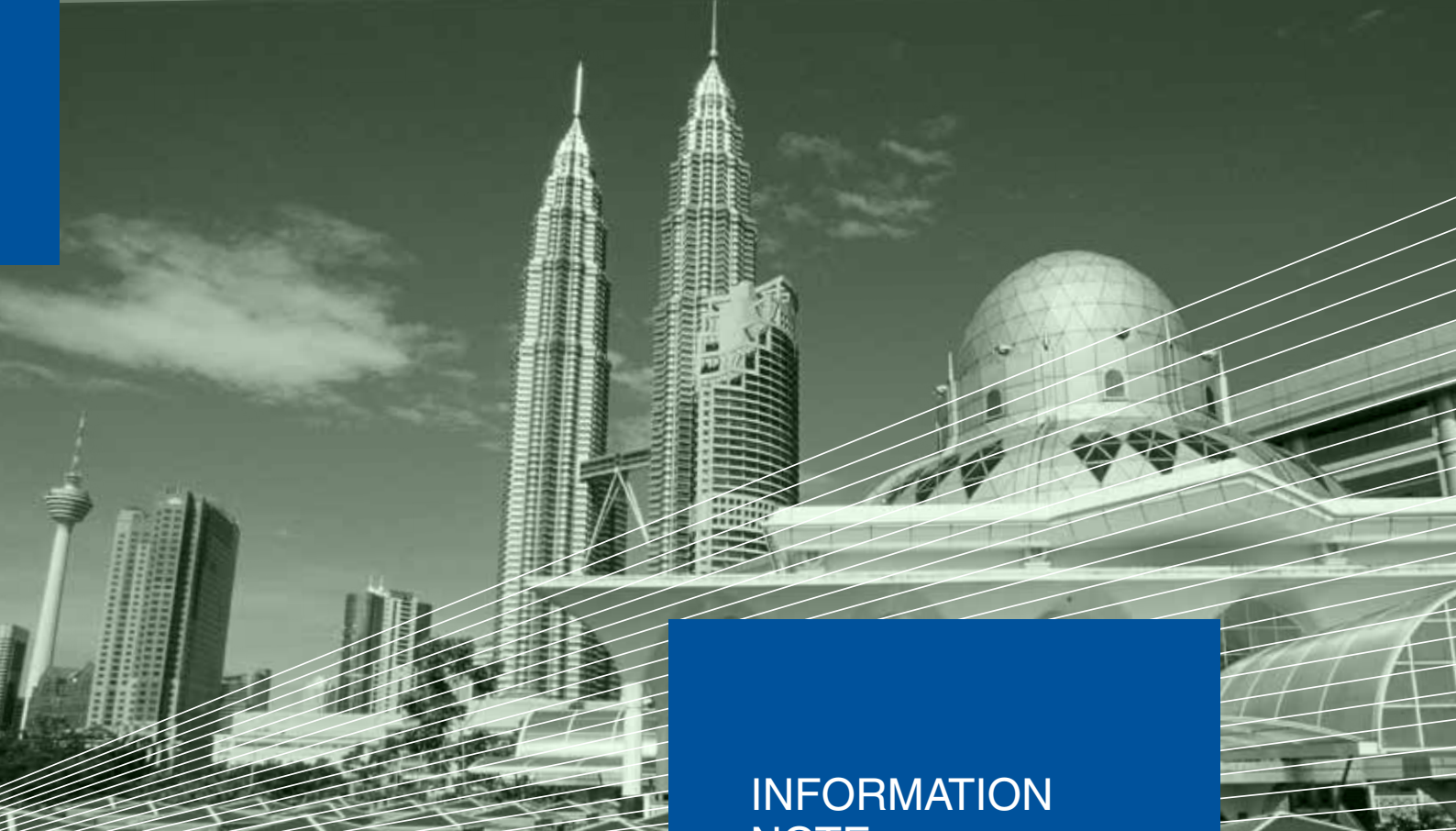




BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



INFORMATION
NOTE

**MALAYSIAN
GOVERNMENT
INVESTMENT
ISSUE (MGII)**

PRINCIPAL INFORMATION

MALAYSIAN GOVERNMENT INVESTMENT ISSUE (“MGII”)

Issuer

Government of Malaysia (“GOM”)

Facility Agent/Lead Arranger

Bank Negara Malaysia (“BNM”)

Issuance Principle

Effective from 22 July 2013, MGII is issued based on *Murabahah* concept. MGII based on *Murabahah* contract is essentially a certificate of indebtedness arising from a deferred mark-up sale transaction of an asset, such as commodity (mainly crude palm oil), which complies with *Shariah* principles. This new issuance under *Murabahah* contract will involve commodity transactions to create indebtedness between the sukuk issuer and the investors (refer to Appendix I).

