

PRINCIPAL TERMS AND CONDITIONS

BANK MUAMALAT MALAYSIA BERHAD PROPOSED ISSUANCE OF ISLAMIC SUBORDINATED SUKUK PROGRAMME OF UP TO RM400.0 MILLION IN NOMINAL VALUE

1. BACKGROUND INFORMATION OF THE ISSUER

- (a) **Name** : Bank Muamalat Malaysia Berhad (“BMMB” or “the Issuer”)
- (b) **Address** : 20th Floor, Menara Bumiputra
Jalan Melaka
50100 Kuala Lumpur
- (c) **Business registration no.** : 6175 - W
- (d) **Date/Place of Incorporation** : 1 October 1965 / Malaysia
- (e) **Date of Listing (in the case of a public listed company)** : Not applicable
- (f) **Status**
- **Resident / non-resident controlled company** : Resident controlled company
 - **Bumiputera / non-Bumiputera controlled company** : Bumiputera controlled company
- (g) **Principal Activities** : The principal activities of BMMB are Islamic banking business and related financial services.
- (h) **Board Directors** : The Board of Directors of BMMB as at 31 March 2011 are as follows:
- (i) Tan Sri Dato’ Dr. Mohd Munir Abdul Majid
 - (ii) Dato’ Sri Haji Mohd Khamil Jamil
 - (iii) Dato’ Haji Mohd Redza Shah Abdul Wahid
 - (iv) Tuan Haji Ismail Ibrahim
 - (v) Tuan Haji Mohd Izani Ghani

- (vi) Tuan Haji Abdul Jabbar Abdul Majid
- (vii) Tengku Dato' Seri Hasmuddin Tengku Othman
- (viii) Dato' Azmi Abdullah

(i) Structure of shareholdings and names of shareholders or, in the case of a public company, names of all substantial shareholders

: The shareholders and shareholding structure of BMMB as at 31 March 2011 is as follows:

Shareholders	No. of Ordinary Shares	Percentage of shareholding
DRB-Hicom Berhad	700,000,000	70%
Khazanah Nasional Berhad	300,000,000	30%

(j) Authorised and paid up capital

: Authorised and paid-up capital of the Issuer as at 31 March 2011:

Authorised Share Capital

RM4,000,000,000 comprising the following:

- (i) 3,000,000,000 ordinary shares of RM1.00 each; and
- (ii) 1,000,000,000 Musyarakah Irredeemable Non-Cumulative Convertible Preference Shares ("MINCCPS") of RM1.00 each

Issued and Fully Paid-up Share Capital

RM1,000,000,000 comprising 1,000,000,000 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 Adviser(s) / Joint Lead Arranger(s)	: BMMB and Maybank Investment Bank Berhad ("Maybank IB") (collectively referred to as the "JLA")
(ii)	Arranger(s)	: Not applicable
(iii)	Valuers	: Not applicable
(iv)	Solicitors	: Messrs. Kadir Andri & Partners
(v)	Financial Adviser	: Not applicable
(vi)	Technical Adviser	: Not applicable
(vii)	Guarantor	: Not applicable
(viii)	Trustee	: Mayban Trustees Berhad
(ix)	Facility Agent	: BMMB
(x)	Primary Subscriber(s) and amount subscribed (where applicable)	: Not applicable
(xi)	Underwriter(s) and amount underwritten	: Not applicable
(xii)	Shariah Adviser	: Shariah Committee of Maybank Islamic Berhad
(xiii)	Central Depository	: Bank Negara Malaysia ("BNM")
(xiv)	Paying Agent	: BNM
(xv)	Reporting Accountant	: Not applicable
(xvi)	Others (please specify)	: <u>Joint Lead Managers</u> BMMB and Maybank IB

(b) **Islamic principle used** : Musyarakah

(c) **Facility description** : Issuance of Islamic Subordinated Sukuk ("Subordinated Sukuk") pursuant to an Islamic Subordinated Sukuk Programme of up to RM400.0 million in nominal value ("Subordinated Sukuk Programme"). The Subordinated Sukuk

Programme is structured to comply with the Risk Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components) as approved by BNM to qualify as Tier 2 capital thereunder.

