

THIS CIRCULAR AND EXPLANATORY STATEMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER INDEPENDENT ADVISER IMMEDIATELY.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular and Explanatory Statement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular and Explanatory Statement.



MALAYSIA BUILDING SOCIETY BERHAD

(Company No. 9417-K)
(Incorporated in Malaysia)

CIRCULAR AND EXPLANATORY STATEMENT (PURSUANT TO SECTION 369 OF THE COMPANIES ACT, 2016) TO SHAREHOLDERS IN RELATION TO THE PROPOSED MERGER OF MALAYSIA BUILDING SOCIETY BERHAD AND ASIAN FINANCE BANK BERHAD

AND

**NOTICES OF EXTRAORDINARY GENERAL MEETING (“EGM”)
AND COURT CONVENED MEETING (“CCM”)**

Joint Principal Advisers



RHB Investment Bank Berhad

(Company No. 19663-P)

(A Participating Organisation of Bursa Malaysia Securities Berhad)



AmInvestment Bank

AmInvestment Bank Berhad

(Company No. 23742-V)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of EGM and Notice of CCM of MBSB together with the respective Proxy Forms are enclosed in this Circular and Explanatory Statement.

You are entitled to vote at the EGM and CCM. If you are unable to attend the EGM and/ or CCM, you are entitled to appoint a proxy or proxies to attend and vote on your behalf. In such event, you should complete and deposit the relevant Proxy Form(s) at our Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, not less than 48 hours before the date and time fixed for holding the EGM and/ or CCM, respectively, or at any adjournment thereof. The lodging of the relevant Proxy Form(s) will not preclude you from attending and voting in person at the EGM and/ or CCM should you subsequently wish to do so.

Last date and time for lodging of the Proxy Form for the EGM	: 10.00 a.m., Sunday, 21 January 2018
Date and time for EGM	: 10.00 a.m., Tuesday, 23 January 2018
Venue of the EGM	: Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia
Last date and time for lodging of the Proxy Form for the CCM	: 11.00 a.m., Sunday, 21 January 2018
Date and time of CCM	: 11.00 a.m., Tuesday, 23 January 2018, or immediately after the conclusion or adjournment (as the case may be) of the EGM, whichever is later
Venue of the CCM	: Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular and Explanatory Statement:-

A&L	:	Assets and liabilities
Accepted NA	:	The agreed NA of AFB of RM496,117,545, being the unaudited consolidated NA of AFB as at 31 December 2016, which was mutually agreed between the Parties
AFB	:	Asian Finance Bank Berhad
AFB Shares	:	Ordinary shares in AFB
AFB Structured Covered Sukuk	:	Structured covered sukuk to be issued by AFB pursuant to the Proposed Sukuk Exchange
AmInvestment Bank	:	AmInvestment Bank Berhad, a Joint Principal Adviser for the Proposed Merger
Balance Purchase Consideration	:	A sum of RM580,457,526.90, equivalent to 90% of the Purchase Consideration
Board	:	Board of Directors of MBSB
Business Day	:	A day (other than a Saturday, a Sunday or a public holiday) on which banks in Kuala Lumpur are open for business
Cash Consideration	:	RM396,894,036.26 in cash, to be paid as part settlement of the Purchase Consideration to QIB and FAB in the amounts as set out in Section 2.1.2 of this Circular/ Explanatory Statement
Cash Option	:	The choice given to the Vendors vide the Letter of Offer in respect of the Proposed Acquisition to receive payment of the relevant Purchase Consideration in the form of cash
CCM	:	Court convened meeting
Circular/ Explanatory Statement	:	This circular and explanatory statement to shareholders of MBSB dated 31 December 2017 in relation to the Proposed Merger
Completion Date	:	Completion of the sale and purchase of the Sale Shares 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 the Conditions Precedent (as defined herein) shall have been fulfilled, or waived in accordance with the terms of the SPA, or such later date as the Parties may mutually agree in writing
Consideration Share(s)	:	225,507,974 new MBSB Shares to be issued at the Issue Price as part settlement of the Purchase Consideration to QIB (who has nominated Tadhamon Capital BSC), RUSD and TIIB (who has nominated Tadhamon Capital BSC) in the amounts as set out in Section 2.1.2 of this Circular/ Explanatory Statement
Cut-Off Date	:	The date falling three (3) months from the date of the SPA
Deposit	:	A sum of RM64,495,280.76, equivalent to 10% of the Purchase Consideration
EGM	:	Extraordinary General Meeting
EPF	:	Employees Provident Fund Board, the controlling shareholder of MBSB
EPS	:	Earnings per share
Escrow Agent	:	Bank Islam Malaysia Berhad

