

MALAYSIA BUILDING SOCIETY BERHAD (“MBSB” OR THE “COMPANY”)

PROPOSED MERGER OF MBSB AND ASIAN FINANCE BANK BERHAD (“AFB”) (“PROPOSED MERGER”)

1. INTRODUCTION

On 21 December 2016, the Company announced that Bank Negara Malaysia (“BNM”) had vide its letter on even date, informed the Company that it has no objection-in-principle for MBSB to commence negotiations with the existing shareholders of AFB, namely Qatar Islamic Bank (“QIB”), Financial Assets Bahrain W.L.L (“FAB”), RUSD Investment Bank Inc (“RUSD”) and Tadamon International Islamic Bank (“TIIB”) (collectively, the “Vendors”) for the Proposed Merger (“BNM Letter”). BNM had, in its letter stipulated a deadline of six (6) months from the date of the BNM Letter for MBSB to complete negotiations for the Proposed Merger.

On 19 June 2017, the Board of Directors of MBSB (“Board”) announced that the Company had submitted an application to BNM to seek the approvals of BNM and/ or the Ministry of Finance, Malaysia (“MOF”) for the Proposed Merger. On 18 August 2017, the Board announced that the MOF (through BNM), had vide BNM’s letter dated 18 August 2017 granted its approval to the Company for the proposed acquisition by MBSB of 100% equity interest in AFB (“MOF/ BNM Approval”).

On behalf of the Board, RHB Investment Bank Berhad (“RHB Investment Bank”) and AmInvestment Bank Berhad (“AmInvestment Bank”) wish to announce that MBSB had on 6 November 2017 entered into a conditional share purchase agreement (“SPA”) with the Vendors for the proposed acquisition by MBSB of the entire equity interest in AFB from the Vendors for an aggregate purchase consideration of RM644,952,807.66 (“Purchase Consideration”). The Purchase Consideration will be satisfied through a combination of cash amounting to RM396,894,036.26 (“Cash Consideration”) and the issuance of 225,507,974 new ordinary shares in MBSB (“Consideration Share(s)”) at an issue price of RM1.10 per Consideration Share (“Issue Price”) (“Proposed Acquisition”).

Further details of the Proposed Merger are as set out in the ensuing sections.

2. DETAILS OF THE PROPOSED MERGER

The Proposed Merger, which would result in MBSB becoming a full-fledged Islamic bank, entails the following:-

- (i) the Proposed Acquisition; and
- (ii) the proposed transfer of Shariah-compliant assets and liabilities to AFB.

2.1 Proposed Acquisition

2.1.1 Details of the Proposed Acquisition

The Proposed Acquisition entails the acquisition by MBSB of 532,530,020 ordinary shares in AFB (“AFB Share(s)” or “Sale Share(s)”) representing 100% equity interest in AFB, from the Vendors for an aggregate purchase consideration of RM644,952,807.66 to be satisfied through a combination of the Cash Consideration and Consideration Shares.

As at the date of the SPA, the shareholdings of the Vendors in AFB are as follows:-

Vendor	Number of AFB Shares held	%
QIB	355,020,013	66.66
FAB	35,502,001	6.67
RUSD	88,755,004	16.67
TIIB	53,253,002	10.00
	532,530,020	100.00

Upon completion of the Proposed Acquisition, AFB will become a wholly-owned subsidiary of MBSB.

Information on the Vendors and AFB are as set out in Appendices I and II of this Announcement respectively.

2.1.2 Mode of settlement of the Purchase Consideration

MBSB had on 23 March 2017 issued a letter of offer to the Vendors (“**Letter of Offer**”) whereby the Vendors were given the option to receive their respective Purchase Consideration in the form of cash (“**Cash Option**”) or in the form of new MBSB Shares (“**Shares Option**”). Pursuant to the SPA, FAB has opted for the Cash Option, RUSD and TIIB have opted for the Shares Option while QIB has opted for a combination of the Cash Option and the Shares Option.

The Purchase Consideration was determined in the following manner:-

- (i) Cash Option: Valuation of 1.2 times of the agreed net assets (“**NA**”) of AFB of RM496,117,545, being the unaudited consolidated NA of AFB as at 31 December 2016, which was mutually agreed between MBSB and the Vendors (“**Accepted NA**”); and/ or
- (ii) Shares Option: Valuation of 1.5 times of the Accepted NA.

A summary of the Purchase Consideration and the mode of settlement of the Purchase Consideration are as follows:-

Vendor	Number of AFB Shares held	Cash Option/ Shares Option	Purchase Consideration (RM)	Mode of settlement	
				Cash (RM)	Consideration Shares (Number)
QIB	355,020,013	Cash Option * Shares Option *	357,204,633.03 49,611,753.40	357,204,633.03 -	- 45,101,594
FAB	35,502,001	Cash Option	39,689,403.23	39,689,403.23	-
RUSD	88,755,004	Shares Option	124,029,386.80	-	112,753,988
TIIB	53,253,002	Shares Option	74,417,631.20	-	67,652,392
	532,530,020		644,952,807.66	396,894,036.26	225,507,974

Note:-

- * QIB has opted for the Cash Option and Shares Option in respect of 60% and 6.66% of its shareholdings in AFB respectively.