The Subordinated Sukuk Programme shall be issued under the Islamic principle of Musyarakah, which is one of the Shariah principles and concepts approved by the Securities Commission's ("SC") Shariah Advisory Council.

Underlying Transaction

1. The investors together with the Issuer shall from time to time form a Musyarakah, which is a partnership amongst them (each a "partner" and collectively, "Musyarakah Partners") for the purpose of undertaking a venture ("Musyarakah Venture") to invest directly into the Shariah-compliant activities or business of the Issuer ("Business").
2. The Issuer will issue Subordinated Sukuk to investors ("Sukukholders") and proceeds raised from the Subordinated Sukuk shall be used as capital contribution of the Sukukholders in the Musyarakah Venture. The Subordinated Sukuk shall represent the Sukukholder's undivided proportionate interest in the Musyarakah Venture. The participation by the Sukukholders in the Musyarakah Venture is from the capital contribution via the proceeds from the subscription of the Subordinated Sukuk issued by the Issuer. Meanwhile, the Issuer, will contribute its Business as capital contribution into the Musyarakah Venture. Simultaneously, the Issuer shall make a declaration that it holds in trust over all its interest in the Business for the benefit of itself and the Sukukholders.
3. The Issuer shall be appointed as the manager ("Manager") to manage the Musyarakah Venture. The Sukukholders shall agree that any excess of profit from the Expected Periodic Distribution (as

defined herein) shall be retained by the Manager as an incentive fee.

4. The expected return to the Sukukholders under the Musyarakah Venture shall be the yield for the Subordinated Sukuk up to the maturity date of the Subordinated Sukuk ("Expected Return"). Any profit derived from the Musyarakah Venture shall be distributed to each partner based on a pre-agreed profit sharing ratio which will be determined prior to the issuance of the Subordinated Sukuk, while losses shall be borne in proportion to each partner's contribution to the Musyarakah Venture.
5. Income from the Musyarakah Venture of up to an amount equal to a certain percentage of the face value of the Subordinated Sukuk per annum, calculated on the basis of the actual number of days in the relevant period ("Expected Periodic Distribution") shall be distributed semi-annually in the form of a periodic distribution ("Periodic Distribution"). Any shortfall between the Expected Periodic Distribution and the actual income generated from the Musyarakah Venture for such relevant period shall be paid by Issuer as an advance part payment of the Exercise Price (as defined herein).
6. Pursuant to a Purchase Undertaking issued by the Issuer in favour of the Trustee for and on behalf of the Sukukholders, the Issuer undertakes to purchase the Sukukholders' interests in the Musyarakah Venture from the Trustee for and on behalf of the Sukukholders at an Exercise Price upon occurrence of the following events:-
 - (i) a declaration of Dissolution Event(s) (as defined in item (x) below); or
 - (ii) upon redemption of the Subordinated Sukuk on the Optional Redemption Date (as defined in item z(4) below); or

- (iii) upon redemption of the Subordinated Sukuk by the Issuer following a Regulatory Event (as defined in item z(4) below);or
 - (iv) upon redemption of the Subordinated Sukuk by the Issuer pursuant to item z(8) below.
7. Pursuant to a Sale Undertaking issued by the Trustee for and on behalf of the Sukukholders, in favour of the Issuer, the Trustee for and on behalf of the Sukukholders undertakes to sell the Sukukholders' interests in the Musyarakah Venture to the Issuer at an Exercise Price on the Maturity Date of the Subordinated Sukuk.

The transaction structure is illustrated in Appendix 1.

Exercise Price

The Exercise Price payable for the Subordinated Sukuk is equivalent to the nominal value of the Subordinated Sukuk plus all Expected Periodic Distributions less the aggregate Periodic Distributions made and received and less the Unearned Periodic Distribution and less the sum of advance part payment.

Unearned Periodic Distribution

The aggregate of all Expected Periodic Distributions in respect of the period from the date of the declaration of Dissolution Event up to the Maturity Date. For the avoidance of doubt, any accrued but unpaid profit after the declaration of the Dissolution Event will be payable.

Musyarakah Capital

The capital contribution pursuant to the proceeds received from the Sukukholders via their subscription for the Subordinated Sukuk ("Sukukholder's Musyarakah Capital") and the capital contribution of the Issuer (i.e. the Business) ("Issuer's Musyarakah Capital") for the purpose of participating in the relevant Musyarakah Venture (collectively known as

“Musyarakah Capital”).