DEFINITIONS (Cont'd)

ESOS	:	Employees' share option scheme
ESOS Option(s)	:	Option(s) granted and/ or to be granted to eligible employees and directors of the MBSB Group in accordance with the by-laws of MBSB's ESOS to subscribe for new MBSB Shares
Extended Cut-Off Date	:	An automatic extension of a further three (3) months from the Cut-Off Date
FAB	:	Financial Assets Bahrain W.L.L
First Tranche Transfer	:	The first tranche of the Proposed Transfer of Identified A&L to be implemented after the grant of the Vesting Order
FPE	:	Financial period ended/ ending
FYE	:	Financial year(s) ended/ ending
High Court	:	High Court of Malaya
Identified A&L	:	The Shariah-compliant A&L of MBSB as identified by MBSB to be transferred to AFB pursuant to and in accordance with the Proposed Transfer of Identified A&L
Issue Price	:	Issue price of RM1.10 per Consideration Share
Letter of Offer	:	Letter of offer dated 23 March 2017 issued by MBSB to the Vendors
LPD	:	30 November 2017, being the latest practicable date prior to the date of this Circular/ Explanatory Statement
MBSB or Company	:	Malaysia Building Society Berhad
MBSB Covered Sukuk	:	Covered sukuk murabahah issued by MBSB
MBSB Group or Group	:	MBSB and its subsidiaries, collectively
MBSB Share(s)	:	Ordinary shares in MBSB
MBSB Sukuk Programme	:	A 15-year RM3.0 billion nominal value structured covered sukuk commodity Murabahah programme under which the MBSB Covered Sukuk has been issued
Merged Entity	:	The combined MBSB Group and AFB upon completion of the Proposed Merger
NA	:	Net assets
Parties	:	MBSB and the Vendors, collectively
PAT	:	Profit after tax (excluding minority interest, unless specified otherwise)
PBT	:	Profit before tax
Proposed Acquisition	:	Proposed acquisition by MBSB of the Sale Shares from the Vendors for the Purchase Consideration
Proposed Merger	:	Proposed Acquisition and Proposed Transfer of Identified A&L, collectively
Proposed Sukuk Exchange	:	Proposed exchange of outstanding MBSB Covered Sukuk with the new AFB Structured Covered Sukuk

DEFINITIONS (Cont'd)

Proposed Transfer of Identified A&L	:	Proposed transfer of the Identified A&L of MBSB to AFB via a scheme of arrangement for the Transfer Consideration
Purchase Consideration	:	The aggregate purchase consideration of RM644,952,807.66 for the Proposed Acquisition, which will be satisfied via the Cash Consideration and Consideration Shares
QIB	:	Qatar Islamic Bank
Residual A&L	:	Residual conventional financial A&L which cannot be converted into Shariah-compliant A&L and non-financial subsidiaries of MBSB
RHB Investment Bank	:	RHB Investment Bank Berhad, a Joint Principal Adviser for the Proposed Merger
RUSD	:	RUSD Investment Bank Inc
Sale Shares	:	532,530,020 AFB Shares representing 100% of the ordinary share capital of AFB
Shares Option	:	The choice given to the Vendors vide the Letter of Offer in respect of the Proposed Acquisition to receive payment of the relevant Purchase Consideration in the form of new MBSB Shares
SPA	:	Conditional share purchase agreement dated 6 November 2017 entered into by the Parties for the Proposed Acquisition
TIIB	:	Tadhamon International Islamic Bank
Transfer Consideration	:	The consideration for the Proposed Transfer of Identified A&L to be determined based on the book value of the Identified A&L at the latest practicable date prior to the transfer
TSDCMY	:	Tan Sri Dato' Chua Ma Yu, a substantial shareholder of MBSB
Vendors	:	Registered shareholders of AFB, namely QIB, FAB, RUSD and TIIB, collectively
Vesting Order	:	Vesting order granted by the High Court to MBSB to transfer the Identified A&L to AFB pursuant to the Proposed Transfer of Identified A&L
VWAP	:	Volume weighted average market price