Pursuant to the SPA, amounts in cash representing the cash and cash equivalent amount of the Purchase Consideration will be deposited into an escrow account (“**Escrow Account**”) with Bank Islam Malaysia Berhad (“**Escrow Agent**”) in the following manner:-

Cash deposit	Timeframe	Purchase Consideration	
		(%)	(RM)
Deposit (as defined herein)	The Deposit has been paid on 6 November 2017	10.00	64,495,280.76
Balance Purchase Consideration (as defined herein)	Within three (3) months from the date of the SPA (“ Cut-Off Date ”)	90.00	580,457,526.90
Total		100.00	644,952,807.66

In the event the Conditions Precedent (as defined herein) are not fulfilled by the Cut-Off Date and hence resulting in the time period for the fulfilment of the Conditions Precedent being extended to the Extended Cut-Off Date (as defined herein), MBSB shall also pay the Balance Purchase Consideration to the Escrow Agent.

On the next business day following the date of listing of the Consideration Shares, an amount of RM248,058,771.40 (where the Escrow Agent has received both the Deposit and Balance Purchase Consideration (as defined herein)) or RM24,805,877.14 (where the Escrow Agent has received the Deposit and not the Balance Purchase Consideration), being the cash equivalent amount for the Consideration Shares, will be refunded to MBSB. Further details on the issuance and listing of the Consideration Shares are set out in Section 2.1.8(ii)(d) of this Announcement.

The decision to grant the Vendors the option to elect either the Cash Option or Shares Option was arrived at after taking into consideration, amongst others, MBSB’s capital structure and substantial shareholders’ shareholdings in the Company.

2.1.3 Basis of and justification for the Purchase Consideration and the Issue Price

The Purchase Consideration was arrived at on a “willing buyer-willing seller” basis after taking into consideration the following:-

- (i) the Accepted NA;
- (ii) the strategic rationale of the Proposed Acquisition and the potential benefits arising from the combined MBSB and its subsidiaries (“**MBSB Group**” or the “**Group**”) and AFB entity upon completion of the Proposed Merger (“**Merged Entity**”) vis-à-vis the license held by AFB to carry on an Islamic banking business in Malaysia;
- (iii) the trading multiples of banks listed in Malaysia and precedent transactions involving the acquisition of banks listed in Malaysia over the past ten (10) years; and
- (iv) the mode of settlement of the Purchase Consideration opted for by the Vendors as set out in Section 2.1.2 of this Announcement.

For information purposes, the Purchase Consideration represents a price-to-book value of 1.3 times to the following:-

- (i) Accepted NA; and
- (ii) audited NA of AFB as at 31 December 2016 of approximately RM497.26 million.

The Issue Price for the Consideration Shares of RM1.10 was commercially negotiated between MBSB and the Vendors and represents a discount of approximately 6.78% to the five (5)-day volume weighted average price (“VWAP”) of MBSB Shares of approximately RM1.18 up to and including 21 March 2017, being the latest practicable date prior to the date of the Letter of Offer.

For information purposes, the Issue Price for the Consideration Shares represents a discount of approximately 1.12% to the five (5)-day VWAP of MBSB Shares of RM1.1125 up to and including 3 November 2017, being the last trading day prior to the date of the SPA.

2.1.4 Ranking of the Consideration Shares and the AFB Shares

The Consideration Shares shall be issued free from all encumbrances and with all rights and benefits attaching thereto, ranking equally in all respects with the existing issued and fully paid-up MBSB Shares, including without limitation all rights, dividends and/ or other distributions which may be declared, made or paid in respect thereof, where the date on which the shareholders of MBSB must be registered in order to participate in the relevant distribution is on or subsequent to the Completion Date (as defined herein).

The Sale Shares shall be acquired free from all encumbrances and with all rights, benefits and entitlements attaching to the Sale Shares, including without limitation all rights, dividends and/ or other distributions which may be declared, made or paid in respect thereof, where the date on which the shareholders of AFB must be registered in order to participate in the relevant distribution is on or subsequent to the Completion Date (as defined herein).

2.1.5 Listing of and quotation for the Consideration Shares

An application will be made to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities.

2.1.6 Source of funding

The Cash Consideration will be funded via internally generated funds.

2.1.7 Assumption of liabilities

Upon completion of the Proposed Acquisition, AFB will become a wholly-owned subsidiary of MBSB. As such, all liabilities of AFB, including contingent liabilities and guarantees (if any), will be consolidated into the existing MBSB Group.

2.1.8 Salient terms of the SPA

The indicative salient terms of the SPA are as follows:-

(i) Conditions Precedent

The SPA shall be conditional upon the following conditions having been fulfilled by the date falling on the expiry of the Cut-Off Date, or in the event that the conditions precedent are not fulfilled by the Cut-Off Date, the time period for fulfilling the conditions precedent shall be automatically extended for a further three (3) months from the Cut-Off Date (“**Extended Cut-Off Date**”), or such later date as MBSB and the Vendors (“**Parties**”) may mutually agree in writing:-

- (a) **by MBSB:** the approval of the shareholders of MBSB required for the purchase by MBSB of the Sale Shares and for the issuance and allotment of the Consideration Shares;
- (b) **by MBSB:** the approval of Bursa Securities for the listing of and quotation for the Consideration Shares;

- (c) **by the Vendors:** the approval of the shareholders of each of QIB, FAB, RUSD and TIIB respectively (where required) for the sale by each of QIB, FAB, RUSD and TIIB of their respective portions of the Sale Shares;

(collectively, the “**Conditions Precedent**”)