Maturity Date

The date specified as the maturity date on the relevant Global Certificate or Definitive Certificate (as the case may be) of that Subordinated Sukuk for payment of the face value of that Subordinated Sukuk, provided that it is construed in accordance with the Malaysian Electronic Clearing Corporation Sdn Bhd (“MyClear”) Operational Procedures for Securities Services, as amended or substituted from time to time.

- (d) **Issue size (RM)** : The aggregate nominal value of outstanding Subordinated Sukuk issued pursuant to the Subordinated Sukuk Programme shall not exceed RM400.0 million at any one point in time.
- (e) **Issue price (RM)** : The Subordinated Sukuk will be issued at par or at a discount or at a premium, to be determined prior to issuance in accordance with the MyClear Operational Procedures for Securities Services, as amended or substituted from time to time.
- (f) **Tenor of the facility/issue** : Tenor of the Subordinated Sukuk Programme
- Fifteen (15) years from the date of first issuance and the first issuance shall be made within two (2) years from the date of approval by the SC.

Tenor of the Subordinated Sukuk

Each Subordinated Sukuk issued under the Subordinated Sukuk Programme shall have a tenor of ten (10) years from issue date, subject to the Optional Redemption or the Regulatory Redemption as described in item (z)(4) below, and provided that the maturity of the Subordinated Sukuk shall not extend beyond the expiry of the Subordinated Sukuk Programme.

- (g) **Coupon / Profit or equivalent rate (%)** : The expected profit rate of the Subordinated Sukuk shall be determined prior to the issue date of each Subordinated Sukuk and to be agreed upon the completion of the book building and/or private-placement exercise.

- (h) **Coupon / Profit payment frequency and basis** : Frequency
- The Sukukholders will receive Periodic Distributions at semi-annual intervals in arrears with the first payment commencing six (6) months from the relevant issue date of the Subordinated Sukuk and the last ending on the date falling on the Maturity Date or upon the redemption of the Subordinated Sukuk, whichever is earlier.
- Basis
- The Periodic Distributions shall be calculated on an actual/actual basis.
- (i) **Yield to maturity (%)** : To be determined prior to the relevant issuance date of the Subordinated Sukuk, and the SC will be notified accordingly.
- The Subordinated Sukuk will be priced on the basis of yield to the first Optional Redemption Date or Maturity Date.
- (j) **Security/collateral (if any)** : None.
- (k) **Details on utilisation of proceeds** : The proceeds from the Subordinated Sukuk Programme shall be made available to the Issuer, without limitation, to finance its Islamic banking activities and for its working capital requirements.
- In any case, all utilisation of funds under the Subordinated Sukuk Programme shall be Shariah compliant.
- (l) **Sinking fund (if any)** : None
- (m) **Rating**
- **Credit rating assigned [Please specify if this is an indicative rating]** : A₃
 - **Name of rating agency** : RAM Rating Services Berhad (Co. No. 763588-T)

- (n) Form and denomination** : The Subordinated Sukuk shall be issued in accordance with:
- (i) the “Code of Conduct and Market Practices for the Malaysian Corporate Bond Market” issued by the Institut Peniaga Bon Malaysia and approved by BNM (“IPBM Code”);
 - (ii) the “Operational Procedures for Real Time Electronic Transfer of Funds and Securities (“RENTAS”), as amended or substituted from time to time (“Operational Procedures for RENTAS”); and
 - (iii) the “Operational Procedures for Securities Services” issued by MyClear,
- or their replacement thereof (collectively referred to as the “Codes of Conduct” and “Operational Procedures” respectively) applicable from time to time.
- The Operational Procedures for RENTAS shall prevail to the extent of any inconsistency between the Operational Procedures for RENTAS and the IPBM Code.
- The Subordinated Sukuk shall be represented by a global certificate to be deposited with BNM, and is exchanged for definitive bearer form only in certain limited circumstances to be set out in the trust deed for the Subordinated Sukuk (“Trust Deed”).
- The Subordinated Sukuk shall be issued in bearer form in the minimum denomination of RM1,000,000 each or such other denomination as determined/allowed by BNM.
- (o) Mode of issue** : Book-building on a best effort basis and/or private placement on a best effort basis without prospectus.
- The Subordinated Sukuk could be placed privately via the Joint Lead Managers on a best effort basis or placed directly to selected investors, at a yield to be agreed prior to issuance.

