptable to the Lead Arranger): |

A. Main Documentation

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

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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 and 49 of the Issuer;
- (iii) Certified true copy of a board of directors' resolution, authorising, amongst others, the implementation of the Subordinated Sukuk Ijarah Programme, the issuance of the Subordinated Sukuk Ijarah, 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; and
- (vi) A report of the relevant winding up search or the relevant statutory declaration of the Issuer (in form and substance acceptable to the Lead Arranger) signed by a director of the Issuer declaring that the Issuer is not wound up and that no winding up petition has been presented against the Issuer.

C. General

- (i) The approval and authorization from the SC to establish the Subordinated Sukuk Ijarah Programme;
- (ii) The approval from BNM to establish the Subordinated Sukuk Ijarah Programme;
- (iii) The Subordinated Sukuk Ijarah have received the relevant ratings acceptable to the Lead Manager. Where a series of the Subordinated Sukuk Ijarah is to be included as capital in the consolidated total capital of Hong Leong Bank Berhad or the Hong Leong Financial Group Berhad group, which shall be decided by the Issuer prior to the issuance of such series ("**Consolidated Recognition Option**"), it is a condition precedent to the issuance of such series that the Issuer has procured the relevant rating agency's written

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confirmation that the rating assigned to such series (where applicable) remains unchanged from the previous assigned rating notwithstanding the adoption of Consolidated Recognition Option in respect of such series, which confirmation shall be in form and substance acceptable to the Lead Manager.

- (iv) Receipt of shariah certification from the Shariah Adviser, in form and substance acceptable to the Lead Arranger, that the structure and mechanism of the Subordinated Sukuk Ijarah and Transaction Documents are in compliance with the applicable shariah principles;
- (v) The Lead Arranger has received from its Solicitor favourable legal opinion addressed to it advising with respect to, among others, the legality, validity and enforceability of the Transaction Documents and a confirmation addressed to the Lead Arranger that all the conditions precedent have been fulfilled or waived as the case may be; and
- (vi) Such other condition precedent as may be advised by the Solicitor (if any).

(u) Representations and warranties

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

- (i) The Issuer is duly incorporated, validly in existence and has the full power and authority to carry out its business.
- (ii) The Issuer has the power to enter into the Transaction Documents and exercise its rights and to perform their obligations under the Transaction Documents.
- (iii) Entry into and the exercise of the Issuer's right and obligation under the Transaction Documents do not violate any existing law or regulation.
- (iv) The Transaction Documents create valid, binding and enforceable obligations on the part of the Issuer.
- (v) All necessary actions, authorisations and consents required under the Transaction

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Documents and the Subordinated Sukuk Ijarah have been obtained and remain in full force and effect.

- (vi) The audited financial statements of the Issuer are prepared in accordance with generally accepted accounting principles and standards and represent a true and fair view.
- (vii) Save as disclosed in the information memorandum, there is no litigation which would have a material adverse effect on the Issuer's ability to perform its obligations under the Transaction Documents.
- (viii) Any other representation and warranties as may be advised by the Solicitor.

- (v) **Events of default, dissolution event and enforcement event, where applicable** : The Events of Default means the occurrence of any of the following:-
- (i) a default is made in payment of any principal amount or any periodic payment on the due date and the Issuer does not remedy such default within a period of seven (7) business days; or
 - (ii) an order is made for the winding up of the Issuer and such order is not stayed or set aside within sixty (60) days of such order being made or, where so stayed, such stay lapses, or an effective resolution is passed for winding up of the Issuer except where such order is made or such resolution is passed for the purpose of a reconstruction or amalgamation, the terms of which have been approved by the holders of the Subordinated Sukuk Ijarah by way of special resolution.

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

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performance of any covenant under the Trust Deed.