Under the issuance principle, the Successful Bidders will appoint BNM as their agent to purchase the commodity. BNM as the commodity agent will buy the commodity e.g Crude Palm Oil. Upon completion of the purchase, BNM on behalf of the Successful Bidders, will sell the commodity to Government at a mark-up price to be paid on deferred payment date. The obligation of the Government to settle the purchase price is securitised in the form of MGII and is issued to the investors. Profit from the sale represents the coupon of MGII, will be paid periodically such as semi –annual basis. On deferred payment date, the Government will pay the principal amount and final profit payable to the MGII holders, to redeem the MGII. On the other hand, Government will appoint BNM as their agent to sell the commodity at cost. BNM as the commodity agent will sell the commodity and remit the cash to Government.

Meanwhile, the MGII issued prior to 22 July 2013, is based on *Bai Al-Inah* contract, which involves sell and buy back of asset in Islamic finance (refer to structure in Appendix II).

Under the issuance principle, the Government will sell specified nominal value of its assets and subsequently will buy back the assets at its nominal value plus profit through a tender process. Profit rate is based on the weighted average yield of the successful bids of the auction. The nominal value of buying back the assets will be settled at a specified future date or maturity, while the profit rate will be distributed half yearly throughout the tenure. The obligation of the Government to settle the purchase price is securitised in the form of MGII and is issued to the investors. At maturity, the Government will redeem the MGII and pay the nominal value of the securities to the MGII holders.

Facility Description

MGII is long-term non-interest-bearing Government securities based on Islamic principles for funding developmental expenditure. MGII is issued through competitive bidding auction by Bank Negara Malaysia on behalf of the Government. The MGII issuance programme is pre-announced in the auction calendar with issuance size ranging from RM2 billion to RM5 billion and original maturities of 3-, 5-, 7-, 10-, 15- or 20-year.

Governing Law

MGII is issued under the Government Funding Act 1983 (formerly known as Government Investment Act 1983).

The terms and conditions of the MGII shall be governed by, and construed in accordance with, the laws of Malaysia. The parties irrevocably submit to the exclusive jurisdiction of the courts of Malaysia.

Shariah Adviser

Shariah Advisory Council of Bank Negara Malaysia

Particulars of the assets

For issuance under *Murabahah*, the underlying assets used are *Shariah* compliant commodity (non ribawi item), such as Crude Palm Oil.

For issuance under *Bai Al-Inah*, assets owned by the Government, as described in the Certificate of Government of Malaysia Assets. The underlying assets used for MGII issuance are *Shariah* compliant shares.

Master Agreement

Issuance of MGII under *Murabahah*, will be issued pursuant to the Program Agreement and Master Commodity *Murabahah* Agreement for the Government Investment Issues between the Issuer (Government of Malaysia) and Facility Agent and Commodity Agent (Bank Negara Malaysia), and Agency Agreement between Successful Bidders and Commodity Agent (Bank Negara Malaysia). The Issuer is to enter into *Murabahah* transactions involving the buying and selling of commodities namely Crude Palm Oil, and to issue securities in its own name. The issuance, holding, sale and purchase of such securities shall be subject to such terms and conditions or guidelines governing the issuance thereof. A copy of the Term and Conditions of the MGII *Murabahah* can be obtained from Fully Automated System for Issuance/Tendering (FAST) website: <https://fast.bnm.gov.my/fastweb/public/MainPage.do>

Issuance of MGII under *Bai Al-Inah*, will be issued pursuant to the Master Agreement of Government Investment Issues between the Issuer (Government of Malaysia) and the Buyer. The Issuer is to enter into transactions involving the selling and repurchasing of its own Assets under the Islamic transaction of *Bai Al-Inah* and to issue securities in its own name. The issuance, holding, sale and purchase of such securities shall be subject to such terms and conditions or guidelines governing the issuance thereof. A copy of the Agreement can be obtained by visiting Fully Automated System for Issuance/Tendering (FAST) website: <https://fast.bnm.gov.my/fastweb/public/MainPage.do>

Mode of Issue

Competitive multiple-price auction via FAST. All bids at primary issuance must be submitted through the Principal Dealers (PDs) network whom are appointed by BNM.

Payment

Payments for the amounts accepted and allotted must be made in full by 11:30 a.m. on the issue date. On issue date, RENTAS (Malaysia's RTGS system) will credit the MGII to the securities accounts of the successful bidders after successfully debiting the respective cash accounts.

