

PRINCIPAL TERMS AND CONDITIONS OF THE PROPOSAL

1. BACKGROUND INFORMATION

(a) Issuer

- (i) Name : Maybank Islamic Berhad (“**MIB**” or the “**Issuer**”)
- (ii) Address : Level 10, Tower A
Dataran Maybank
No. 1 Jalan Maarof
59000 Kuala Lumpur
- (iii) Business registration number : 787435-M
- (iv) Date and place of incorporation : 5 September 2007 / Malaysia
- (v) Date of listing : Not listed
- (vi) Status on residence : Resident controlled company
- (vii) Principal activities : A wholly owned subsidiary and the Islamic banking arm of Malayan Banking Berhad which is principally engaged in the business of Islamic financing and provision of related financial services.
- (viii) Board of directors : The board of directors of the Issuer as at 30 November 2013:
- (i) Dato’ Seri Ismail bin Shahudin
- (ii) Datuk Dr Syed Othman bin Syed Hussin Alhabshi
- (iii) Tan Sri Datuk Dr Hadenan bin A. Jalil
- (iv) En Zainal Abidin bin Jamal
- (v) Tan Sri Ahmad Fuzi bin Abdul Razak
- (vi) Dato’ Dr. Muhammad Afifi al-Akiti
- (ix) Structure of shareholdings and names of all substantial shareholders (as at 30 November 2013) :

Shareholder	Shareholding	
	No. of shares held	%
Malayan Banking Berhad	218,988,000	100

(x) Authorised, issued and paid-up capital (as at 30 November 2013) : Authorised Share Capital
RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each.

Issued and Paid-up Share Capital
RM218,988,000 comprising 218,988,000 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 requirement or rules issued by the stock exchange, for the past five years prior to the date of application

None.

2. PRINCIPAL TERMS AND CONDITIONS

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

- (i) **Principal adviser** : Maybank Investment Bank Berhad (“**Maybank IB**”).
 - (ii) **Lead arranger** : Maybank IB
 - (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** : Maybank Islamic Berhad.
 - (ix) **Guarantor** : Not applicable.
 - (x) **Valuer** : Not applicable.
 - (xi) **Facility agent** : Maybank IB.
 - (xii) **Primary subscriber (under a bought-deal arrangement) and amount subscribed** : Not applicable.
 - (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.
 - (xviii) **Others (please specify)** : Lead Manager (“LM”)
Maybank IB
- (b) **Islamic principles used** : Murabahah (via Tawarruq arrangement).
- (c) **Facility description** : A subordinated Sukuk Murabahah (“**Subordinated Sukuk Murabahah**”) programme of up to RM10.0 billion in nominal value (“**Subordinated Sukuk Programme**”). The

Subordinated Sukuk Murabahah shall comply with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) ("**CAFIB**") issued on 28 November 2012 in relation to requirements of a Tier 2 capital instrument.

The Subordinated Sukuk Murabahah shall be issued under the Shariah principle of Murabahah (via Tawarruq arrangement) which is one of the Shariah principles and concepts approved by the Securities Commission ("**SC**") Shariah Advisory Council ("**SAC**").

Underlying Transaction

Murabahah (via Tawarruq arrangement)

1. Pursuant to a service agency agreement, MIB will be appointed by the Sukuk Trustee (acting on behalf of the Sukukholders) as the purchase agent ("**Purchase Agent**") to purchase the Commodities.
2. MIB (as the "**Purchaser**") will issue a purchase order to MIB (as the Purchase Agent) to buy the Commodities from the Sukuk Trustee (acting on behalf of the Sukukholders) at the Deferred Sale Price (as defined hereinafter).
3. The Purchase Agent will purchase the Commodities from a commodity supplier ("**Commodity Supplier**") in the Bursa Suq Al-Sila' commodity market on a spot basis at a purchase price equivalent to the proceeds of the Subordinated Sukuk Murabahah ("**Commodity Purchase Price**").
4. MIB as the Issuer will, from time to time, issue Subordinated Sukuk Murabahah which evidences the Sukukholders' ownership in the Commodities and the Purchaser's obligation to pay the Deferred Sale Price to the Sukukholders upon sale of the Commodities to the Purchaser. The proceeds received from the Sukukholders shall be used by the Purchase Agent to pay the Commodity Purchase Price.