(ii) **Purchase Consideration**

The Purchase Consideration shall be settled in the following manner:-

- (a) upon execution of the SPA or upon the opening of the Escrow Account with the Escrow Agent (whichever is later), the sum of RM64,495,280.76 in cash, equivalent to 10% of the Purchase Consideration (“**Deposit**”) shall be paid by MBSB to the Escrow Agent;
- (b) in the event that the Conditions Precedent are not fulfilled by the Cut-Off Date resulting in the time period for the fulfilment of the Conditions Precedent being extended to the Extended Cut-Off Date, MBSB shall also pay the sum of RM580,457,526.90 in cash, equivalent to 90% of the Purchase Consideration (“**Balance Purchase Consideration**”) to the Escrow Agent;
- (c) the Escrow Agent shall cause the amounts of the Deposit and the Balance Purchase Consideration to be placed in a profit bearing account on such terms as determined by the Vendors and MBSB, and hold the Deposit and, if applicable, the Balance Purchase Consideration (collectively, the “**Consideration Amount**”), and;
 - (1) in the event that the Conditions Precedent are not fulfilled by the Cut-Off Date, or if applicable, the Extended Cut-Off Date, the Escrow Agent shall within a period of five (5) business days from the earlier of either:-
 - (A) the date on which the Conditions Precedent are not being satisfied with no further action to be taken by the Vendors and MBSB to seek the fulfilment of the same; or
 - (B) the Cut-Off Date or Extended Cut-Off Date,release the Consideration Amount, and any profit accruing thereto to MBSB, upon receipt by the Escrow Agent of joint written instructions signed by the authorised signatory of each of the Vendors and MBSB; or
 - (2) provided that the Conditions Precedent shall have been fulfilled or waived, the Escrow Agent shall:-
 - (A) on any business day to be mutually agreed in writing between the Parties but falling no later than ten (10) business days from the date on which all of the Conditions Precedent shall have been fulfilled, or waived in accordance with the terms of the SPA (“**Unconditional Date**”) or such later date as the Parties may mutually agree in writing (“**Completion Date**”), release from the Consideration Amount to each of QIB, and FAB, upon receipt by the Escrow Agent of written instructions signed by the authorised signatory of each of QIB and FAB respectively, with regards to their own entitlement, either:-

- (I) an amount representing the Cash Consideration, as full settlement of the Cash Consideration, and all profits accruing on the amount of the Cash Consideration (where the Escrow Agent has received both the Deposit and the Balance Purchase Consideration); or
 - (II) the amount of the Deposit of QIB and FAB, as part settlement of the Cash Consideration, and all profits accruing on thereon (where the Escrow Agent has received the Deposit, and not the Balance Purchase Consideration amount);
- (B) on the next business day after the date on which the Consideration Shares are listed on the Main Market of Bursa Securities (“**Listing Date**”) release from the escrow funds to each of QIB (or such party as QIB may nominate in writing by way of a letter to MBSB), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to MBSB), in proportion to their amount of the Consideration Shares, upon receipt by the Escrow Agent of written instructions signed by the authorised signatory of each of QIB, RUSD and TIIB respectively with regards to their own entitlement, either:-
- (I) all profits accruing on the amount of the Deposit and Balance Purchase Consideration which corresponds to the Purchase Consideration to be settled by Consideration Shares (where the Escrow Agent has received both the Deposit and the Balance Purchase Consideration); or
 - (II) all profits accruing on the amount of the Deposit which corresponds to the Purchase Consideration to be settled by Consideration Shares (where the Escrow Agent has received the Deposit, and not the Balance Purchase Consideration); and
- (C) on the next business day after the Listing Date, refund to MBSB either of the following amounts:-
- (I) RM248,058,771.40 (where the Escrow Agent has received both the Deposit and the Balance Purchase Consideration), or
 - (II) RM24,805,877.14 (where the Escrow Agent has received the Deposit, and not the Balance Purchase Consideration),

being the remaining balance of the Consideration Amount held by the Escrow Agent (if any then remaining) after payment of either of the amounts specified in sub-paragraph (A) above.

- (3) in the event that the SPA is terminated in accordance with the terms and conditions as set out in the SPA, all amounts paid to the Escrow Agent by MBSB and all profits accruing to the said amounts shall be refunded by the Escrow Agent to MBSB upon receipt by the Escrow Agent of written instruction from the authorised signatory of MBSB and/ or the Vendors.

- (4) the Escrow Agent shall in respect of all payments be jointly authorised by MBSB and the Vendors in writing and accordingly MBSB and each of the Vendors shall upon the execution of the escrow agreement with the Escrow Agent provide to the Escrow Agent the name, contact details and specimen signatures of its authorised signatory and a board resolution to evidence the appointment of such signatory as its authorised signatory.
- (d) MBSB shall take all steps necessary to ensure that on or before 5.00 p.m. (Kuala Lumpur time) on the 8th business day following the Completion Date (“**Listing Cut-Off Date**”), such amount of the Consideration Shares issued to each of QIB (or such party as QIB may nominate in writing by way of a letter to MBSB), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to MBSB) are credited into the account of QIB (or account of such party as QIB may nominate in writing by way of a letter to MBSB), RUSD and TIIB (or account of such party as TIIB may nominate in writing by way of a letter to MBSB) respectively, with the central depository system (“**CDS**”) of Bursa Malaysia Depository Sdn Bhd, and are listed on Bursa Securities;
- (e) if on or before 5.00 p.m. (Kuala Lumpur time) on the Listing Cut-Off Date, such amount of the Consideration Shares issued to each of QIB (or such party as QIB may nominate in writing by way of a letter to MBSB), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to MBSB) are NOT listed and tradeable on Bursa Securities, and provided that the delay is not caused by the delay in providing, or by the insufficiency or inaccuracy of, the information and particulars provided by the respective Vendors on the CDS accounts of QIB or its nominee, RUSD and TIIB or its nominee, held with the Central Depository of Bursa Securities, MBSB shall pay to each of QIB (or such party as QIB may nominate in writing by way of a letter to MBSB), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to MBSB) (in proportion to the numbers of Consideration Shares held by each of them or their nominees respectively) compensation calculated in the manner as set out below, due to a breach by MBSB of its obligation to ensure that such Consideration Shares are listed and tradable on Bursa Securities by the Listing Cut-Off Date:-

Compensation = 5% of the value of the Consideration Shares (i.e. the total number of Consideration Shares multiplied by RM1.10) multiplied by the number of days from the Completion Date up to the Listing Date (both dates inclusive) divided by 365,

and the compensation shall be paid to each of QIB (or such party as QIB may nominate in writing by way of a letter to MBSB), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to MBSB) in proportion to their amount or their nominee’s amount of the Consideration Shares on the next Business Day after the Listing Date.