Rating

Exempted

Listing Status

Not listed

Redemption

MGII shall be redeemed by Government of Malaysia at their par value on the maturity date

Status of the Securities

The MGII will be accorded with the following regulatory treatment:

- (i) 0% risk weight under the Risk-Weighted Capital Adequacy Framework and the Capital Adequacy Framework for Islamic Banks;
- (ii) Class-1 liquefiable assets status under the Liquidity Framework, subject to a yield slippage of 2%;
- (iii) Eligible collateral for Standing Facility;
- (iv) Excluded from Single Customer Credit Limit;
- (v) 0% risk charge under the Risk-Based Capital Framework for Insurers; and
- (vi) Holdings of MGII in the trading book can be deducted from the eligible liabilities base for the purpose of computing the SRR. For PDs, entire holdings of MGII can be deducted from the eligible liabilities base for SRR computation.

Paying Agent

Bank Negara Malaysia

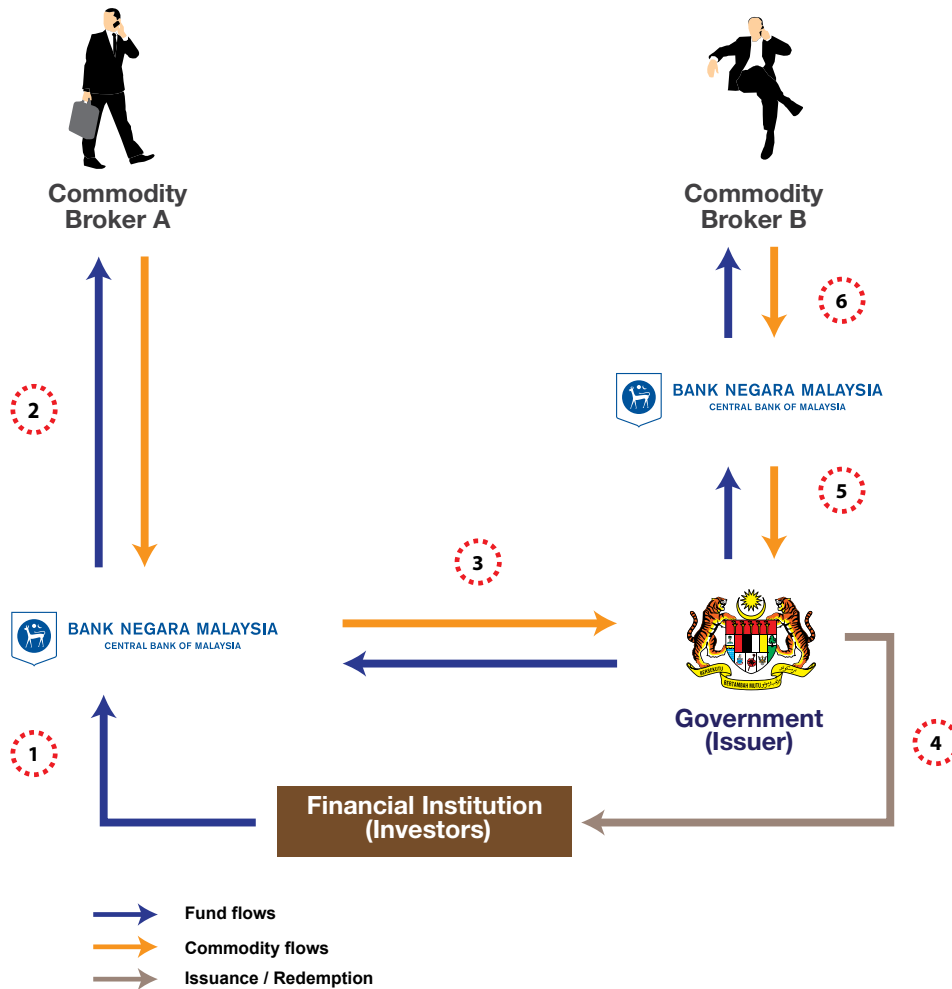
Authorised Depository

MyClear will hold the Certificate for the beneficial holders and credit them with the specific amount of securities held for their account for the purpose of trading and transfer on the Scripless Securities Depository System (SSDS). MyClear will record the holdings and transactions of scripless securities of the holders who are members of the SSDS. Holders who are not SSDS members have to appoint an Authorised Depository Institutions ("ADIs") (usually a bank and SSDS member) for their holdings of the MGII. The holdings and transactions of non-SSDS members will be recorded under the Customers Holdings of ADIs, with details on each holder recorded at a secondary level by the ADIs. Upon redemption, holders who are SSDS members shall be paid directly by the Authorised Depository, while non-SSDS member holders shall be paid the redemption proceeds through the ADIs.