5. Subsequently, the Sukuk Trustee (on behalf of the Sukukholders) will sell the Commodities to the Purchaser at a selling price equivalent to 100% of the nominal value of the relevant tranche of the Subordinated Sukuk Murabahah plus the aggregate periodic profits ("**Periodic Profits**") on deferred payment terms ("**Deferred Sale Price**").
6. The Purchaser shall sell, on a spot basis, the Commodities to a commodity buyer ("**Commodity Buyer**") for a cash consideration equal to the Commodity Purchase Price.
7. The Purchaser shall make periodic payments on each Periodic Payment Date (as defined in item 2(j) below) and final payment of the Deferred Sale Price at the maturity date of the Subordinated Sukuk Murabahah to the Sukukholders. Upon declaration of an Event of Default (as defined in item 2(v) below) or early settlement pursuant to the Call Option (as defined in item 2(g) below), the Tax Redemption (as defined in item 2(x) below) or the Regulatory Redemption (as defined in item 2(x) below), the Purchaser shall pay the outstanding Deferred Sale Price (subject to Ibra') (as defined in Item 2(y)(8) below) as final settlement of the same to the Sukukholders.

The transaction diagram is depicted in Appendix I.

(d) Identified assets : Shariah compliant commodities (excluding ribawi items in the category of medium of exchange) ("**Commodities**").

(e) Purchase and selling price/ rental (where applicable) : **Purchase Price**

The Commodity Purchase Price in relation to each purchase of the Commodities shall be equal to the proceeds of the Subordinated Sukuk Murabahah. The Purchase Price shall comply with the SC's SAC Asset Pricing Requirements as provided in the SC Guidelines on Sukuk.

Sale Price

The Deferred Sale Price shall comprise the nominal value of the relevant tranche of the Subordinated Sukuk Murabahah plus the aggregate Periodic Profits on a deferred payment basis and will be determined prior to the sale of the Commodities to the Purchaser.

- (f) **Issue/Sukuk programme size** : The nominal value of the Subordinated Sukuk Murabahah outstanding shall not exceed RM10.0 billion.
- (g) **Tenure of issue / Sukuk programme** : Subordinated Sukuk Programme

Up to twenty (20) years from the date of the first issue of the Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme.

Subordinated Sukuk Murabahah

Each Subordinated Sukuk Murabahah issued under the Subordinated Sukuk Programme shall have a tenure of at least five (5) years and up to twenty (20) years from the date of issue subject to the Call Option as described below, if applicable, and provided that the Subordinated Sukuk Murabahah mature prior to the expiry of the Subordinated Sukuk Programme.

Call Option

Each issuance of Subordinated Sukuk Murabahah under the Subordinated Sukuk Programme may have a callable option (“**Call Option**”) to allow the Issuer to redeem (in whole or in part) that tranche of Subordinated Sukuk Murabahah prior to maturity on the Call Date at the Redemption Amount subject to the Redemption Conditions being satisfied (as defined below).

“**Call Date**” is defined as any Periodic Payment Date after a minimum period of five (5) years from the date of issue of that tranche of Subordinated Sukuk Murabahah.

- (h) **Availability period of Sukuk programme** : The Subordinated Sukuk Programme is available upon completion of the Transaction Documents and compliance of all relevant condition precedents to the satisfaction of Principal Adviser/Lead Arranger, until the expiry of the tenure of the Subordinated Sukuk Programme.

The first Subordinated Sukuk Murabahah shall be issued within two (2) years from the date of SC's approval and authorisation.

- (i) **Profit / coupon/ rental rate** : The profit rate ("**Profit Rate**") will be determined and agreed upon the completion of the book building and/or private-placement exercise to identified investors.

The Profit Rate shall be applicable from the issue date of the respective Subordinated Sukuk Murabahah up to (but excluding) the date of early redemption or the maturity date of that tranche of Subordinated Sukuk Murabahah, whichever is earlier.

For avoidance of doubt, there is no step-up Profit Rate after the Call Date of the Subordinated Sukuk Murabahah, in the event the Call Option is not exercised by the Issuer.

- (j) **Profit/ coupon/ rental payment frequency** : The Sukukholders will receive Periodic Profits at semi-annual intervals ("**Periodic Payment Period**") in arrears with the first payment commencing six (6) months from the relevant issue date of the Subordinated Sukuk Murabahah and the last ending on the date falling on the maturity date or upon the early redemption of the Subordinated Sukuk Murabahah, whichever is earlier.

Periodic Payment Date is the last day of a particular Periodic Payment Period.

- (k) **Profit / coupon/ rental payment basis** : Actual/365 days.

- (l) **Security/collateral, where applicable** : Nil.

- (m) **Details on utilization of proceeds by issuer/obligor. If proceeds are to be utilised for project or capital expenditure, the description of the project or capital expenditure, where applicable** : The proceeds from the Subordinated Sukuk Murabahah will be utilized for Shariah compliant purposes. The Issuer will utilize the proceeds for its business expansion programme, general banking, working capital and other Shariah compliant corporate purposes.

