

PRINCIPAL TERMS AND CONDITIONS

PACIFIC & ORIENT INSURANCE CO. BERHAD PROPOSED ESTABLISHMENT OF SUBORDINATED NOTES PROGRAMME OF UP TO RM150.0 MILLION IN NOMINAL VALUE

BACKGROUND INFORMATION

1. ISSUER

- (i) **Name** : Pacific & Orient Insurance Co. Berhad ("POI" or "Issuer")
- (ii) **Address** : Registered and Business Address:
11th Floor, Wisma Bumi Raya
No. 10 Jalan Raja Laut
50350 Kuala Lumpur
- (iii) **Business registration no.** : 12557-W
- (iv) **Date and place of incorporation** : 7 August 1972 / Malaysia
- (v) **Date of listing** : Not applicable
- (vi) **Status**
Resident / non-resident controlled company : Resident controlled company
- (vii) **Principal activities** : Provision of general insurance products including motor, medical and personal accident, fire, liability and marine, aviation and transit.
- (viii) **Board of directors** : The Board of Directors of POI as at 31 March 2012 are as follows:
 - 1. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim
 - 2. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth
 - 3. Chan Thye Seng
 - 4. Michael Yee Kim Shing
 - 5. Mohammad Nizar Bin Idris
 - 6. Mr Abdul Rahman Bin Talib

- (ix) **Structure of shareholdings and names of shareholders or, in the case of a public company, names of all substantial shareholders** : The substantial shareholders (with shareholding of 5% and above) as at 31 March 2012 are as follows:

Name	No. of shares held	% of shareholding
Pacific & Orient Berhad (Company No.: 308366-H)	100,000,000	100

- (x) **Authorised and paid up capital** : Authorised and paid-up capital of the Issuer as at 31 March 2012:

Authorised Share Capital

RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each.

Issued and Fully Paid-up Share Capital

RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each.

2. PRINCIPAL TERMS AND CONDITIONS

- (a) **Names of parties involved in the proposed transaction (where applicable)**

- (i) **Joint Principal Advisers** : BNP Paribas Malaysia Berhad (Company No. 918091-T) ("BNP Paribas") and Hong Leong Investment Bank Berhad (Company No.43526-P) ("HLIBB")
- (ii) **Joint Lead Arrangers** : BNP Paribas and HLIBB
- (iii) **Co-arranger** : Not applicable
- (iv) **Solicitor** : Adnan Sundra & Low
- (v) **Financial adviser** : Not applicable
- (vi) **Technical adviser** : Not applicable
- (vii) **Trustee** : Pacific Trustees Berhad (Company No. 317001-A)
- (viii) **Guarantor** : Not applicable
- (ix) **Valuer** : Not applicable
- (x) **Facility agent** : HLIBB

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| (xi) | Primary subscriber (under a bought-deal arrangement) and amount subscribed | : To be determined prior to the issuance in respect of issuance via bought deal basis only. |
| (xii) | Underwriter and amount underwritten | : Not applicable |
| (xiii) | Central depository | : Bank Negara Malaysia ("BNM") |
| (xiv) | Paying agent | : BNM |
| (xv) | Reporting accountant | : Not applicable |
| (xvi) | Calculation agent | : HLIBB |
| (xvii) | Others (please specify) | : <u>Lead Manager</u>
BNP Paribas, HLIBB and/or such other parties as may be appointed by the Issuer. |
- (b) Facility description : Up to RM150.0 million in nominal value of subordinated notes ("Subordinated Notes") under a subordinated notes programme ("Subordinated Notes Programme"/"Programme").
- The Subordinated Notes issued under the Subordinated Notes Programme will qualify as Tier 2 capital of POI subject to compliance with the requirements as specified in the Risk Based Capital ("RBC") Framework published by BNM.
- (c) Issue/programme size : Up to RM150.0 million in nominal value. The aggregate nominal value of outstanding Subordinated Notes issued pursuant to the Subordinated Notes Programme shall not exceed RM150.0 million at any one point in time.
- (d) Tenure of issue/debt programme (or facility) : Tenure of the Subordinated Notes Programme
- Up to twelve (12) years from the date of first issue of Subordinated Notes under the Subordinated Notes Programme. The first issue shall be done within two (2) years from the date of approval by the Securities Commission ("SC").