Upon occurrence of item (ii) above, subject to the terms of the Trust Deed, the Sukuk Trustee may or shall (if directed to do so by a special resolution of the holders of the Sukukholders), by notice in writing to the Issuer, declare that notwithstanding the maturity date of the Subordinated Sukuk Ijarah, all outstanding amounts due from the Issuer on the Subordinated Sukuk Ijarah shall become due and immediately payable.

For the avoidance of doubt, the occurrence of Event of Default (i) above for any series of the Subordinated Sukuk Ijarah will not trigger an Event of Default for other series of the Subordinated Sukuk Ijarah outstanding. However, occurrence of Event of Default (ii) above will trigger an Event of Default for all series of the Subordinated Sukuk Ijarah outstanding.

(w) Covenants

- : The Issuer shall comply with such applicable covenants as may be advised by the Solicitor and/or which are required in order to comply with the SC's Trust Deeds Guidelines, including, but not limited to the following:
- (i) Exercise reasonable diligence in carrying on its business in a proper and efficient manner and keep in force and effect all licenses, consents and rights necessary for the conduct of its business.
 - (ii) At all times to comply with all relevant laws and regulation.
 - (iii) Maintain a paying agent in Malaysia.
 - (iv) Maintain proper books and accounts and deliver to the Sukuk Trustee a copy of its financial statements on a timely manner.
 - (v) Inform the Sukuk Trustee of any actual or potential Event of Default or commencement of Winding-Up Proceeding; and
 - (vi) Deliver to the Sukuk Trustee on an annual basis after the announcement of its annual audited accounts, a certificate that it has complied with its obligations under the terms and conditions of the Transaction Documents and the Subordinated Sukuk Ijarah and that there did not exist or had not existed, from the issue date any Event of Default and if such is not the case, to specify the same.

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- (x) Provisions on buy-back and early redemption of sukuk : **Early Redemption of the Subordinated Sukuk Ijarah**
For each series of the Subordinated Sukuk Ijarah where the Call Option is applicable, the Issuer may, at its sole discretion and subject to prior approval from BNM and subject to the Redemption Conditions (as defined in item 2(y)(ii)) being satisfied, redeem and cancel the Subordinated Sukuk Ijarah in whole or in part on the Call Date at their nominal value together with accrued and unpaid periodic payments (if any). This optional redemption by the Issuer of one series does not trigger the redemption of the Subordinated Sukuk Ijarah in other series.

Buyback of the Subordinated Sukuk Ijarah

Subject to prior approval from BNM (but which approval shall not be required for a purchase done in the ordinary course of business), the Issuer or its subsidiaries may, at any time, buyback and cancel the Subordinated Sukuk Ijarah at any price in the open market or by private treaty provided that no Non-Viability Event (as defined in item 2(y)(xiii) below) has occurred prior to the date of such purchase. If buyback is made by tender, such tender must (subject to any applicable rules and regulations) be made available to all Sukukholders of the relevant series equally.

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

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

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

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corporations' clients. All Subordinated Sukuk Ijarah purchased and cancelled shall not be available for reissuance by the Issuer.

(y) Other principal terms and condition for the issue

- i. Status** : The Subordinated Sukuk Ijarah 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 Subordinated Sukuk Ijarah, ranking pari passu among themselves. The Subordinated Sukuk Ijarah will, in the event of a winding-up or liquidation of the Issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinate to the Subordinated Sukuk Ijarah.

- ii. Redemption Conditions** : In connection with the Early Redemption of the Subordinated Sukuk Ijarah as defined in 2(x), the Redemption Conditions for the Subordinated Sukuk Ijarah means:
 - (i) the Issuer is solvent at the time of any redemption of the Subordinated Sukuk Ijarah and immediately thereafter;
 - (ii) the Issuer has obtained the written approval of BNM prior to redemption of the Subordinated Sukuk Ijarah;
 - (iii) the Issuer shall replace the Subordinated Sukuk Ijarah, which will be redeemed, with a capital instrument of the same or better quality and such replacement of capital shall be done prior to or concurrent with the redemption of the Subordinated Sukuk Ijarah; and
 - (iv) the Issuer shall demonstrate that its capital position is well above the capital adequacy requirements and capital buffer requirements.