- (n) **Sinking fund and designated accounts, where applicable** : None

(o) **Rating** : Final rating: AA1/stable
Name of credit rating agency: RAM Rating Services Berhad

(p) **Mode of issue** : The Subordinated Sukuk Murabahah may be issued via direct/private placement or book building on a best efforts basis without prospectus, as the Issuer may select.

Issuance of the Subordinated Sukuk Murabahah shall be in accordance with (1) the “Participation and Operation Rules for Payments and Securities Services” issued by Malaysian Electronic Clearing Corporation Sdn Bhd (“**MyClear**” or its successors-in-title or successor in such capacity) (“**MyClear Rules**” as may be amended or substituted from time to time) and (2) the Operational Procedures for Securities Services issued by MyClear (“**MyClear Procedures**” as may be amended and/or substituted from time to time), (collectively, “**MyClear Rules and Procedures**”); and (3) any other procedures/guidelines/rules issued by the relevant authorities from time to time (as the same may be amended and/or substituted from time to time).

(q) **Selling restriction, including tradability, i.e. whether tradable or non-tradable** : The Subordinated Sukuk Murabahah is tradable and transferable subject to the Selling Restrictions described below.

Selling Restrictions in Malaysia

The Subordinated Sukuk Murabahah may only be issued, offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe to the Subordinated Sukuk Murabahah and to whom the Subordinated Sukuk Murabahah are issued would:

- (1) at the point of issuance of the Subordinated Sukuk Murabahah fall within:
 - (i) Schedule 6 (or Section 229(1)(b)) of the Capital Markets & Services Act 2007 (“**CMSA**”); and
 - (ii) Schedule 7 (or Section 230(1)(b)) of the CMSA; read together with
 - (iii) Schedule 9 (or Subsection 257(3)) of the CMSA.

- (2) after the issuance of the Subordinated Sukuk Murabahah fall within:
- (i) Schedule 6 (or Section 229(1)(b)) of CMSA; read together with
 - (ii) Schedule 9 (or Subsection 257(3)) of the CMSA.
- (r) **Listing status and types of listing, where applicable** : The Subordinated Sukuk Murabahah may be listed on Bursa Malaysia Securities Berhad under the Exempt Regime.
- (s) **Other regulatory approvals required in relation to the issue, offer or invitation to subscribe or purchase Sukuk, and whether or not obtained** : BNM's approvals have been obtained on 19 December 2013 for the establishment of the Subordinated Sukuk Programme of up to RM10.0 billion in nominal value for the issuance of Subordinated Sukuk Murabahah.
- (t) **Conditions precedent** : To include conditions precedent customary for transactions of this nature and for the first issuance under the Subordinated Sukuk Programme including, but not limited to the following:
- A. Main Documentation

The relevant Transaction Documents in relation to the Subordinated Sukuk Programme have been duly executed, and where applicable stamped (unless otherwise exempted) and presented for registration.
 - B. Issuer

Receipt from the Issuer of:

 - (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 most recent Forms 24, 44 and 49 of the Issuer;
 - (iii) Certified true copy of the board resolution of the Issuer authorising, among others, the issuance of the Subordinated Sukuk Murabahah and the execution of all relevant documents thereto;
 - (iv) A list of the Issuer's authorized 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 conducted on the Issuer.

C. General

- (i) Evidence that the approval and authorization from BNM and SC in respect of the establishment of the Subordinated Sukuk Programme has been obtained;
- (ii) Confirmation from the rating agency that the Subordinated Sukuk Programme has obtained a minimum rating of AA1 by the rating agency;
- (iii) Evidence of confirmation from the Shariah Adviser that the structure, mechanism and the transaction documents of the Subordinated Sukuk Programme are in compliance with Shariah has been obtained;
- (iv) Satisfactory legal opinion from the Solicitor confirming with respect to the legality, validity and enforceability of the Transaction Documents and confirmation that all conditions precedent thereto have been fulfilled; and
- (v) Such other conditions precedent to be advised by the Solicitor and agreed by the Issuer.

Conditions for subsequent issuance

- (i) Evidence that the approval or authorization from regulatory authorities has been obtained (if applicable); and
- (ii) Such other conditions to the subsequent issuance customary for transaction of this nature, as may be advised by the Solicitors and agreed by the Issuer.