(iii) Completion of sale and purchase

Subject to the Conditions Precedent being fulfilled or waived, completion of the sale and purchase of the Sale Shares shall take place at the registered office of AFB (or at such other venue as the Parties may mutually agree) on the Completion Date.

(iv) Covenants pending completion

- (a) Each of the Vendors undertakes that it shall not, pending the completion of the acquisition of the Sale Shares by MBSB from the Vendors, upon the terms and subject to the conditions of the SPA (“**Completion**”) or lawful termination of the SPA, sell, transfer, assign, or otherwise dispose of or create any encumbrance over its equity interest in AFB or negotiate, initiate or take any step with a view to negotiate with any third party for such purposes.
- (b) In order to ensure the efficient conduct of the business and operations of AFB and the preservation of the assets of AFB pending Completion and to allow MBSB to be capable of operating the business of AFB from the Completion Date in a manner substantially similar to the manner in which the business of AFB was operated before the Completion Date, the Parties agree that, with effect from the date of the SPA, a co-ordination committee shall be established in the manner and upon the terms as set out in the SPA (“**Co-ordination Committee**”). The tenure of the Co-ordination Committee shall be effective from the date of the SPA until the Completion Date, such other date as may be mutually determined by the Parties, or (if earlier) the termination of the SPA.
- (c) The Vendors shall procure and instruct the relevant members of management of AFB to participate in the Co-ordination Committee, and the Co-ordination Committee shall be established on the date of the SPA.
- (d) The Co-ordination Committee shall be fully responsible for the management of the business and affairs of AFB in accordance with the terms and conditions as set out in the SPA.
- (e) The Vendors confirm the waiver of all and any pre-emptive rights and/ or the right of first refusal they may have against each other in respect of the Sale Shares pursuant to the shareholders’ agreement dated 19 November 2006, and the deeds of adherence dated 3 September 2008 and 27 September 2010 to which the Vendors are bound or pursuant to any other document, agreement, deed, or constitution.
- (f) For the avoidance of doubt:-
 - (1) the Vendors shall not be liable for any breach of any terms and conditions of the SPA or any breach of any warranties and representations of the Vendors in the SPA to the extent that such breach or breaches is caused by any act or omission of the Vendors or AFB with the written consent of MBSB or as required to be done under the terms of the SPA or any act or omission of the Co-ordination Committee; and
 - (2) the Vendors as shareholders will not be responsible for any of the decisions or performance of AFB after the date of the SPA; and
 - (3) in the event that the SPA is terminated for any reason whatsoever and AFB incurs any losses due to any criminal act or misconduct or negligence of the Co-ordination Committee during the Co-ordination Committee’s management of AFB, MBSB shall indemnify the Vendors against such losses.

2.2 Proposed transfer of Shariah-compliant assets and liabilities to AFB

2.2.1 Details of the Proposed Transfer of Identified A&L (as defined herein)

Upon completion of the Proposed Acquisition, MBSB will transfer all of its Shariah-compliant assets and liabilities (“A&L”) (“**Identified A&L**”) to AFB in tranches, for a consideration to be determined later based on the book value of the Identified A&L at the point of transfer (“**Transfer Consideration**”). The Transfer Consideration will be satisfied by AFB through the issuance of new AFB Shares (“**Transfer Consideration Shares**”) at an issue price to be determined later (“**Proposed Transfer of Identified A&L**”).

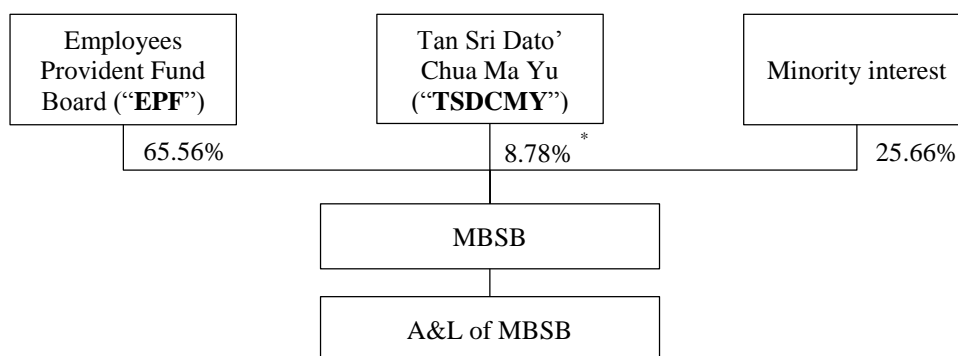
The Proposed Transfer of Identified A&L will be implemented through a members’ scheme of arrangement pursuant to Section 366 of the Companies Act, 2016 (“**Act**”) by way of a vesting order from the High Court of Malaya (“**High Court**”). The first tranche of the Proposed Transfer of Identified A&L will be implemented immediately after the granting of the vesting order by the High Court (“**First Tranche Transfer**”). Thereafter, MBSB will endeavour to convert its remaining conventional A&L into Shariah-compliant A&L for the same to be transferred to AFB in subsequent tranches.

All the residual conventional financial A&L which cannot be converted into Islamic A&L and non-core A&L of MBSB (“**Residual A&L**”) will be disposed to third parties. MBSB will seek the approval of its shareholders for the disposal of the Residual A&L at a later date, if required.