- iii. Redemption at Maturity** : Unless previously redeemed on the Call Date or redeemed pursuant to a Tax Redemption or a Regulatory Redemption, or purchased from the market and cancelled, the Issuer shall redeem the Subordinated Sukuk Ijarah at their nominal value together with accrued and unpaid periodic payments (if any), under the Subordinated Sukuk Ijarah on the maturity date.

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- iv. Regulatory Redemption** : If at any time there is more than an insubstantial risk, as determined by the Issuer, that (i) any series of the Subordinated Sukuk Ijarah (in whole or in part) issued will, either immediately or with the passage of time or upon either the giving of notice or fulfillment of a condition, no longer fully qualify as Tier 2 capital of the Issuer (whether due to a change in accounting or tax policies or BNM's regulations or otherwise) for the purposes of BNM's capital adequacy requirements under any regulations applicable to the Issuer or (ii) changes in law will make it unlawful to continue performing its obligations under the Subordinated Sukuk Ijarah, the Issuer, may at its option, subject to the approval from BNM, redeem the Subordinated Sukuk Ijarah (in whole but not in part) at its nominal value together with accrued and unpaid periodic payments (if any), under the Subordinated Sukuk Ijarah.
- v. Tax Redemption** : If there is more than an insubstantial risk that:
- (i) the Issuer has or will be obliged to pay any additional amounts because of taxes, duties, assessments or government changes or whatever nature in relation to any series of the Subordinated Sukuk Ijarah; or
 - (ii) the Issuer would no longer obtain tax deductions on the periodic payments amount under any series of the Subordinated Sukuk Ijarah for the purpose of Malaysian corporation tax;
- as a result of a change in, or amendment to, the laws of regulations of Malaysia or any political subdivision or any authority thereof having power to tax, or change in the application or official interpretation of such laws or regulation, which change or amendment becomes effective on or after the date of the issuance of the relevant Subordinated Sukuk Ijarah and the Issuer cannot, by taking reasonable measures available to it, avoid the payment of any additional amounts or deduct periodic payments in respect of any series of the Subordinated Sukuk Ijarah, then the Issuer, may at its option, subject to the approval from BNM, redeem such series of the Subordinated Sukuk Ijarah (in whole but not in part) at their nominal value together with accrued and unpaid periodic payments (if any), under the Subordinated Sukuk Ijarah.
- vi. Exercise Price** : In relation to the Purchase Undertaking, the Exercise Price for the purchase of the relevant Ijarah Assets is as follows:

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- (i) In the case of a purchase of the relevant Ijarah Assets on the maturity date, the Exercise Price shall be an amount equal to the Scheduled Distribution Amount (as defined herein); and
- (ii) In the case of a purchase of the relevant Ijarah Assets due to Events of Default, the Exercise Price shall be an amount equal to the Dissolution Distribution Amount (as defined herein).

The Exercise Price payable by the Issuer to the Sukuk Trustee (on behalf of the Sukukholders) shall be set off against reimbursement of the Ownership Expenses.

“Scheduled Distribution Amount” means in respect of relevant Subordinated Sukuk Ijarah to be redeemed, the aggregate of the following:

- (a) The nominal value;
- (b) The accrued and unpaid periodic payments as at maturity date; and
- (c) Ownership Expenses.