(u) Representations and warranties

and : Representations and warranties usual and customary for an issuance of such nature, which shall include but are not limited to the following:

- (i) The Issuer (a) has been duly incorporated and validly exists under the Companies Act 1965 of Malaysia, (b) has full power and authority to engage in the business of Islamic financing in Malaysia and each other jurisdiction where it is so engaged and otherwise to own its properties and conduct its business, and (c) is duly qualified to transact business under the laws of Malaysia and each other jurisdiction in which it owns or leases properties, or conduct any business, so as to require such qualification, other than where the failure to be so qualified would not have a Material Adverse Effect;
- (ii) The Subordinated Sukuk Murabahah has been duly authorised, and when issued and delivered pursuant to the Transaction Documents, will have been duly executed, authenticated, issued and delivered and will constitute valid and binding obligations of the Issuer entitled to the benefits provided by the Transaction Documents;
- (iii) No event has occurred which would constitute an Event of Default (as defined below) under the Subordinated Sukuk Murabahah or which with the giving of notice or the lapse of time or other condition would constitute an Event of Default;
- (iv) The Issuer is not in breach of the provisions of any law or regulations governing any approvals, consents, authorisation and/or any licenses and, after due and careful consideration, the Issuer is not aware of any reason why any approval, consent, authorisation and/or license should be withdrawn or cancelled or any conditions attached thereto adversely altered, other than where the absence of such approval, consent, authorisation and/or license would not have a Material Adverse Effect;
- (v) There are no legal or governmental proceedings pending or, to the knowledge of the Issuer, threatened, to which the Issuer is or may be a party or to which any property or asset of the Issuer is or may be the subject which, if determined adversely to the Issuer, could individually or in the aggregate

reasonably be expected to have a Material Adverse Effect;

- (vi) The Issuer has all licenses, franchises, permits, authorisations, approvals, orders and other concessions of and from all governmental and regulatory officials and bodies that are necessary to own or lease its properties and conduct its business, other than where the failure to obtain such licenses, franchises, permits, authorisations, approvals, orders and other concessions would not have a Material Adverse Effect; and
- (vii) The Issuer and its obligations under Transaction Documents and the Subordinated Sukuk Murabahah are subject to commercial law and to suit in Malaysia and neither the Issuer nor any of its properties, assets or revenues has any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding, from the giving of any relief in any court, from set off or counterclaim, from the jurisdiction of any court, or other legal process or proceeding for the giving of any relief or for the enforcement of judgment, with respect to its obligations, liabilities or any other matter under or arising out of or in connection with the Transaction Documents and the Subordinated Sukuk Murabahah.

(v) **Events of default, dissolution event and enforcement event where applicable** : The events of default (“**Events of Default**”) means the following:-

- (a) If the Issuer defaults in payment of any principal or profits or any other amount under the Subordinated Sukuk Programme and such default continues for a period of seven (7) business days, the Sukuk Trustee may subject to the terms of the Trust Deed, institute proceedings to enforce the payment obligations under the Subordinated Sukuk Murabahah 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 Subordinated Sukuk Murabahah in the case of such default in the payment of amount owing

under the Subordinated Sukuk Murabahah or any default in the performance of any condition, provision or covenant under the Subordinated Sukuk Programme or the Transaction Documents.

- (b) If:
- (i) a court or an agency or regulatory authority in Malaysia having jurisdiction in respect of the same shall have instituted any proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, or similar arrangements involving the Issuer or all or substantially all of its property, or for the winding up of or liquidation of its affairs and such proceeding, decree or order shall not have been vacated or shall have remained in force, undischarged or unstayed for a period of sixty (60) days; or
 - (ii) the Issuer shall file a petition to take advantage of any insolvency statute (which for this purpose includes under any insolvency related provisions in any companies statute),

and the Sukuk Trustee may enforce its rights under the Transaction Documents to require the Purchaser to make payment of all outstanding Deferred Sale Price (subject to any agreed Ibra').

For the avoidance of doubt, the occurrence of Event of Default (a) above for any tranche of the Subordinated Sukuk Murabahah will not trigger the Event of Default for other tranches of the Subordinated Sukuk Murabahah outstanding. However, occurrence of Event of Default (b) above will trigger an Event of Default for all tranches of the Subordinated Sukuk Murabahah outstanding.