- (p) **Selling restrictions** : Selling Restrictions at Issuance
- The Subordinated Sukuk 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)); and
 - (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 Sukuk 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)); and
 - (ii) Schedule 9 (or Section 257(3))
- of the CMSA, as amended from time to time.
- (q) **Listing status** : The Subordinated Sukuk will not be listed on any stock exchange.
- (r) **Minimum level of subscription (RM or %)** : 5% of the Subordinated Sukuk to be issued if the issuance is via book-building.
- 100% of the Subordinated Sukuk to be issued if the issuance is via private placement.
- (s) **Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained** : (i) BNM’s approval for the proposed issuance of the Subordinated Sukuk which has been obtained via its letter dated on 3 March 2011.
- (ii) SC’s approval on the waiver from having to comply with specific clauses in the SC’s Guidelines on the Minimum Contents Requirements for Trust Deeds (“Minimum Contents Requirements”) in respect of the Subordinated Sukuk Programme. SC’s approval was obtained via its letter dated 8 February 2011.
- (t) **Identified Asset** : Not applicable

- (u) **Purchase and selling price/rental (where applicable)** : Not applicable
- (v) **Conditions precedent** : Conditions precedent usual and customary for an issuance of such nature, which shall include but not limited to the following:-

A. Main Documentation

- (i) The Transaction Documents (as defined below) have been signed and, where applicable, stamped and 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 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;
- (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 Subordinated Sukuk Programme;
- (ii) Written approval from BNM for the issuance of the Subordinated Sukuk;
- (iii) Evidence that the Subordinated Sukuk Programme has been accorded a

minimum rating of A3 by RAM;

- (iv) Evidence that the Subordinated Sukuk Programme has received the approval of the Shariah Adviser;
- (v) Compliance with other regulatory requirements, wherever applicable;
- (vi) The JLAs have received from the Solicitors a legal opinion addressed to them with respect to, amongst others, the legality, validity and enforceability of the Transaction Documents and a confirmation addressed to them that all the required conditions precedent have been fulfilled; and
- (vii) Such other conditions precedent as advised by the Solicitors and agreed by the Issuer.

(w) 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) 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 banking 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 (as defined under item (z)(10) below;
- (ii) The Subordinated Sukuk Programme 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 a Dissolution Event under the Subordinated Sukuk Programme or which with the giving of notice or the lapse of time or other condition would constitute a Dissolution Event;
- (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;
- (vii) The written information provided 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 or the earnings, affairs or business prospects of the Issuer or the success of the issue of the Subordinated Sukuk;

- (viii) The Issuer's audited financial statements are prepared in accordance with applicable approved accounting principles and standards in Malaysia. The financial statements fairly represent the Issuer's financial position as at the date of the financial statements;
 - (ix) The Issuer and its obligations under Transaction Documents and the Subordinated Sukuk Programme 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 Programme; and
 - (x) Such other representations and warranties as may be advised by the JLA's solicitors and agreed by the Issuer to be incorporated in the Transaction Documents.
- (x) **Dissolution Events** : Please refer to Paragraph (z)(1), Enforcement Events.
- (y) **Principal terms and conditions for warrants (where applicable)** : Not applicable.
- (z) **Other principal terms and conditions for the issue**
- (1) **Enforcement Events** : Means the following:-
- (a) If the Issuer fails to pay any principal or profits or any other amount under the Subordinated Sukuk Programme and such failure continues for a period of fourteen (14) days, the Trustee may subject to the terms of the Trust Deed, declare that an

Enforcement Event has occurred and institute proceedings to enforce the payment obligations under the Exercise Price pursuant to the Purchase Undertaking and may institute proceedings in Malaysia for the winding-up of the Issuer, provided that neither the Trustee nor any of the holders of the Subordinated Sukuk shall have the right to accelerate payment of the Subordinated Sukuk in the case of such default in the payment of amount owing under the Subordinated Sukuk 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,

the Trustee may subject to the terms of the Trust Deed, by written notice to the Issuer declare that an Enforcement Event has occurred and the Exercise Price pursuant to the Purchase Undertaking shall immediately become due and payable notwithstanding the stated maturity of the Subordinated Sukuk.