The subsequent tranches of the Proposed Transfer of Identified A&L and the disposal of the Residual A&L will be completed within a period of three (3) years from the date of completion of the First Tranche Transfer. The consideration and any resulting gain or loss upon the disposal of the Residual A&L cannot be ascertained at this juncture as it pertains to a future event.

The corporate and shareholdings structures of MBSB and AFB before and after the Proposed Merger are as set out below:-

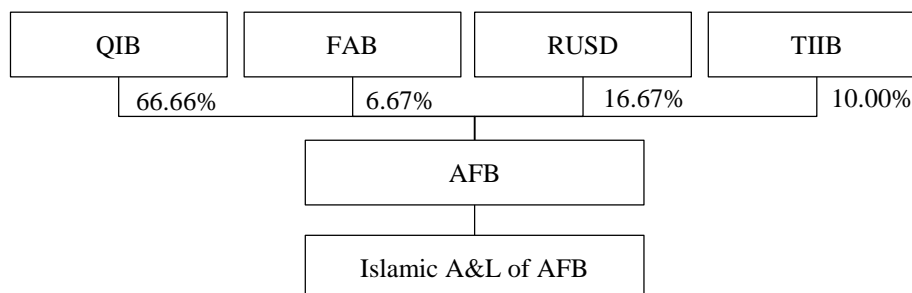
MBSB (as at 31 October 2017, being the latest practicable date prior to this Announcement (“LPD”))



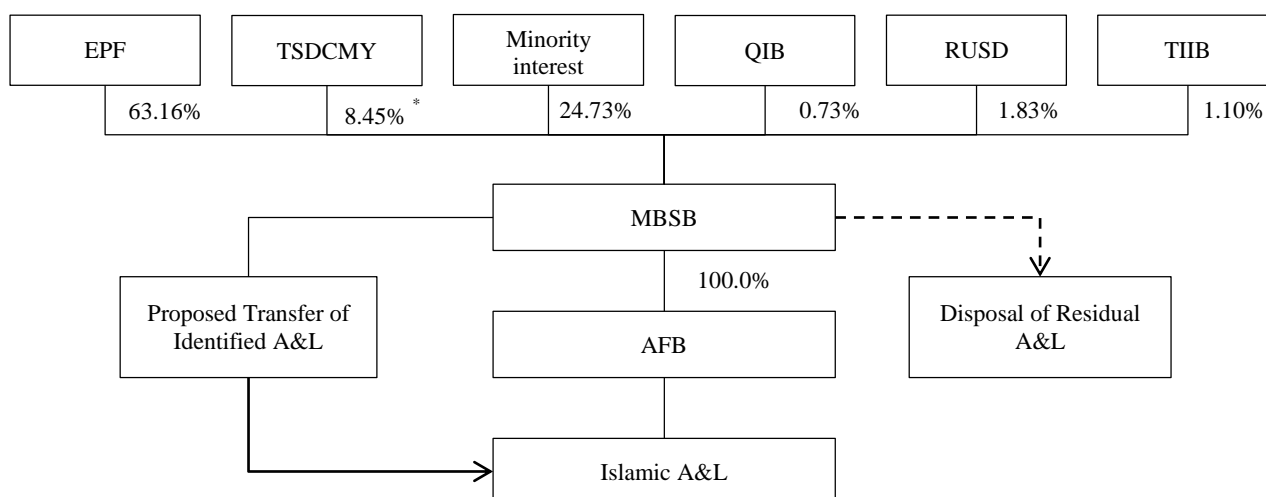
Note:-

* Comprises TSDCMY’s direct interest of 3.69% and indirect interest of 5.09%.

AFB (as at the date of the SPA)



After the Proposed Merger



Note:-

* Comprises TSDCMY's direct interest of 3.55% and indirect interest of 4.90%.

2.2.2 Basis of arriving at the Transfer Consideration and the issue price of the Transfer Consideration Shares

The Transfer Consideration will be determined based on the book value of the Identified A&L at the point of transfer.

The issue price of the Transfer Consideration Shares will be determined at a later date.

2.2.3 Ranking of the Transfer Consideration Shares

The Transfer Consideration Shares will be issued with all rights, benefits and entitlements attaching thereto, including without limitation, all dividends and distributions declared in respect thereof as at and from the date of completion of the Proposed Transfer of Identified A&L and will rank equally in all respects with the existing AFB Shares.

2.2.4 Proposed Sukuk Exchange

As at LPD, MBSB's A&L includes RM2.525 billion nominal value of covered sukuk murabahah ("MBSB Covered Sukuk") issued under a 15-year RM3.0 billion nominal value structured covered sukuk commodity Murabahah programme ("MBSB Sukuk Programme"). As a result of the Proposed Merger, MBSB proposes to exchange the outstanding MBSB Covered Sukuk with new structured covered Sukuk to be issued by AFB ("AFB Structured Covered Sukuk") under a new structured covered sukuk programme to be established by AFB ("Proposed AFB Sukuk Programme") ("Proposed Sukuk Exchange").

The MBSB Sukuk Programme was established by MBSB in 2013 as part of a fund raising exercise to, amongst others, fund the origination of financing assets in line with MBSB's business activities.

For information purposes, each tranche of the MBSB Covered Sukuk is secured by an identified pool of the financing receivables ("Tranche Cover Assets") held by Jana Kapital Sdn Bhd ("JKSB"). JKSB is a special purpose vehicle whose shares are held on trust by MBSB and was set up to facilitate the issuance of the MBSB Covered Sukuk.