Acts & Guidelines

Act	:	Companies Act, 2016
CMSA	:	Capital Markets & Services Act, 2007
IFSA	:	Islamic Financial Services Act, 2013
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities

Regulatory Bodies

BNM	:	Bank Negara Malaysia
Bursa Depository	:	Bursa Malaysia Depository Sdn. Bhd.
Bursa Securities	:	Bursa Malaysia Securities Berhad
MOF	:	Ministry of Finance, Malaysia

DEFINITIONS (Cont'd)

SC : Securities Commission Malaysia

Currencies

AED : United Arab Emirates Dirham

BHD : Bahraini Dinar

KWD : Kuwaiti Dinar

QAR : Qatari Rial

RM and sen : Ringgit Malaysia and sen, respectively

SR : Saudi Riyal

USD : United States Dollar

YER : Yemeni Rial

Words denoting the singular shall, where applicable, include the plural and vice versa, and words denoting the masculine shall, where applicable, include the feminine and/ or neuter gender, and vice versa. References to persons shall include corporations, unless otherwise specified.

Any reference in this Circular/ Explanatory Statement to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to time of day in this Circular/ Explanatory Statement shall be a reference to Malaysian time, unless otherwise stated.

Certain statements in this Circular/ Explanatory Statement may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by your Board after due enquiry, which are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Circular/ Explanatory Statement should not be regarded as a representation or warranty that our Group's plans and objectives will be achieved.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK
--

EXECUTIVE SUMMARY

This Executive Summary provides a brief summary of the pertinent information on the Proposed Merger (including the Proposed Transfer of Identified A&L) as set out in this Circular/ Explanatory Statement. You are advised to read and carefully consider the contents of this Circular/ Explanatory Statement before voting on the resolutions pertaining to the Proposed Merger and Proposed Transfer of Identified Assets to be tabled at our forthcoming EGM and CCM, respectively.

1. INTRODUCTION

On 21 December 2016, our Company announced that BNM had vide its letter on even date, informed our Company that it has no objection-in-principle for our Company to commence negotiations with the Vendors for the proposed merger of MBSB and AFB (“**BNM Letter**”).

On 19 June 2017, your Board announced that our Company had submitted an application to BNM to seek the approvals of BNM and/ or the MOF for the proposed merger of MBSB and AFB.

On 18 August 2017, your Board announced that the MOF (through BNM), had vide BNM’s letter dated 18 August 2017 granted its approval to our Company for the proposed acquisition by MBSB of 100% equity interest in AFB (“**MOF/ BNM Approval**”).

On 6 November 2017, RHB Investment Bank and AmInvestment Bank, on behalf of your Board, announced that our Company had entered into the SPA with the Vendors for the proposed acquisition by our Company of the entire equity interest in AFB from the Vendors for an aggregate purchase consideration of RM644,952,807.66 to be satisfied by way of cash amounting to RM396,894,036.26 and the issuance of 225,507,974 Consideration Shares at an issue price of RM1.10 per Consideration Share (“**Announcement**”).

On 20 December 2017, RHB Investment Bank and AmInvestment Bank had, on behalf of your Board, announced that the High Court had granted an order for the convening of our CCM for the purpose of considering and, if thought fit, approving a scheme of arrangement, the terms of which are as set out in Appendix IV of this Circular/ Explanatory Statement.