“Dissolution Distribution Amount” means in respect of relevant Subordinated Sukuk Ijarah to be redeemed, the aggregate of the following:

- (a) The nominal value;
- (b) The accrued and unpaid periodic payments, accrued to the Event of Default date; and
- (c) Ownership Expenses.

vii. Compensation for late and / or default payment : In the event of delay in payments of any amount due under the Subordinated Sukuk Ijarah, the Issuer shall pay the compensation (**“Ta’widh”**) on such delayed amount at a rate and in the manner prescribed by the SC SAC from time to time in accordance with the Shariah principles.

viii. Transaction Documents : The Subordinated Sukuk Ijarah shall be evidenced by, the following documents:

- (i) Programme Agreement;
- (ii) Trust Deed;
- (iii) Ijarah Agreement;
- (iv) Sale and Purchase Agreement;
- (v) Service Agency Agreement;
- (vi) Substitution Undertaking;
- (vii) Purchase Undertaking;
- (viii) Sale Undertaking;
- (ix) Subscription Agreement;
- (x) Securities Lodgement Form; and

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all other documents of whatsoever nature executed or to be executed in connection with or pursuant to any of the above documents or otherwise in connection with the Subordinated Sukuk Ijarah Programme as advised by the Solicitor.

- ix. 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.
- x. Voting Rights** : The Sukukholders shall have no voting rights in HLISB.
- xi. Governing Law** : Laws of Malaysia.
- xii. Other Condition** : The Subordinated Sukuk Ijarah shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM, and/or MyClear over matters pertaining to the Subordinated Sukuk Ijarah.
- xiii. Non Viability Loss Absorption** : Following the occurrence of the following trigger events (each a “**Non-Viability Event**”), whichever is earlier:

 - (i) BNM and the Malaysia Deposit Insurance Corporation (“**PIDM**”) (collectively, the “**Authorities**”) have notified the Issuer in writing that they are of the opinion that the write off of the Subordinated Sukuk Ijarah, together with the conversion or write off of any other Tier 2 Instruments and Tier 1 Instruments which, pursuant to their terms or by operation of law, are capable of being converted into equity or written off at that time, is necessary, without which the Issuer, Hong Leong Bank Berhad or the Hong Leong Financial Group Berhad group (if the Consolidated Recognition Option has been adopted in respect of such series of the Subordinated Sukuk Ijarah), would cease to be viable; or
 - (ii) The Authorities publicly announces that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or equivalent support to the Issuer, without which the Issuer, Hong Leong Bank Berhad or the Hong Leong Financial Group Berhad group (if the Consolidated Recognition Option has been adopted in respect of such series

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of the Subordinated Sukuk Ijarah), would cease to be viable.

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

The waiver of right to receive any rental due is made via the concept of *ibra'*. *Ibra'* is used in this structure due to the application of *ibra'* which commonly refers to an act by a person relinquishing his rights to receive payment due or debt from another person including waiver of rental due.

For the avoidance of doubt, upon the occurrence of a Non-Viability Event as described under (i) or (ii) above, the Authorities shall have the full discretion to require or not to require the Issuer to do a write off or conversion of any capital instruments of the Issuer.

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

xiv. Contingent Write-Off

At the point of a Non-Viability Event (as defined above), the Issuer is required to give notice to the Sukukholders of the Subordinated Sukuk Ijarah and RAM in accordance with the terms of the respective Subordinated Sukuk Ijarah, then as of the relevant write-off date, the write-off shall extinguish the claim of the Subordinated Sukuk Ijarah in liquidation, which will mean that the Sukukholders of the Subordinated Sukuk

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Ijarah written-off will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the respective Subordinated Sukuk Ijarah written-off, the amount re-paid when a Call Option is exercised and periodic payments on the respective Subordinated Sukuk Ijarah written-off.

The write-off shall be permanent and the full principal amount of the Subordinated Sukuk Ijarah together with all unpaid periodic payments thereon that are or would be payable upon the relevant maturity date or an early redemption or the occurrence of an Event of Default under clause 2(v)(ii) will automatically be written-off and such Subordinated Sukuk Ijarah and periodic payment will be immediately and fully cancelled as of such write-off date.

For the avoidance of doubt, the write-off of the respective Subordinated Sukuk Ijarah shall not constitute an event of default nor trigger cross-default clauses.

No Conversion into Equity

For the avoidance of doubt, the Subordinated Sukuk Ijarah will under no circumstances be converted into equity of the Issuer and the Sukukholders will have to absorb losses pursuant to the terms specified herein.