(w) Covenants

- : The Issuer shall comply with such applicable covenants as may be advised by the Solicitors and/or which are required in order to comply with the SC's Trust Deeds Guidelines, including but not limited to the following:

- (i) At all times comply with the provisions of the Trust Deed and the terms and conditions of the Transaction Documents;
- (ii) Redeem in full or in part outstanding Subordinated Sukuk Murabahah in accordance with the terms and conditions of the Transaction Documents;
- (iii) At all times provide the Sukuk Trustee such information as it may reasonably require in order to discharge of its duties and obligations under the Trust Deed relating to the affairs of the Issuer to the extent as permitted by law;
- (iv) At all times maintain a paying agent in Malaysia;
- (v) Procure that the paying agent shall notify the Sukuk Trustee in the event that the paying agent does not receive payment from the Issuer on the due dates as required under the Transaction Documents;
- (vi) At all times keep proper books and accounts and provide to the Sukuk Trustee and any person appointed by it access to such books and accounts to the extent permitted by law;
- (vii) Notify the Sukuk Trustee immediately in the event that the Issuer becomes aware of the following:
 - (a) any Event of Default or the occurrence of any event that has caused or could cause one or more of the following: (a) any amount payable under the Subordinated Sukuk Murabahah become immediately payable; (b) the Subordinated Sukuk Murabahah become immediately enforceable; or (c) any other rights or remedies under the terms and conditions of the Subordinated Sukuk Murabahah or the Trust Deed to become immediately enforceable;
 - (b) any circumstance that has occurred that would materially prejudice the Issuer ;
 - (c) any substantial change in the nature of

the business of the Issuer;

- (d) any change in the utilisation of proceeds from the Subordinated Sukuk Murabahah other than for the purpose stipulated in the information memorandum and the Transaction Documents;
 - (e) of any other matter that may materially prejudice the interest of the holders of the Subordinated Sukuk Murabahah; and
 - (f) any change in the Issuer's withholding tax position;
- (viii) Deliver to the Sukuk Trustee a copy of its annual audited financial statements within one hundred eighty (180) days after the end of each financial year, its semi-annual unaudited financial statements within ninety (90) days after the end of each half of its financial year and any other accounts, reports, notices, statements or circulars issued to shareholders;
- (ix) Deliver to the Sukuk Trustee annually a certificate within one hundred eighty (180) days after the end of each financial year that the Issuer has complied with its obligations under the Trust Deed and the terms and conditions of the Subordinated Sukuk Murabahah and that there did not exist or had not existed, from the date the Subordinated Sukuk Murabahah was issued or from the date of the last certificate, any Event of Default and if such is not the case, to specify the same;
- (x) Exercise reasonable diligence in carrying out its business in a proper and efficient manner which shall ensure, among others, that all necessary approvals or relevant licences are obtained and maintained; and
- (xi) Ensure that the Trust Deed and the information memorandum do not contain any matter or information which is inconsistent between them.

(x) Provision on buy-back and early redemption of Sukuk

: Purchase and Cancellation

The Issuer or any of its subsidiaries or related corporations or agents of the Issuer may at any time purchase, subject to items (i) and (ii) below the Subordinated Sukuk Murabahah at any price in the open market or by private treaty provided no Non-Viability Event (as defined below) has occurred prior to the date of such purchase. If purchase is made by tender, such tender must (subject to any applicable rules and regulations) be made available to all Sukukholders equally.

(i) Subject to prior approval by BNM (but which approval shall not be required for a purchase done in the ordinary course of business), the Subordinated Sukuk Murabahah purchased by the Issuer or its subsidiaries or by agents of the Issuer (save for those purchased in the ordinary course of business) shall be cancelled and shall not be resold.

(ii) The Subordinated Sukuk Murabahah purchased by other related corporations (other than the Issuer's 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 Murabahah subject to any exceptions in the Trust Deeds Guidelines.

For the avoidance of doubt, the Subordinated Sukuk Murabahah 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 Trust Deeds Guidelines.

For the purpose of this clause, the term "related corporation" has the meaning given to it in the Companies Act, 1965 and the term "ordinary course of business" includes those activities performed by the Issuer, any of the Issuer's subsidiaries or any other related corporations of the Issuer for third parties (such as clients of the Issuer, the Issuer's subsidiaries' and the Issuer's related corporations) and excludes those performed for the own account of the Issuer or such related corporation.

Call Option

The Issuer may, at its option and subject to the Redemption Conditions being satisfied, redeem in whole or in part the Subordinated Sukuk Murabahah prior to the maturity on the Call Date at the Redemption Amount (as defined in item 2(y)(10) below) (where Call Option is applicable).

In the case of a partial redemption of Subordinated Sukuk Murabahah of a tranche pursuant to the Call Option, the selection of the Subordinated Sukuk Murabahah to be redeemed will be made by the Sukuk Trustee on a pro rata basis, by lot or by such other method as the Sukuk Trustee (with the agreement of the Issuer) will deem to be fair and appropriate, although no Subordinated Sukuk Murabahah of RM10.0 million in original nominal value or less will be redeemed in part.