Under the Proposed Sukuk Exchange, AFB will issue new AFB Structured Covered Sukuk under the Proposed AFB Sukuk Programme to the existing holders of MBSB Covered Sukuk (“**MBSB Sukukholders**”) in exchange for the MBSB Covered Sukuk held by the MBSB Sukukholders. As the issuance of AFB Structured Covered Sukuk is to facilitate the Proposed Sukuk Exchange, the structure and the terms and conditions (i.e. the profit rates, the tenure, the Tranche Cover Assets, etc.) of the AFB Structured Covered Sukuk will remain the same as the corresponding tranche of the MBSB Covered Sukuk to be exchanged.

The Proposed Sukuk Exchange is subject to the MBSB Sukukholders’ approval.

3. RATIONALE OF THE PROPOSED MERGER

MBSB has conducted a thorough strategic analysis of the potential merits in combining the banking operations of the MBSB Group with AFB. The Merged Entity is expected to leverage on the strength of MBSB’s business and the banking license held by AFB is anticipated to provide a unique opportunity for the Merged Entity to emerge as a full-fledged Islamic banking franchise in Malaysia.

4. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS OF THE MERGED ENTITY

4.1 Industry overview

Since the implementation of the Financial Sector Masterplan in 2001, which outlined a comprehensive set of strategies to solidify the foundation of the Islamic financial sector, the Islamic finance ecosystem has grown in strength towards meeting the evolving needs of the Malaysian economy. Total assets of the Islamic banking industry grew by 8.3% in 2016 (2015: 11.5%) to account for 28% of the overall banking system (2015: 26.8%).

Financing by the Islamic banking industry grew by 11% to RM549.5 billion during the year, underpinned by sustained demand for Shariah-compliant financial solutions from the household sector. Almost 61% of the total financing disbursed by the Islamic banking industry was channelled to households (2015: 61.6%).

Despite a challenging economic environment for businesses, financing to the business sector grew 13.3%, surpassing the growth rate for financing to the household sector. Financing was broad-based, with 10.4% of total financing channelled to the education, health, manufacturing and agriculture sectors. Investment accounts (“**IA**”) managed by Islamic banks grew to RM73.7 billion to account for 12.2% of total Islamic deposits and IA within the Islamic banking system (2015: RM47.1 billion, 8.6%).

The Islamic banking industry remained well capitalised throughout the year. As at end-2016, common equity tier 1 (CET1), tier 1 and total capital (TCR) ratios remained well above the minimum regulatory levels at 13%, 13% and 16.6% respectively (2015: 12.3%, 12.3%, 16.1%).

A notable development in the application of Shariah contracts for financing by the Islamic banking industry is the increased application of *tawarruq* over the last three years. In 2016, *tawarruq* financing grew over 34% to account for 22.4% of total outstanding Shariah-compliant financing. The growth has been largely spurred by the commodity trading operation of Bursa Suq Al-Sila which has reduced costs and risks associated with *tawarruq*-based transactions. Islamic deposits based on *tawarruq* also increased by 7.5% this year, reflecting higher demand for fixed rates of return on deposits offered under *tawarruq* contracts.

(Source: Chapter 4: Islamic Finance Development, Financial Stability and Payment Systems Report 2016, BNM)

4.2 Prospects and future plans of the Merged Entity

Over the next two years, the development of the Islamic finance industry will focus on enabling greater business diversification, driven by technology, to sustain its growth trajectory and deliver better value to customers. Towards this end, the Bank will intensify industry engagements to encourage more innovative applications of Shariah contracts in funding, financing and investment instruments.

In meeting the demand for Shariah-compliant financial products and services, Islamic financial institutions are expected to assume a larger role in value-based intermediation, beyond existing credit intermediation roles, to contribute more effectively towards the broader economic and social development. This vision for the Islamic financial sector is also supported by the transformation of the Islamic finance education landscape to address the talent needs of the industry.

By 2020, Shariah-compliant financing is expected to account for 40% of total financing in Malaysia. IA expanded further during the year as a new source of funding for Islamic banks. The risk sharing features of IA are expected to support entrepreneurship, facilitated by more efficient arrangements for the intermediation of investments by the Islamic banking industry.

(Source: Chapter 4: Islamic Finance Development, Financial Stability and Payment Systems Report 2016, BNM)

MBSB was defined as a Scheduled Institution under the repealed Banking and Financial Institution Act 1989 (“BAFIA”). The status of Exempt Finance Company was granted to MBSB on 1 March 1972 by the Ministry of Finance which allows MBSB to undertake a financing business in the absence of a banking license. Under the Financial Services Act 2013 (“FSA”), exemptions granted under BAFIA are deemed to have been granted under the FSA. Over the years, MBSB has shifted its focus to the Islamic financing segment and presently offers a number of Islamic financing products such as Islamic personal financing, home financing, corporate financing, fixed deposits and savings. To-date, the Islamic banking segment is a key contributor to MBSB’s revenue.

The Proposed Merger is expected to transform the Merged Entity into a full-fledged Islamic bank in Malaysia that offers Islamic universal banking services to both retail and wholesale banking customers such as, amongst others, deposit taking without restrictions, wealth management, foreign exchange, investment banking, debt capital management and trade finance. The Islamic bank’s proposed provision of a full spectrum of Islamic banking products is in line with MBSB’s roadmap to transform into a full-fledged financial institution.

As mentioned above, given that Shariah-compliant financing is expected to account for 40% of total financing in Malaysia by 2020, the creation of an Islamic Bank would provide MBSB the opportunity to participate in the growth of the Islamic banking segment both locally and internationally.

Premised on the above and barring unforeseen circumstance, MBSB believes that the Proposed Merger is a positive development for the MBSB Group.