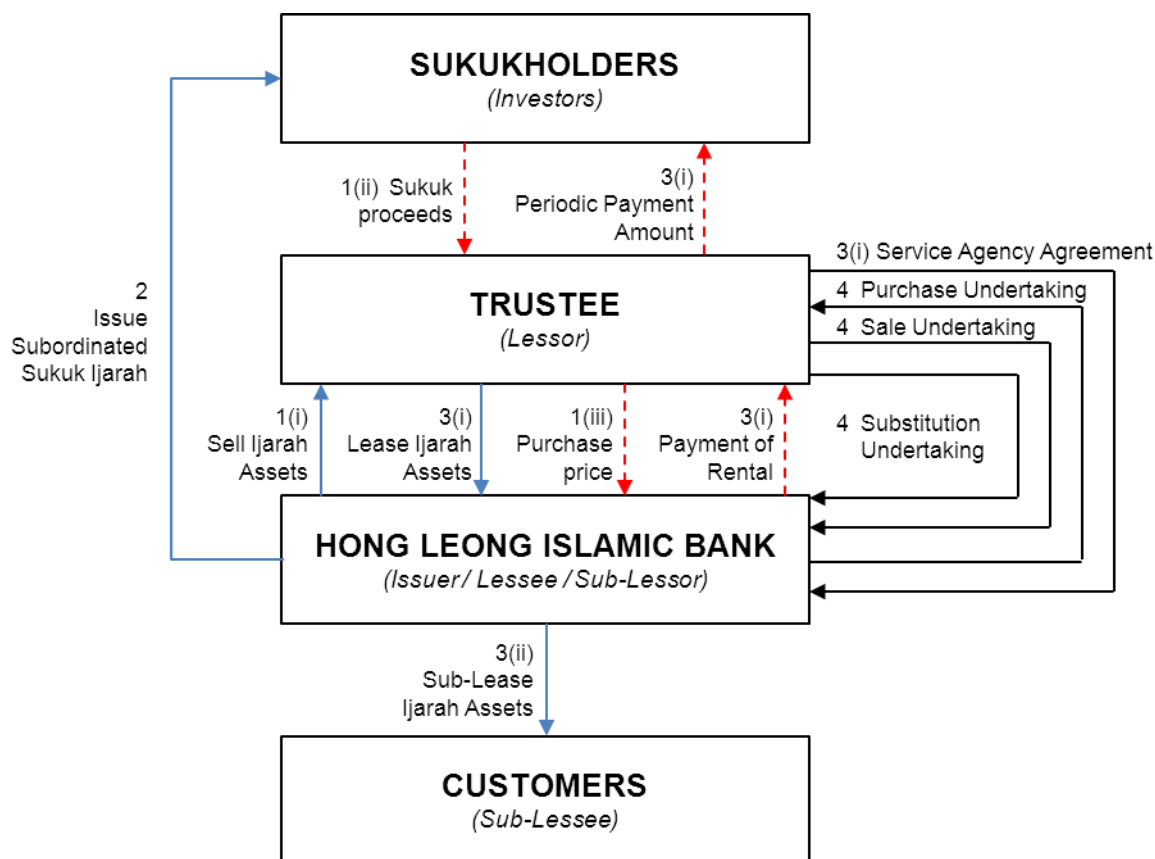
No Event of Default or Cross Default

For the avoidance of doubt, the exercise of the loss absorption at the point of non-viability shall not constitute an Event of Default as specified under Clause 2(v) above or trigger cross-default clauses.