For avoidance of doubt, the occurrence of enforcement event (a) above for any tranche of the Subordinated Sukuk will not trigger the event

of default for other tranches of the Subordinated Sukuk outstanding. However, the occurrence of enforcement event (b) above will trigger event of default for all tranches of the Subordinated Sukuk outstanding. In this context, "tranche" means the tranche of Subordinated Sukuk having the same issue date and maturity date.

(2) 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 Minimum Contents Requirement (save for those which waiver has been sought and approved by the SC), 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 all outstanding Subordinated Sukuk 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 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 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;
- (vii) Notify the Trustee in the event that the Issuer becomes aware of the following:
 - (a) any Dissolution Event or that such other right or remedy under the terms, provisions and covenants of the Subordinated Sukuk Programme and 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 Sukuk Programme or the Trust Deed;
 - (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 Programme other than for the purpose stipulated in the Information Memorandum and the Transaction Documents; and
 - (e) of any other matter that may materially prejudice the interest of the holders of the Subordinated Sukuk Programme.
- (viii) 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; and
 - (ix) 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 Sukuk Programme and that there did not exist or had not existed, from the date the Subordinated Sukuk Programme were issued or from the date of the last certificate, any Dissolution Event and if such is not the case, to specify the same.

(3) Status of Subordinated Sukuk Programme

: The Subordinated Sukuk Programme pursuant to the Issuer's obligations under the Purchase Undertaking will constitute direct and unsecured obligations of the Issuer, subordinated in right and priority of payment, to the extent and in the manner provided for in the Subordinated Sukuk Programme, 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 Programme.

The obligation under the Subordinated Sukuk Programme pursuant to the Purchase Undertaking 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 Programme will rank pari passu with all subordinated debts issued by the Issuer.

“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 Programme.

(4) Redemption

: Redemption on Maturity

Unless previously redeemed or purchased from the market and cancelled, the Subordinated Sukuk will be redeemed by BMMB (in whole, but not in part) upon their respective maturity date(s).

Optional Redemption

The Issuer may, at its option, redeem any tranche of the Subordinated Sukuk (in whole, but not in part of such tranche) on the Optional Redemption Date and subject to the Redemption Conditions being satisfied (as defined in item z(5)). For the avoidance of doubt, the redemption of one tranche of Subordinated Sukuk pursuant to the Optional Redemption shall not trigger the redemption of other tranches of Subordinated Sukuk. In this context, “tranche” means the tranche of Subordinated Sukuk having the same issue date and maturity date.

“Optional Redemption Date” is defined as any Periodic Distribution date on or after the fifth (5th) anniversary from the issue date of each Subordinated Sukuk.

Regulatory Redemption

The Issuer may, at its option, redeem any tranche of the Subordinated Sukuk (in whole, but not in part of such tranche), subject to the Redemption Conditions being satisfied if a Regulatory Event occurs. For the avoidance of doubt, the redemption of one tranche of Subordinated Sukuk pursuant to the Regulatory

Redemption shall not trigger the redemption of other tranches of Subordinated Sukuk. In this context, “tranche” means the tranche of Subordinated Sukuk having the same issue date and maturity date.

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

- (i) the Subordinated Sukuk (in whole or in part) will, either immediately or with the passage of time or upon giving notice or upon 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;
- (ii) changes in law will make it unlawful to continue performing its obligations under the Subordinated Sukuk; or
- (iii) changes in tax law will impose a new tax obligation on the Issuer or modify an existing tax obligation of the Issuer by reason of the Subordinated Sukuk.

(5) Redemption Conditions : Redemption Conditions means:

- (i) the Issuer is solvent at the time of any redemption of the Subordinated Sukuk and immediately thereafter;
- (ii) the Issuer is not in breach of BNM’s minimum capital adequacy ratio requirements applicable to the Issuer;
- (iii) the Issuer has obtained the written approval of BNM prior to redemption of the Subordinated Sukuk; and
- (iv) the Issuer shall replace the Subordinated Sukuk, 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.