Redemption on Maturity

Unless previously redeemed on the Call Date (if applicable) or redeemed pursuant to a Regulatory Event (as defined below) or a Tax Event (as defined below) or purchased from the market and cancelled, the Subordinated Sukuk Murabahah will be redeemed by the Issuer at the Redemption Amount upon their respective maturity date(s).

Tax Redemption

If there is more than an insubstantial risk as determined by the Issuer that:

1. the Issuer has or will become obliged to pay any additional taxes, duties, assessments or government charges of whatever nature in relation to the Subordinated Sukuk Murabahah;
2. the Issuer would no longer obtain tax deductions for the purposes of Malaysian corporation tax for any payment in respect of the Subordinated Sukuk Murabahah;

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 and the Issuer cannot, by taking reasonable measures available to it, avoid such obligations (“**Tax Event**”), then the Issuer may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.

Regulatory Redemption

The Issuer may, at its option, redeem the Subordinated Sukuk Murabahah (in whole or in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied if a Regulatory Event (as defined below) occurs.

“**Regulatory Event**” means any time there is more than an insubstantial risk, as determined by the Issuer, that:

- (i) all or any part of the Subordinated Sukuk Murabahah will, either immediately or with the passage of time or upon either the giving of notice or fulfillment of a condition, no longer qualify as Tier 2 capital of the Issuer for the purposes of BNM’s capital adequacy requirements under any applicable regulations; or
- (ii) changes in law will make it unlawful for the Issuer to continue performing its obligations under all or any part of the Subordinated Sukuk Murabahah.

In the case of a partial redemption of Subordinated Sukuk Murabahah of a tranche pursuant to the Regulatory Redemption or Tax Redemption, the selection of the Subordinated Sukuk Murabahah to be redeemed will be made by the Sukuk Trustee on a pro rata basis, by lot or by such other method as the Sukuk Trustee (with the agreement of the Issuer) will deem to be fair and appropriate, although no Subordinated Sukuk Murabahah of RM10.0 million in original nominal value or less will be redeemed in part.

(y) Other principal terms and conditions for the proposal

- (1) Status** : The Subordinated Sukuk Murabahah will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer ranking *pari passu* without any preference among themselves. The Subordinated Sukuk Murabahah will be subordinated in right and priority of payment, to the extent and in the manner provided for in the Subordinated Sukuk Murabahah, to all deposit liabilities and other liabilities of the Issuer except liabilities of the Issuer which by their terms rank *pari passu* in right and priority of payment with or which are subordinated to the Subordinated Sukuk Murabahah. The Subordinated Sukuk Murabahah will, in the event of a winding-up or liquidation of the Issuer, be subordinated in right of payments to the claims of Senior Creditors (as defined below). The Subordinated Sukuk Murabahah will rank *pari passu* with all subordinated debt issued.
- “**Senior Creditors**” means depositors and all other creditors of the Issuer other than those creditors whose claims are expressed to rank *pari passu* with or junior to the claims of the holders of the Subordinated Sukuk Murabahah.
- (2) Non-viability event** : A Non-Viability Event means the earlier to occur of:
- (i) BNM, jointly with the Malaysian Deposit Insurance Corporation (“**PIDM**”) notify the Issuer in writing that BNM and PIDM are of the opinion that a write-off is necessary, without which the Issuer would cease to be viable; or
 - (ii) BNM and PIDM publicly announce that a decision has been made by BNM, PIDM or any other federal or state government in Malaysia, to provide a capital injection or an equivalent support to the Issuer, without which the Issuer would cease to be viable.
- (3) Non-viability loss absorption** : At the point of a Non-Viability Event, the Issuer shall irrevocably, without the consent of the Sukukholders, write-off the Subordinated Sukuk Murabahah in whole or in part thereof, if so required by BNM and/or PIDM at their full

discretion.

In the event the Subordinated Sukuk Murabahah are written-off, any written-off amount shall be irrevocably lost and the Sukukholders of such Subordinated Sukuk Murabahah will cease to have any claims for any principal, accrued but unpaid Periodic Profits or any other amount due in respect of such Subordinated Sukuk Murabahah which have been written-off.

For the avoidance of doubt, the exercise of the loss absorption at the point of non-viability shall not constitute an Event of Default or trigger cross-default clauses.

Upon the occurrence of a Non-Viability Event, the Issuer is required to give notice to the Sukukholders and RAM Ratings in accordance with the terms of the Subordinated Sukuk Murabahah, then as of the relevant write-off date, the write-off shall extinguish the claim of the Subordinated Sukuk Murabahah, in liquidation, which will mean that the Sukukholders 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, payment of the aggregate principal amount of the respective Subordinated Sukuk Murabahah written off, the amount paid when a call option is exercised and payment of the Periodic Profits on the Subordinated Sukuk Murabahah written off.