Tenure of the Subordinated Notes

Each Subordinated Notes issued under the

Subordinated Notes Programme shall have a tenure of 10 years on a 10 non-callable 5 basis ("10NC5"), and provided that the maturity of the Subordinated Notes shall not extend beyond the expiry of the Subordinated Notes Programme.

Call Option

Each issuance of Subordinated Notes under the Subordinated Notes Programme shall have a callable option ("Call Option") to allow the Issuer to redeem (in whole, but not in part) that tranche of Subordinated Notes on the Call Date.

"Call Date" is defined as, "in relation to a tranche, any Coupon Payment Date (as defined below) on or after the fifth (5th) anniversary of the issue date of that tranche, prior to the maturity date of that tranche".

(e) Availability period of debt programme (or facility) : The Subordinated Notes Programme shall have an availability period of 2 years from the date of first issuance under the Subordinated Notes Programme.

(f) Interest / coupon rate : To be determined prior to each issuance of the Subordinated Notes.

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

The coupon rate shall be applicable throughout the tenure of each issue of the Subordinated Notes.

For avoidance of doubt, there is no step up coupon after the first Call Date of the Subordinates Notes, in the event the Call Option is not exercised by the Issuer.

(g) Interest / coupon payment frequency : Coupon payment frequency

Payable quarterly or semi-annually in arrears from the issue date of that tranche of Subordinated Notes with the last coupon payment to be made on the date falling on the maturity date or on the date of early redemption of that tranche of Subordinated Notes,

- whichever is earlier. Each payment date on which coupon is paid shall be referred to as the "Coupon Payment Date". The payment frequency shall be determined prior to each issuance of the Subordinated Notes.
- (h) Interest / coupon payment basis : Actual number of days over 365 days basis.
- (i) Security/collateral (if any) : None.
- (j) Details on utilisation of proceeds by issuer : The proceeds of the Subordinated Notes shall be made available to the Issuer, without limitation, for the following purposes:
- (a) up to RM70,000,000.00 for the repayment of the existing subordinated loan granted by Pacific & Orient Berhad to the Issuer (first issuance only); and/or
 - (b) for its general working capital and business operations.
- (k) Sinking fund and designated account (if any) : None
- (l) Rating
- Credit rating assigned : A3 (initial)
 - Name of rating agency : RAM Rating Services Berhad (Company No. 763588-T) ("RAM Rating")
- (m) Mode of issue : The Subordinated Notes may be issued via direct/private placement on a best effort basis or a bought deal basis or book running on a best effort basis without prospectus in accordance with the MyClear Rules and Procedures ("My Clear").
- (n) Selling restriction, including tradability (i.e. tradable or non-tradable) : Selling Restrictions at Issuance
- The Subordinated Notes shall not be offered, sold, transferred or otherwise disposed, directly or indirectly in Malaysia 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
 - (ii) Schedule 7 (or Section 230(1)(b)); read together with
 - (iii) Schedule 9 (or Section 257(3))

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

Selling Restrictions After Issuance

The Subordinated Notes shall not be offered, sold, transferred or otherwise disposed directly or indirectly in Malaysia 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)); read together with
- (ii) Schedule 9 (or Section 257(3))

of the CMSA, as amended from time to time.

- (o) Listing status and types of listing : The Subordinated Notes will not be listed on Bursa Malaysia Securities Berhad or on any other stock exchange.
- (p) Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained :
 - 1. BNM, pursuant to its letter dated 27 December 2011, has no objection to the Issuer's proposed issuance of Subordinated Notes of up to RM150.0 million under the Subordinated Notes Programme (upon terms and conditions imposed by BNM therein).
 - 2. Approval from the SC on the waivers from compliance with certain provisions under the SC's Trust Deeds Guidelines in respect of the Subordinated Notes, pursuant to its letter dated 17 May 2012.
- (q) Conditions precedent : Conditions precedent usual and customary for an issuance of such nature, which shall include but not limited to the following:

Conditions Precedent for the first Issue of Subordinated Notes

A. Main Documentation

- (i) The Transaction Documents (as defined below) have been signed and, where applicable, stamped or endorsed as exempted from stamp duty.