5. RISK FACTORS

MBSB and AFB are currently operating within similar industries i.e. the provision of financial products and related services. As such, both entities are exposed to similar general business risks such as regulatory risks, credit risk, liquidity risk and asset impairment risk which are inherent to the financial industry which they operate in.

In addition, the MBSB Group is exposed to risks arising from the Proposed Merger, such as acquisition and integration risks.

The Proposed Merger is in line with the MBSB Group’s vision to transform itself into a full-fledged Islamic financial institution in Malaysia. The success in executing such strategy will depend on the successful integration of the operations of MBSB with AFB. A business integration and strategy committee comprising both MBSB and AFB’s management team will be formed to oversee the merging of MBSB and AFB’s businesses and operations.

Notwithstanding this, there can be no assurance that MBSB and AFB will be successfully integrated and without operational disruptions, loss of clientele, management or key personnel which could have a material adverse effect on the financial and operating conditions of the Merged Entity.

A detailed discussion of the risk factors will be set out in the circular to shareholders of MBSB to be despatched in due course.

6. EFFECTS OF THE PROPOSED MERGER

For illustrative purposes, the pro forma financial effects of the Proposed Merger are as set out below:-

6.1 Total issued share capital

The pro forma effects of the Proposed Merger on the total issued share capital of MBSB are as set out below:-

	No. of MBSB Shares ('000)	RM ('000)
Total issued share capital as at LPD ⁽ⁱ⁾	5,924,425	6,141,727
Consideration Shares to be issued	225,508	248,059
Enlarged issued share capital	6,149,933	6,389,786

Note:-

- (i) *Includes the following events which occurred during the period subsequent to the end of the financial year ended ("FYE") 31 December 2016 and up to LPD:-*
- (a) *The issuance of 125,644,042 new MBSB Shares which were listed and quoted on the Main Market of Bursa Securities on 23 June 2017 ("DRP Share(s)") pursuant to the Company's dividend reinvestment plan in respect of dividends declared for the FYE 31 December 2016 ("Dividend Reinvestment Plan"). The DRP Shares were issued at RM1.15 per DRP Share.*
- (b) *The issuance of 7,000 new MBSB shares pursuant to the exercise of MBSB's Employees' Share Option Scheme options ("ESOS Options") which were listed and quoted on the Main Market of Bursa Securities on 7 August 2017. The said new MBSB Shares were issued at RM1.02 per MBSB Share.*
- (c) *The transfer of share premium pursuant to Section 618(2) of the Act (in relation to the transitional provisions relating to the abolition of nominal value) which took effect on 31 January 2017.*

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6.2 Substantial shareholders' shareholdings

Based on the Register of Substantial Shareholders of MBSB as at LPD, the pro forma effects of the Proposed Merger on the shareholdings of the substantial shareholders of MBSB are as follows:-

	<-----As at LPD----->				<-----After the Proposed Merger----->			
	Direct		Indirect		Direct		Indirect	
	No. of MBSB Shares	%	No. of MBSB Shares	%	No. of MBSB Shares	%	No. of MBSB Shares	%
EPF	3,884,078,968 ⁽ⁱ⁾	65.56	-	-	3,884,078,968 ⁽ⁱ⁾	63.16	-	-
TSDCMY	218,344,900 ⁽ⁱⁱ⁾	3.69	301,518,750 ⁽ⁱⁱⁱ⁾	5.09	218,344,900 ⁽ⁱⁱ⁾	3.55	301,518,750 ⁽ⁱⁱⁱ⁾	4.90

Notes:-

⁽ⁱ⁾ Total direct interest of EPF held under Citigroup Nominees (Tempatan) Sdn Bhd.

⁽ⁱⁱ⁾ Total direct interest of TSDCMY held under Cimsec Nominees (Tempatan) Sdn Bhd Exempt AN for CIMB Securities (Singapore) Pte Ltd (Retail Clients) and Maybank Securities Nominees (Tempatan) Sdn Bhd.

⁽ⁱⁱⁱ⁾ Total indirect interest of TSDCMY held under Maybank Securities Nominees (Asing) Sdn Bhd, Maybank Kim Eng Securities Pte Ltd for CMY Global Ltd, Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Accounts for CMY Incubator Sdn Bhd, CMY Equity Sdn Bhd and CMY Capital Market Sdn Bhd.

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6.3 NA per Share and gearing

The pro forma effects of the Proposed Merger on the consolidated NA and gearing of the Group based on the latest audited consolidated statement of financial position of MBSB as at the FYE 31 December 2016 and on the assumption that the Proposed Merger are effected on that date are as follows:-

	Audited as at 31 December 2016	(I) Subsequent events up to LPD	After (I) and the Proposed Merger ^(iv)
	RM'000	RM'000	RM'000
Share capital *	5,798,774	6,141,727 ⁽ⁱ⁾	6,389,786 ^(v)
Share premium	198,449	-	-
Other reserves	20,957	20,558 ⁽ⁱⁱ⁾	20,558
Retained earnings	705,868	531,889 ⁽ⁱⁱⁱ⁾	511,713 ^(vi)
NA/Shareholders' funds	6,724,048	6,694,174	6,921,517
Number of MBSB Shares ('000)	5,798,774	5,924,425	6,149,933
NA per MBSB Share (RM)	1.16	1.13	1.13
Total borrowings (RM'000) ^(vii)			
– Including recourse obligation on loans/ financing sold to Cagamas Berhad (“Cagamas”)	5,611,257	5,611,257	5,611,257
– Excluding recourse obligation on loans/ financing sold to Cagamas	3,191,082	3,191,082	3,191,082
Gearing (times) ^(viii)			
– Including recourse obligation on loans/ financing sold to Cagamas	0.83	0.84	0.81
– Excluding recourse obligation on loans/ financing sold to Cagamas	0.47	0.48	0.46