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Annexure 1

Subordinated Sukuk Ijarah Structure



Step	Description
1(i)(ii)(iii)	HLISB shall, from time to time, sell the beneficial interest over certain identified Shariah-compliant leasable assets (" Ijarah Assets ") to the Sukuk Trustee acting for and on behalf of the Sukukholders for such series of Subordinated Sukuk Ijarah issued and the Sukuk Trustee shall purchase, at a purchase price (" Asset Purchase Price ") pursuant to a sale and purchase agreement (" Sale and Purchase Agreement ") entered into. The Asset Purchase Price shall be equivalent to the issue price payable under the Subordinated Sukuk Ijarah by the Sukukholders to the Issuer and shall comply with the asset pricing requirements as stipulated under the Guidelines on Sukuk, as may be amended, supplemented or replaced from time to time.
	The Ijarah Assets comprise the vehicles owned by HLISB which are currently leased to its customers under hire purchase financing arrangement (" HP Financing ") pursuant to Hire Purchase-i Agreements (" HP-i Agreement ") entered into between the Bank and the customers (" Customers ").
	There shall be a very short interruption to the existing lease under the HP-i Agreement during the sale of the Ijarah Assets by HLISB to the Sukuk Trustee (on behalf of the Sukukholders) in order to allow the Sukukholders (via the Sukuk Trustee) to lease the Ijarah Assets to HLISB.

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Step	Description
2	<p>The Issuer shall, from time to time, issue the Subordinated Sukuk Ijarah to the Sukukholders representing the Sukukholders' undivided beneficial ownership and interest in the Ijarah Assets, and any right arising thereof, including but not limited to the Purchase Undertaking (as defined herein) (including the rights to the Exercise Price (as defined in item 2(y)(vi) of the PTC) and other Transaction Documents (collectively, the "Ijarah Trust Assets").</p>
3(i)	<p>Upon the purchase of the Ijarah Assets, the Sukuk Trustee, for and on behalf of the Sukukholders as the lessor ("Lessor") shall then lease the Ijarah Assets to HLISB as the lessee ("Lessee") pursuant to a lease agreement ("Ijarah Agreement") entered into.</p> <p>The Issuer (as Lessee) shall pay the rental to the Sukuk Trustee (as Lessor), which in turn pay the Sukukholders equivalent to the periodic payment due under the Subordinated Sukuk Ijarah on Periodic Distribution Date (as defined in item 2(j) of the PTC).</p> <p>The Sukuk Trustee (as the Lessor) and the Issuer will enter into a Service Agency Agreement, whereby the Lessor will appoint the Lessee as the servicing agent ("Servicing Agent"). The Servicing Agent will be responsible for amongst others, major maintenance and/or structural repair and the cost associated with procuring sufficient takaful coverage in respect of the Ijarah Assets ("Ownership Expenses"). The Ownership Expenses are reimbursable by the Lessor to the Lessee and will be set-off against the Exercise Price pursuant to the Purchase Undertaking.</p> <p>If the takaful coverage in respect of the Ijarah Assets is insufficient, the Lessee as the Servicing Agent shall be responsible to compensate the difference between the takaful proceeds and the actual cost incurred. In other words, the Lessee shall be responsible to cover any insufficiency or additional cost arising from his negligence/failure in taking full takaful coverage for the Ijarah Assets. In this respect, this additional cost will not be reimbursed by the Sukuk Trustee and will not be set-off against the Exercise Price.</p>
3(ii)	<p>HLISB ("Sub Lessor") shall then sub lease the Ijarah Assets to the Customers which terms and conditions shall be based on terms and conditions of the HP-i Agreement.</p> <p>As the sub lease agreement ("Sub Lease Agreement") will adopt the entire terms and conditions of the existing HP-i Agreement (i.e., with the same rights and liabilities of both parties), there shall be no new sub lease agreement required to be entered into between HLISB and the Customers. The tenure of the HP-i Agreement relating to the Subordinated Sukuk Ijarah shall be equivalent to or shorter than the tenure of the Subordinated Sukuk Ijarah. Hence, each time HLISB enters into Sub Lease Agreement with the Customers, HLISB shall have the right over the Ijarah Agreement entered into between HLISB and the Sukukholders.</p> <p>The Ijarah Assets that are already used under any of the Subordinated Sukuk Ijarah shall not be used as Ijarah Assets for any other Subordinated Sukuk Ijarah unless such outstanding Subordinated Sukuk Ijarah has been redeemed and cancelled.</p>