B. The Issuer

- (i) Certified true copies of the Certificate of Incorporation and the Memorandum and Articles of Association of the Issuer;
- (ii) Certified true copies of the latest Forms 24, 44 and 49 of the Issuer;
- (iii) A certified true copy of a board of directors' resolution, authorising, amongst others, the execution of the Transaction Documents and the issuance of the Subordinated Notes;
- (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 in relation thereto.

C. General

- (i) Written approval from the SC for the establishment of the Subordinated Notes Programme;
- (ii) Written approval from BNM for the issuance of the Subordinated Notes under the Subordinated Notes Programme;
- (iii) Evidence that the Subordinated Notes Programme has been accorded a minimum rating of A3 by RAM Rating;
- (iv) The Lead Arranger has received from the Solicitors a legal opinion addressed to it with respect to, amongst others, the legality, validity and enforceability of the Transaction Documents and a confirmation addressed to it that all the required conditions precedent have been fulfilled;
- (v) The duly completed Securities Lodgement Form (substantially in the form set out in Appendix 1 of the Central Securities Depository and Paying Agency Rules

issued by MyClear) has been delivered to the Facility Agent; and

- (vi) Such other conditions precedent as advised by the Solicitors and agreed by the Issuer.

(r) **Representations and warranties**

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

- (i) that the Issuer is a company duly incorporated under the laws of Malaysia as a legal entity and has full power and authority to own its assets and carry on its business as it is now being carried on;
- (ii) that the Issuer has the power and capacity to execute, deliver and perform the terms of the Transaction Documents and the Issuer has taken all necessary corporate and other actions to authorise the execution, delivery and performance of the Transaction Documents;
- (iii) no event has occurred which would constitute an event of default under the Subordinated Notes or which with the giving of notice or the lapse of time or other condition would constitute an event of default;
- (iv) that to the best of the knowledge of the directors of the Issuer, the Issuer is not in liquidation and no steps have been taken by any person for or with a view to the appointment of a liquidator, receiver and/or manager or judicial manager of the Issuer or any of its assets or undertakings that would have a material adverse effect (as defined below);
- (v) no litigation or arbitration is current or, to the Issuer's knowledge, is threatened, which if adversely determined would have a material adverse effect (as defined below);
- (vi) the written information provided to the Lead Arrangers and contained in the Information Memorandum are true, complete, accurate and not misleading

and no circumstance or situation has arisen which would materially and adversely affect the condition of the Issuer (financial or otherwise) or the earnings, affairs or business prospects of the Issuer or the success of the issue of the Subordinated Notes;

- (vii) there has been no change in the business or condition (financial or otherwise) of the Issuer since the date of its last audited financial statements which might have a material adverse effect (as defined below);
- (viii) that the audited financial statements and unaudited financial statements of the Issuer to be delivered to the Trustee from time to time in accordance with the trust deed have been prepared in accordance with all relevant laws and the approved accounting standards issued by the Malaysian Accounting Standards Board (save for matters specifically disclosed therein) consistently applied and give a true and fair view of the financial condition and results of operations of the Issuer, taken as a whole, as of the date or dates to which they were made up and that there has been no adverse change in the financial position of the Issuer, which is material in the context of the issue of the Subordinated Notes since the date of such financial statements; and
- (ix) non-conflict with laws, contracts or constitutional documents in the execution of the Transaction Documents.

For the purpose of this PTC, "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.

(s) Events of Default (or enforcement event, where applicable)

: The events of defaults shall be:

- (i) Non-Payment of Interest/Coupon and/or Principal of the Subordinated Notes

If the Issuer defaults in payment of any principal or coupon/interest under the Subordinated Notes on the due date and the Issuer does not remedy such default within a period of seven (7) days after the Issuer became aware or having been notified by the Trustee of the default.