Appendix I

Malaysian Government Investment Issue Structure

(Based on *Murabahah* concept)

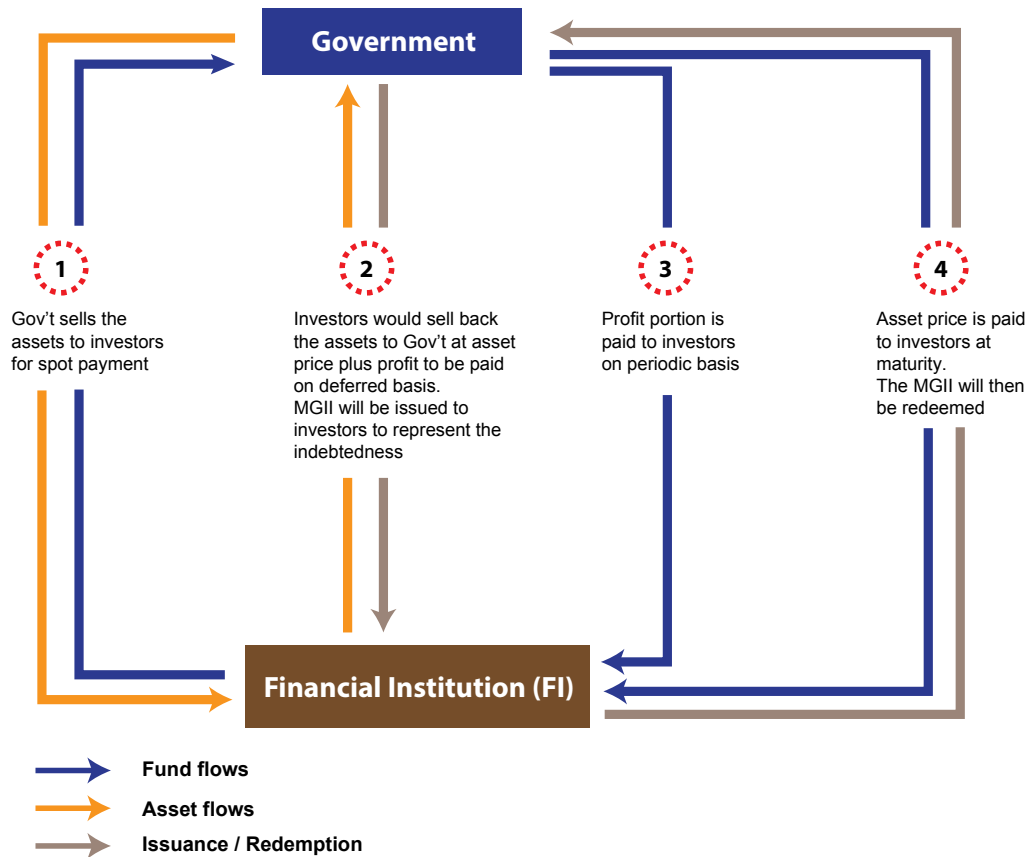


- 1** Investor will appoint BNM as their agent to buy the commodities.
- 2** BNM as the commodity agent will buy the commodities e.g Crude Palm Oil.
- 3** Upon completion of purchase, BNM as an agent to the Investor will sell the commodities to Government at mark-up price to be paid on deferred payment date. Profit from sale will be paid periodically such as semi-annual basis, representing the coupon on MGII.
- 4** MGII will be issued to evidence the indebtedness. Profit portion is paid to investors on periodical basis. On maturity (i.e. deferred payment date), Government will make payment, representing the principal amount and final profit, and MGII will be redeemed.
- 5** Government will appoint BNM as their agent to sell the commodity at cost to raise the required funding.
- 6** BNM as the commodity agent will sell the commodity and remit the cash to Government.

Appendix II

Malaysian Government Investment Issue Structure

(Based on *Bai Al-Inah* concept)



1 To raise the required financing, Government will first sell its *Shariah*-compliant assets, e.g. equities, to investors for spot cash payment.

2 Upon completion of sale, investors will subsequently sell the assets back to Government at profit paid on deferred, and MGII will be issued to evidence the indebtedness.

3 Profit from sale will be paid periodically such as semi-annual basis, representing the coupon on MGII.

4 On maturity (i.e. deferred payment), Government will pay the asset cost, representing the principal amount, plus profit and MGII will be redeemed.