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Step	Description
4	<p>The Issuer shall grant a purchase undertaking ("Purchase Undertaking") to the Sukuk Trustee, whereby the Issuer undertakes that upon the maturity date of the Subordinated Sukuk Ijarah or declaration of an Event of Default (as defined in item 2(v) of the PTC), whichever is the earlier, the Issuer will purchase the Ijarah Assets from the Sukukholders through the Sukuk Trustee at the relevant Exercise Price.</p> <p>The Sukuk Trustee, on behalf of the Sukukholders shall grant a sale undertaking ("Sale Undertaking") to the Issuer whereby the Sukuk Trustee undertakes that on an early redemption date (as defined in item 2(x) of the PTC) or Regulatory Redemption (as defined in item 2(y)(iv) of the PTC) or Tax Redemption (as defined in item 2(y)(v) of the PTC), the Sukuk Trustee will sell the relevant Ijarah Assets to the Issuer at exercise price to be mutually agreed between the Issuer and the Sukuk Trustee (for and on behalf of the Sukukholders).</p> <p>Pursuant to a substitution undertaking ("Substitution Undertaking"), the Sukuk Trustee (on behalf of the Sukukholders) undertakes to substitute any part of the Ijarah Assets from time to time throughout the tenure of the Subordinated Sukuk Ijarah with other qualified Ijarah Assets ("Substitute Ijarah Assets") upon occurrence any of the following events ("Substitution Event"):</p> <ul style="list-style-type: none"> a) Customers opt to purchase the Ijarah Assets and HLISB to use the purchase proceeds received for acquiring other qualified Ijarah Assets as in the case of: <ul style="list-style-type: none"> (i) early redemption and cancellation of the HP Financing prior to the maturity of HP-i Agreement; or (ii) redemption and cancellation of the HP Financing on the maturity date of the HP-i Agreement; or b) Customers default in HP Financing and HLISB will substitute the Ijarah Assets with other qualified Ijarah Assets; or c) Occurrence of Total Loss Event (defined herein) and HLISB to use the takaful proceeds to purchase the qualified Ijarah Assets. <p>(collectively, "Affected Ijarah Assets")</p> <p>Upon occurrence of the Substitution Event, the Sukuk Trustee (on behalf of the Sukukholders) shall appoint HLISB to replace the Affected Ijarah Assets with the Substitute Ijarah Assets, or in the case of Total Loss Event, to use the takaful proceeds to purchase other qualified Ijarah Assets, which value shall at least equal to the original acquisition value of the Affected Ijarah Assets.</p> <p>The Substitute Ijarah Assets shall form part of the Ijarah Assets and thereby the Ijarah Trust Assets.</p> <p>"Total Loss Event" is the total loss or destruction of, or damage to the whole of the Ijarah Assets or any event or occurrence that renders the whole of the Ijarah Assets permanently unfit for any economic use and repair or remedial work in respect thereof is wholly uneconomical.</p>

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Step	Description
	<p>Following the occurrence of the Non Viability Event (as defined in 2(y)(xiii) of the PTC), BNM and PIDM shall have the option to require the entire principal outstanding or such portion thereof and all other amount owing under the Subordinated Sukuk Ijarah be written off, and if BNM and PIDM elects to exercise such option, subject to and as of the date of the occurrence of the Non-Viability Event, each of the Sukukholders as the Lessor via the Sukuk Trustee hereby:</p> <p>(i) irrevocably waives its right to receive the principal amount of the Subordinated Sukuk Ijarah and also irrevocably waives its right to any Ijarah lease payment (including periodic payments accrued and unpaid up to the date of the occurrence of a Non-Viability Event) with HLISB as the Lessee; and</p> <p>(ii) undertakes to transfer his beneficial ownership and interests over the Ijarah Assets to the Lessee without consideration, via a Wa'ad.</p>

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