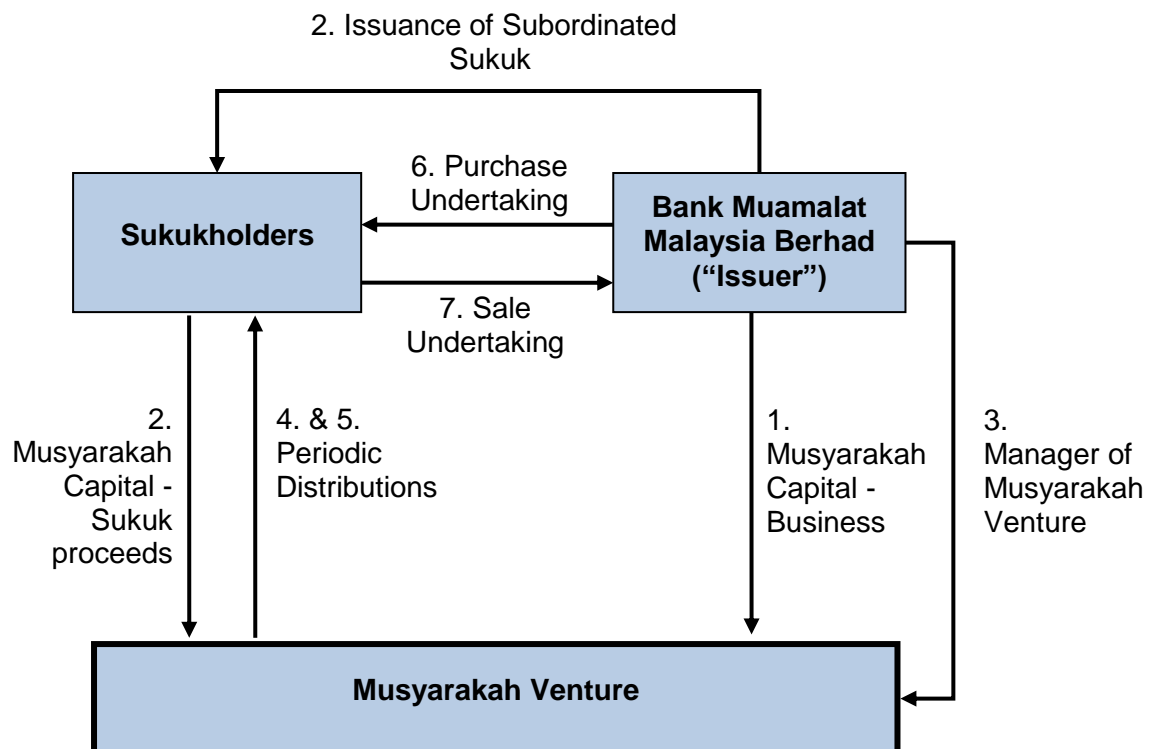
- (6) **Compensation for late payment (“Ta’widh”)** : In the event of overdue payment of any sums under the Purchase Undertaking or Sale Undertaking as the case may be, the Issuer shall pay to the Trustee for the benefit of the Sukukholders compensation (“Ta’widh”) covenanted to be paid by the Issuer under the Subordinated Sukuk, at a rate and manner to be prescribed by the Shariah Advisory Council of SC from time to time in accordance with Shariah principles.
- (7) **Transaction Documents** : The Subordinated Sukuk Programme shall be subject to the negotiation and execution of documentation satisfactory to all parties incorporating clauses customary for transactions of this nature as advised by the Solicitors and agreed by the Issuer. Such documentation shall include, but not be limited to, the following:
- (i) Programme Agreement;
 - (ii) Securities lodgement form pursuant to the Central Securities Depository and Paying Agency Rules issued by BNM;
 - (iii) Trust Deed;
 - (iv) Management Agreement;
 - (v) Purchase Undertaking;
 - (vi) Musyarakah Agreement(s);
 - (vii) Sale Undertaking; and
 - (viii) Any other relevant documents agreed between the parties that may be required to complete the Subordinated Sukuk Programme as advised by the Solicitors and agreed by the Issuer.
- (8) **Purchase and Cancellation** : The Issuer or any related corporation of the Issuer may at any time purchase, subject to the prior approval of BNM, the Subordinated Sukuk at any price in the open market or by private treaty. The Subordinated Sukuk purchased by the Issuer or any related corporation of the Issuer may not be used for voting purposes or for directing or requesting the Trustee to take any action. All Subordinated Sukuk which are (a) redeemed or (b) purchased by the Issuer or any related corporation of the Issuer (other than in the ordinary course of business) will forthwith, subject to the prior approval of BNM, be cancelled and accordingly may not be reissued or resold. 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 and excludes those performed for the funds of the Issuer or such related corporation.