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

For the avoidance of doubt, BNM shall have the option to require the entire principal amount of the Subordinated Sukuk Murabahah outstanding, or a part thereof, and all other amount owing under the Subordinated Sukuk Murabahah Programme, be written-off.

Where the Subordinated Sukuk Murabahah are

included as capital at the consolidated level of Malayan Banking Berhad, the Subordinated Sukuk Murabahah may, at the option of BNM and PIDM, be written-off upon the occurrence of a trigger event in relation to Malayan Banking Berhad as described in paragraph 32.1 of the Capital Adequacy Framework (Capital Components) issued by BNM dated 28 November 2012.

- (4) Compensation (Ta'widh)** : Ta'widh shall be payable in the event of delay in payment of the Deferred Sale Price due and payable to the Sukukholders.

The rate of the Ta'widh for the Subordinated Sukuk Murabahah is based on the rate and manner as prescribed by the SC's Shariah Advisory Council from time to time.

- (5) Transaction Documents** : The terms and conditions of the Subordinated Sukuk Programme shall be set out in various agreements, including but not limited to the Trust Deed, Programme Agreement and any other relevant documents agreed between the parties that may be required for transactions of this nature as advised by the Solicitor and agreed by such parties in form and substance acceptable to the parties to the Transaction Documents, including the Sukuk Trustee, the PA/LA and the Issuer.

- (6) Governing law and jurisdiction** : Laws of Malaysia and exclusive jurisdiction of the courts of Malaysia.

- (7) Other conditions** : The Subordinated Sukuk Murabahah shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and MyClear over matters pertaining to the Subordinated Sukuk Murabahah and the Subordinated Sukuk Programme.

- (8) Ibra'** : Ibra' refers to an act by a person relinquishing his claims or rights to collect payment due from another person whether partially or in whole. For the avoidance of doubt, the Sukukholders in subscribing or purchasing the Subordinated Sukuk Murabahah consent to grant Ibra' (if any) in the following situations:

- (i) If the Subordinated Sukuk Murabahah is redeemed before the maturity date, upon the declaration of an Event of Default, Call Option, Regulatory Redemption or the Tax Redemption (whichever is applicable). In case of declaration of an Event of Default, Call Option, Tax Redemption or Regulatory Redemption (whichever is applicable) the rebate (Ibra') shall be the unearned profit due to the Sukukholders from the date of redemption of the Subordinated Sukuk Murabahah upon the declaration of an Event of Default, Call Option, Tax Redemption or Regulatory Redemption (whichever is applicable) up to the maturity of the Subordinated Sukuk Murabahah.
- (ii) In respect of a write-off at the point of a Non-Viability Event, the Sukukholders relinquish their rights (Ibra') to the payment of the outstanding Deferred Sale Price due from the Purchaser, such amount corresponding to the aggregate principal amount and the Periodic Profits of the Subordinated Sukuk Murabahah to be written off.

(9) Subordination of payment : The Sukukholders agree to the subordination of payment of the Deferred Sale Price to the Sukukholders to be consistent with the ranking of the Subordinated Sukuk Murabahah against the Senior Creditors of the Issuer.

(10) Definition:

Material Adverse Effect : Means the occurrence of any event which materially and adversely affects the ability of the Issuer to perform any of its obligations under any of the Transaction Documents or which materially and adversely affects the business, financial position, shareholders' funds or results of the operations of the Issuer.

Redemption Conditions : Redemption Conditions of the Subordinated Sukuk Murabahah means:

- (1) the Issuer must have received a written approval from BNM prior to redemption of the tranche of any of the Subordinated Sukuk Murabahah;

- (2) the Issuer is solvent at the time of redemption of such tranche of the Subordinated Sukuk Murabahah and immediately thereafter;
- (3) the Issuer is not in breach of BNM's minimum capital adequacy requirements and capital buffer requirements applicable to the Issuer after redemption of such tranche of the Subordinated Sukuk Murabahah; and
- (4) in respect of a Call Option only, the Issuer shall:
 - (i) replace the called or redeemed tranche of the Subordinated Sukuk Murabahah with capital of the same or better quality and the replacement of this capital shall be done at conditions which are sustainable for the income capacity of the Issuer, or
 - (ii) demonstrate to BNM that its capital position is well above the capital adequacy and capital buffer requirements after redemption of such tranche of the Subordinated Sukuk Murabahah.