- (ii) Winding-up

If a court order is made or an effective resolution is passed for the winding up of the Issuer.

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

Upon the occurrence of item (ii) above, the Trustee may, or shall (if directed to do so by a special resolution of the holders of the Subordinated Notes) subject to the terms of the Trust Deed, declare (by giving written notice to the Issuer) that the entire outstanding nominal amount of the Subordinated Notes together with all other sums payable under the Subordinated Notes shall immediately become due and payable.

(t) **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 its obligations under the Transaction Documents;
- (ii) Redeem in full all outstanding Subordinated Notes in accordance with the terms and conditions of the Transaction Documents;
- (iii) At all times provide the Trustee such information as it may reasonably require in order to discharge of its duties and obligations as trustee relating to the Issuer's affairs to the extent permitted by law;
- (iv) At all times exercise reasonable diligence in carrying on its business in a proper and efficient manner which should ensure, amongst others, that all necessary approvals or relevant licences are obtained and maintained;
- (v) At all times maintain a paying agent who is based in Malaysia;
- (vi) Procure that the paying agent shall notify the Trustee, through the Facility Agent, in the event that the paying agent does not receive payment from the Issuer on the due dates as required under the Transaction Documents;
- (vii) At all times keep proper books and accounts and to provide the trustee and any person appointed by it (e.g. auditors) access to such books and accounts to the extent permitted by law;
- (viii) Notify the Trustee in the event that the Issuer becomes aware of the following:
 - (a) any event of default or that such other right or remedy under the terms, provisions and covenants of the Subordinated Notes and the Trust Deed have become

immediately enforceable;

- (b) any circumstance that has occurred that would materially prejudice the Issuer or any security included in or created by the Subordinated Notes or the Trust Deed (where applicable);
 - (c) any substantial change in the nature of the business of the Issuer;
 - (d) of any other matter that may materially prejudice the interest of the holders of the Subordinated Notes;
- (ix) Deliver to the Trustee a copy of its annual audited accounts within 180 days after the end of each financial year, and any other accounts, reports, notices, statements or circulars issued to shareholders;
- (x) Deliver to the Trustee annually a certificate that the Issuer has complied with its obligations under the Trust Deed and the terms and conditions of the Subordinated Notes and that there did not exist or had not existed, from the date the Subordinated Notes were issued, any event of default and if such is not the case, to specify the same; and
- (xi) That the Issuer will only enter into a transaction, whether directly or indirectly with interested persons subject to-
 - (i) such transaction shall be on terms that are no less favourable to the Issuer than those which could have been obtained in a comparable transaction from persons who are not interested persons; and
 - (ii) with respect to transactions involving an aggregate payment or value equal to or greater than an amount as stated in the Trust Deed (in value term and not in percentage ratio), or in the case of a listed issuer or related corporate of a listed issuer, an agreed

percentage ratio as provided in the listing requirements of the stock exchange, the Issuer obtains certification from an independent adviser that the transaction is carried out on fair and reasonable terms; provided