- (9) Governing law** : Laws of Malaysia and submission to the exclusive jurisdiction of the courts of Malaysia.
- (10) Definitions** : “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.
- (11) Other Conditions** : The Subordinated Sukuk 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 Sukuk Programme, the Subordinated Sukuk or the Codes of Conduct.

Appendix 1

Musyarakah – Transaction Structure



Underlying Transaction

1. The investors together with the Issuer shall from time to time form a Musyarakah, which is a partnership amongst them (each a "partner" and collectively, "Musyarakah Partners") for the purpose of undertaking a venture ("Musyarakah Venture") to invest directly into the Shariah-compliant activities or business of the Issuer ("Business").
2. The Issuer will issue Subordinated Sukuk to investors ("Sukukholders") and proceeds raised from the Subordinated Sukuk shall be used as capital contribution of the Sukukholders in the Musyarakah Venture. The Subordinated Sukuk shall represent the Sukukholder's undivided proportionate interest in the Musyarakah Venture. The participation by the Sukukholders in the Musyarakah Venture is from the capital contribution via the proceeds from the subscription of the Subordinated Sukuk issued by the Issuer. Meanwhile, the Issuer, will contribute its Business as capital contribution into the Musyarakah Venture. Simultaneously, the Issuer shall make a declaration that it holds in trust over all its interest in the Business for the benefit of itself and the Sukukholders.
3. The Issuer shall be appointed as the manager ("Manager") to manage the Musyarakah Venture. The Sukukholders shall agree that any excess of profit from the Expected Periodic Distribution (as defined herein) shall be retained by the Manager as an incentive fee.

4. The expected return to the Sukukholders under the Musyarakah Venture shall be the yield for the Subordinated Sukuk up to the maturity date of the Subordinated Sukuk ("Expected Return"). Any profit derived from the Musyarakah Venture shall be distributed to each partner based on a pre-agreed profit sharing ratio which will be determined prior to the issuance of the Subordinated Sukuk, while losses shall be borne in proportion to each partner's contribution to the Musyarakah Venture.
5. Income from the Musyarakah Venture of up to an amount equal to a certain percentage of the face value of the Subordinated Sukuk per annum, calculated on the basis of the actual number of days in the relevant period ("Expected Periodic Distribution") shall be distributed semi-annually in the form of a periodic distribution ("Periodic Distribution"). Any shortfall between the Expected Periodic Distribution and the actual income generated from the Musyarakah Venture for such relevant period shall be paid by Issuer as an advance part payment of the Exercise Price.
6. Pursuant to a Purchase Undertaking issued by the Issuer in favour of the Trustee for and on behalf of the Sukukholders, the Issuer undertakes to purchase the Sukukholders' interests in the Musyarakah Venture from the Trustee for and on behalf of the Sukukholders at an Exercise Price upon occurrence of the following events:-
 - (i) a declaration of Dissolution Event(s) (as defined in item (x) of the Principal Terms and Conditions ("PTC")); or
 - (ii) upon redemption of the Subordinated Sukuk on the Optional Redemption Date (as defined in item z(4) of the PTC); or
 - (iii) upon redemption of the Subordinated Sukuk by the Issuer following a Regulatory Event (as defined in item z(4) of the PTC); or
 - (iv) upon redemption of the Subordinated Sukuk by the Issuer pursuant to item z(8) of the PTC.
7. Pursuant to a Sale Undertaking issued by the Trustee for and on behalf of the Sukukholders, in favour of the Issuer, the Trustee for and on behalf of the Sukukholders undertakes to sell the Sukukholders' interests in the Musyarakah Venture to the Issuer at an Exercise Price on the Maturity Date of the Subordinated Sukuk.