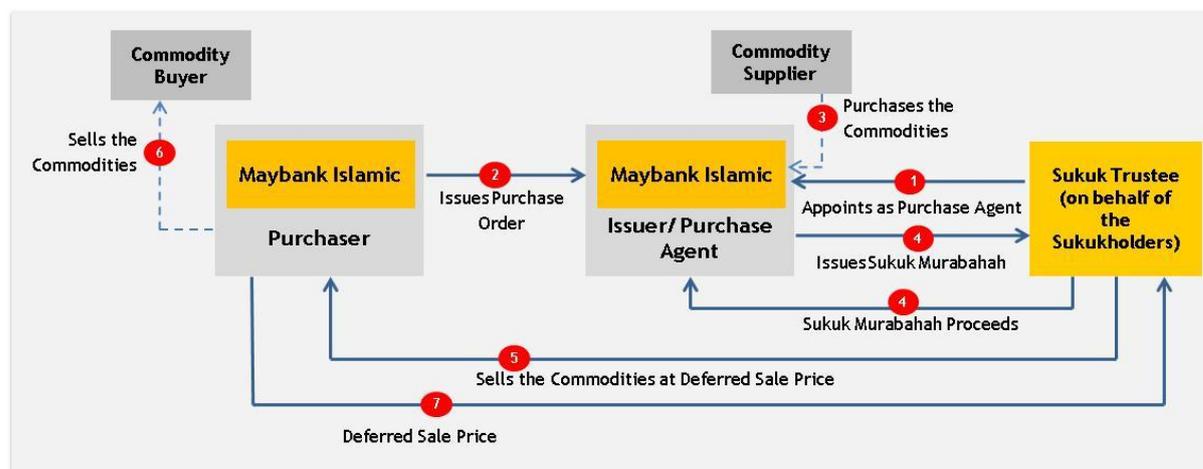
Redemption Amount : Means the nominal value of the Subordinated Sukuk Murabahah plus accrued but unpaid Periodic Profits.

The Redemption Amount payable by the Issuer on the declaration of an Event of Default or on a Call Date (if applicable) or redeemed pursuant to a Regulatory Event or a Tax Event, is an amount as determined by the Facility Agent, which shall be calculated in accordance with the above formula.

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Transaction Structure

Diagram : Murabahah (based on Tawarruq)



1. Pursuant to a service agency agreement, MIB will be appointed by the Sukuk Trustee (acting on behalf of the Sukukholders) as the purchase agent (“**Purchase Agent**”) to purchase the Commodities.
2. MIB (as the “**Purchaser**”) will issue a purchase order to MIB (as Purchase Agent) to buy the Commodities from the Sukuk Trustee (acting on behalf of the Sukukholders) at the Deferred Sale Price (as defined hereinafter).
3. The Purchase Agent will purchase the Commodities from a commodity supplier (“**Commodity Supplier**”) in the Bursa Suq Al-Sila’ commodity market on a spot basis at a purchase price equivalent to the proceeds of the Subordinated Sukuk Murabahah (“**Commodity Purchase Price**”).
4. MIB as the Issuer will, from time to time, issue Subordinated Sukuk Murabahah which evidences the Sukukholders’ ownership in the Commodities and the Purchaser’s obligation to pay the Deferred Sale Price to the Sukukholders upon sale of the Commodities to the Purchaser. The proceeds received from the Sukukholders shall be used by the Purchase Agent to pay the Commodity Purchase Price.
5. Subsequently, the Sukuk Trustee (on behalf of the Sukukholders) will sell the Commodities to the Purchaser at a selling price equivalent to 100% of the nominal value of the relevant tranche of the Subordinated Sukuk Murabahah plus the aggregate periodic profits (“**Periodic Profits**”) on deferred payment terms (“**Deferred Sale Price**”).
6. The Purchaser shall sell, on a spot basis, the Commodities to a commodity buyer (“**Commodity Buyer**”) for a cash consideration equal to the Commodity Purchase Price.

7. The Purchaser shall make periodic payments on each Periodic Payment Date (as defined in item 2(j) of the Principal Terms and Conditions (“PTC”)) and final payment of the Deferred Sale Price at the maturity date of the Subordinated Sukuk Murabahah to the Sukukholders. Upon declaration of an Event of Default (as defined in item 2(v) of the PTC) or early settlement pursuant to the Call Option (as defined in item 2(g) of the PTC), the Tax Redemption (as defined in item 2(x) of the PTC) or the Regulatory Redemption (as defined in item 2(x) of the PTC), the Purchaser shall pay the outstanding Deferred Sale Price (subject to Ibra’) (as defined in item 2(y)(8) of the PTC) as final settlement of the same to the Sukukholders.

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