On 28 December 2017, RHB Investment Bank and AmInvestment Bank had, on behalf of your Board, announced that Bursa Securities had vide its letter dated 28 December 2017, approved the listing of and quotation for 225,507,974 Consideration Shares on the Main Market of Bursa Securities, subject to the conditions as set out in Section 8(i)(d) of this Circular/ Explanatory Statement.

2. PROPOSED MERGER

The Proposed Merger, which would result in MBSB becoming the financial holding company of AFB, entails the following:-

- (i) the Proposed Acquisition; and
- (ii) the Proposed Transfer of Identified A&L.

2.1 Proposed Acquisition

The Proposed Acquisition entails the acquisition by our Company of 532,530,020 AFB Shares 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.

Our Company had on 23 March 2017 issued the Letter of Offer whereby the Vendors were given the option to receive the relevant Purchase Consideration in the form of the Cash Option or the 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.

EXECUTIVE SUMMARY (Cont'd)

The Purchase Consideration was determined in the following manner:-

- (i) Cash Option: Valuation of 1.2 times of the Accepted NA; and/ or
- (ii) Shares Option: Valuation of 1.5 times of the Accepted NA.

The Purchase Consideration is expected to be satisfied in the following manner:-

Vendor	Number of AFB Shares held	Cash Option/ Shares Option	Purchase Consideration (RM)	Mode of settlement	
				Cash (RM)	Consideration Shares (Number)
QIB ⁽ⁱ⁾	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 ⁽ⁱ⁾	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

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 Merged Entity vis-à-vis the license held by AFB to carry on an Islamic banking business in Malaysia;
- (iii) the trading multiples over the past ten (10) years as follows:-
 - (a) banks or their holding companies (where applicable) listed in Malaysia with price-to-book multiples (“PBR”) ranging between 0.6 to 2.2 times; and
 - (b) precedent transactions involving the acquisition of banks or their holdings companies (where applicable) listed in Malaysia with PBRs ranging between 0.9 to 2.3 times; 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 Circular/ Explanatory Statement.

The Issue Price for the Consideration Shares of RM1.10 was negotiated between the Parties and represents a discount of approximately 6.78% to the one (1)-month 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.

2.2 Proposed Transfer of Identified A&L

Upon completion of the Proposed Acquisition, our Company will transfer its 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 latest practicable date prior to the transfer, and satisfied by AFB through the issuance of new AFB Shares (“Transfer Consideration Shares”) at an issue price to be determined later.

EXECUTIVE SUMMARY (Cont'd)

The Transfer Consideration will be based on the book value of the Identified A&L at the latest practicable date prior to each tranche of the transfer. The issue price of the Transfer Consideration Shares will be determined at a later date after taking into consideration the NA per AFB Share.

The Proposed Transfer of Identified A&L will be implemented through a members' scheme of arrangement pursuant to Section 366 of the Act by way of a vesting order from the High Court. The First Tranche Transfer will be implemented after the grant of the vesting order by the High Court. Thereafter, our Company will endeavour to convert its remaining identified conventional A&L into Shariah-compliant A&L for the same to be transferred to AFB in subsequent tranches.

All Residual A&L will be settled or disposed to third parties.

The subsequent tranches of the Proposed Transfer of Identified A&L and the disposal of Residual A&L will be completed within a period of three (3) years from the date of completion of the First Tranche Transfer.

As at LPD, our Company's A&L includes RM2.442 billion nominal value of MBSB Covered Sukuk issued under a 15-year RM3.0 billion nominal value MBSB Sukuk Programme. As a result of the Proposed Merger, our Company proposes to exchange the then outstanding MBSB Covered Sukuk with new AFB Structured Covered Sukuk.

3. RATIONALE

As an Exempt Finance Company, we face certain limitations especially on the products and services that can be offered and access to money markets. In the absence of a banking license, the products that can be offered by us are not as wide as those offered by full-fledged banking financial institutions. In addition, the limitations in accessing the interbank money market resulted in our cost of funds being relatively higher than those of a full-fledged banking financial institutions. In order to facilitate our next phase of growth and to compete with the other financial institutions, we would require a banking license.