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

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

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

(u) Provisions on buy-back and early redemption of bonds

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

- (2) **Regulatory Redemption** : If the Subordinated Notes no longer qualify as Tier 2 capital of the Issuer for the purposes of BNM's capital adequacy requirements under any regulations applicable to the Issuer or at any time there is more than an insubstantial risk that the Subordinated Notes will no longer qualify as such, the Issuer may, at its option, redeem the Subordinated Notes (in whole, but not in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.
- (3) **Redemption Conditions** : Redemption Conditions means:
- (i) the Issuer is solvent at the time of any redemption of that tranche of Subordinated Notes and immediately thereafter;
 - (ii) the Issuer has obtained the written approval of BNM prior to redemption of that tranche of Subordinated Notes; and
 - (iii) the Issuer's capital adequacy ratio is not in breach of the BNM's supervisory and/or minimum target level applicable to the Issuer.
- (4) **M&A Option** The Issuer shall have the option to redeem the Subordinated Notes at the Redemption Amount, subject to the Redemption Conditions being met, upon the occurrence of an M&A Event at any time prior to the maturity date.
- M&A Event is defined as "an event whereby the Issuer is acquired or all of its business(es) is or are disposed of pursuant to a merger or acquisition exercise or if there is a change of the single largest shareholder of either the Issuer or its holding company".
- (5) **Tax Redemption** If there is more than an insubstantial risk that the Issuer will be required to pay any additional amounts or will no longer be able to deduct interest in respect of the relevant Subordinated Notes for taxation purposes as a result of a change in any applicable law or regulation which comes into effect on or after the issue dates of the relevant Subordinated Notes and the Issuer cannot, by taking reasonable measures available to it, avoid the payment of any additional amounts or deduct interest in respect of the relevant Subordinated Notes, the Issuer may, at its option, redeem the relevant

Subordinated Notes (in whole but not in part) at the Redemption Amount, subject to the Redemption Conditions being satisfied.

(7) Purchase and Cancellation

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

All Subordinated Notes purchased by the Issuer, its agents or its subsidiaries shall be cancelled. All Subordinated Notes purchased by other related corporations of the Issuer (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 Notes subject to any exceptions in the Trust Deeds Guidelines. For the avoidance of doubt, all Subordinated Notes held by related corporations and the interested person of the Issuer shall not be counted for the purposes of voting subject to any exceptions in the Trust Deeds Guidelines. All Subordinated Notes purchased and cancelled shall not be available for reissuance by the Issuer.

(v) Other principal terms and conditions for the issue

(1) Status of Subordinated Notes

: The Subordinated Notes will constitute direct and unsecured obligations of the Issuer and subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Notes, ranking *pari passu* among themselves.

The Subordinated Notes will, in the event of a winding up or liquidation of the Issuer, be subordinated in right of payment to all 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 Notes.

- (2) Transaction Documents : In respect of the Subordinated Notes Programme shall include, but not be limited to, the following:
- (i) Programme Agreement;
 - (ii) Trust Deed; and
 - (iii) Any other relevant documents agreed between the parties that may be required to complete the Subordinated Notes Programme as advised by the Solicitors and agreed by the Issuer.
- (3) Trustee's Reimbursement Account : The Issuer shall open and maintain, throughout the tenure of the Subordinated Notes Programme, an account to be named the "Trustee's Reimbursement Account for Debenture holders' Actions" (the "Account") with a bank (to be determined) with a sum of Ringgit Malaysia Thirty Thousand (RM30,000.00), which amount is to be obtained from the proceeds of issuance of the Subordinated Notes.
- The Account shall be operated solely by the Trustee and the money shall be used strictly by the Trustee in carrying out its duties in relation to the declaration of an Event of Default in the manner as provided in the Trust Deed.
- The moneys in the Account may be invested in bank deposit or instrument or securities in the manner as provided in the Trust Deed, with profit from the investment to be accrue to the Issuer. The moneys in the Account shall be returned to the Issuer upon full redemption of the Subordinated Notes Programme in the event there is no declaration of Event of Default.
- (4) Redemption on maturity Unless previously redeemed pursuant to a Regulatory Redemption or Tax Redemption, or pursuant to the exercise of the Call Option or M&A Option, or purchased from the market and cancelled, each tranche of Subordinated Note will be redeemed by the Issuer at the Redemption Amount on its respective maturity date.
- "Redemption Amount" is an amount equal to 100% of the face value together with accrued but unpaid interest/coupon (if any) relating to the then current interest/coupon period (if any) up to (and excluding) the date on which the

Subordinated Notes are redeemed.

- (5) **Governing law** : Laws of Malaysia and submission to the exclusive jurisdiction of the courts of Malaysia.
- (6) **Other Conditions** : The Subordinated Notes Programme shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and/or other relevant authority in Malaysia having jurisdiction over matters pertaining to the Subordinated Notes Programme and the Subordinated Notes.