Notes:-

- (i) After adjusting for the issuance of 125,644,042 new MBSB Shares pursuant to the Dividend Reinvestment Plan, 7,000 new MBSB Shares arising from the exercise of ESOS Options during the period subsequent to the end of the FYE 31 December 2016 and up to LPD and the transfer of share premium pursuant to Section 618(2) of the Act (in relation to the transitional provisions relating to the abolition of nominal value) which took effect on 31 January 2017.
- (ii) After taking into consideration the decrease in the share option reserve account of RM0.40 million arising from the exercise of 7,000 ESOS Options and the lapse of 1,737,424 ESOS Options.
- (iii) After taking into consideration, amongst others, expenses amounting to RM0.41 million which includes professional and advisory fees, regulatory fees, cost to convene an extraordinary general meeting (“EGM”), printing costs and postage in relation to the Dividend Reinvestment Plan and dividend payment for FYE 31 December 2016 of RM173.96 million.
- (iv) Based on the assumption that all Identified A&L are transferred to AFB.
- (v) The Financial Reporting Standards 2 (revised) requires the recognition of the fair value of the Consideration Shares to be based on the traded price as at the Completion Date. For illustrative purposes, the effects of the issuance of the Consideration Shares have been illustrated based on the Issue Price of RM1.10 per Consideration Share.
- (vi) After taking into consideration estimated expenses amounting to approximately RM20.18 million which includes professional and advisory fees, regulatory fees, cost to convene the EGM/ CCM (as defined herein) as well as printing and postage costs in relation to the Proposed Merger.
- (vii) The total borrowings comprise bank borrowings and the MBSB Covered Sukuk.
- (viii) Calculated based on total borrowings over NA.

6.4 Earnings and earnings per Share (“EPS”)

The Proposed Merger is not expected to have a material effect on the earnings and EPS of MBSB Group for the FYE 31 December 2017 as the Proposed Merger is expected to complete in the first (1st) quarter of 2018.

Moving forward, the Proposed Merger is expected to contribute positively to the financial performance of MBSB Group in the future.

6.5 Convertible securities

Save for the 26,421,678 ESOS Options outstanding which are exercisable into new MBSB Shares, the Company does not have any other existing and outstanding convertible security as at LPD.

The Proposed Merger will not have any effect on the terms and conditions of the outstanding ESOS Options.

7. APPROVALS REQUIRED FOR THE PROPOSED MERGER

The Proposed Merger is conditional upon the following approvals being obtained:-

- (i) in respect of the SPA:-
 - (a) the MOF/BNM Approval for the Proposed Acquisition for MBSB, which was obtained vide its letter dated 18 August 2017;
 - (b) MOF (through BNM) for the proposed disposal by the Vendors of 532,530,020 AFB Shares representing 100% equity interest in AFB to MBSB, which was obtained vide its letter to the Vendors dated 18 August 2017;
 - (c) shareholders of MBSB for the issuance and allotment of the Consideration Shares for the Proposed Acquisition at an EGM to be convened;
 - (d) Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities;
 - (e) shareholders of each of QIB, FAB, RUSD and TIIB respectively (where required) for the sale by each of QIB, FAB, RUSD and TIIB of their respective portion of the Sale Shares;
- (ii) ancillary approvals:-
 - (a) shareholders of MBSB for the Proposed Transfer of Identified A&L at a general meeting and a court convened meeting (“CCM”) to be convened;
 - (b) holders of the MBSB Structure Covered Sukuk required for and in connection with the transfer of the Identified A&L;
 - (c) financiers and lenders of MBSB, required for and in connection with the transfer of the Identified A&L;
 - (d) the sanctions of the High Court pursuant to Section 366 of the Act for a scheme of arrangement; and
 - (e) any other relevant authorities and/ or parties, including but not limited to any consent required from any government, governmental or regulatory bodies or agencies.

The Proposed Transfer of Identified A&L is conditional upon the Proposed Acquisition but not *vice versa*.

The Proposed Merger is not conditional upon any other corporate proposal undertaken or to be undertaken by MBSB.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED TO THEM

None of the Directors and/ or major shareholders of MBSB and/ or persons connected with them have any interest, whether direct or indirect in the Proposed Merger.

9. DIRECTORS' STATEMENT

The Board, after having considered all relevant aspects of the Proposed Merger and after careful deliberation, is of the opinion that the Proposed Merger is in the best interests of MBSB.

10. ADVISERS

RHB Investment Bank and AmInvestment Bank have been appointed as the Joint Principal Advisers to MBSB for the Proposed Merger.

11. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to the approvals being obtained from the relevant authorities, the Proposed Merger is expected to be completed by the first (1st) quarter of 2018.

The subsequent tranches of the Proposed Transfer of Identified A&L and disposal of the Residual A&L are expected to be completed within three (3) years from the completion of the First Tranche Transfer as set out in Section 2.2.1 of this Announcement.

12. APPLICATIONS TO THE AUTHORITIES

Barring unforeseen circumstances and subject to all relevant approvals being obtained, the applications to the relevant authorities in relation to the Proposed Merger will be made within two (2) months from the date of this Announcement.

13. PERCENTAGE RATIO FOR THE PROPOSED ACQUISITION

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities is 9.79% computed based on the latest audited consolidated financial statements of MBSB for the FYE 31 December 2016.

14. DOCUMENTS FOR INSPECTION

The SPA is available for inspection at the registered office of MBSB at 11th Floor, Wisma MBSB, 48, Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur, during normal business hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this Announcement.

This Announcement is dated 6 November 2017.