We have conducted a strategic analysis of the potential merits of combining our banking operations with AFB's. The Proposed Merger provides a unique opportunity for us to emerge as a full-fledged Islamic banking franchise in Malaysia. As a full-fledged Islamic banking entity, we would have access to funding sources not previously available to us such as current account deposits and interbank funding. This would enable us to diversify our sources of funding and obtain cheaper financing. We will also be in a position to offer an end to end proposition of Islamic banking products and services such as trade facilities, investment advisory services and wealth management products as well as to expand our banking services especially to small and medium enterprises.

We believe that the Proposed Merger will spearhead our future growth and allow us to maintain a competitive edge in the financial industry.

4. PROSPECTS OF THE MERGED ENTITY

To-date, the Islamic banking segment is a key contributor to our Company's revenue. The Proposed Merger is expected to transform the Merged Entity into a full-fledged Islamic bank in Malaysia that offers universal Islamic banking services to both retail and wholesale banking customers such as, amongst others, deposit taking, wealth management, foreign exchange, investment banking, debt capital management and trade finance. The Merged Entity's proposed provision of a full spectrum of Islamic banking products is in line with our Company's roadmap to transform into a full-fledged financial institution and provide our Company the opportunity to participate in the growth of the Islamic banking segment both locally and internationally.

5. RISK FACTORS

The potential risk factors which may arise from the Proposed Merger, include but are not limited to, the following, which are further set out in Section 5 of this Circular/ Explanatory Statement:-

- (i) Completion risk;
- (ii) Acquisition and integration risk;
- (iii) Ability to attract and retain key/ experienced personnel;
- (iv) MBSB will be subject to the IFSA;
- (v) Single counterparty exposure limit;
- (vi) Competition;
- (vii) Potential loss on disposal of the Residual A&L;
- (viii) Goodwill on acquisition; and
- (ix) Quality of financing portfolio and risk of additional impairment losses for AFB.

6. EFFECTS OF THE PROPOSED MERGER

A summary of the pro forma financial effects of the Proposed Merger is as follows:-

	<u>Audited as at 31 December 2016</u>	<u>After the Proposed Merger</u>
Share capital (RM '000)	5,798,774	6,389,786
NA per MBSB Share (RM)	1.16	1.13
Gearing (times)		
- Including recourse obligation on loans/ financing sold to Cagamas	0.83	0.81
- Excluding recourse obligation on loans/ financing sold to Cagamas	0.47	0.46
EPS (sen)	4.41	4.27

Our substantial shareholders' shareholdings are expected to be diluted as a result of the issuance of the Consideration Shares.

Further details of the pro forma financial effects of the Proposed Merger is set out in Section 6 of this Circular/ Explanatory Statement.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	v
LETTER TO OUR SHAREHOLDERS IN RELATION TO THE PROPOSED MERGER CONTAINING:-	
1. INTRODUCTION.....	1
2. DETAILS OF THE PROPOSED MERGER.....	2
3. RATIONALE OF THE PROPOSED MERGER	16
4. INDUSTRY OVERVIEW, PROSPECTS AND FUTURE PLANS OF THE MERGED ENTITY	17
5. RISK FACTORS.....	18
6. EFFECTS OF THE PROPOSED MERGER.....	21
7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED TO THEM	24
8. APPROVALS REQUIRED	25
9. DIRECTORS' STATEMENT AND RECOMMENDATION	26
10. CORPORATE PROPOSALS ANNOUNCED BUT PENDING COMPLETION.....	26
11. HISTORICAL SHARE PRICES.....	26
12. ESTIMATED TIMEFRAME FOR COMPLETION.....	27
13. EGM.....	27
14. CCM.....	27
15. FURTHER INFORMATION.....	28
APPENDICES	
I INFORMATION ON THE VENDORS.....	29
II INFORMATION ON AFB	33
III AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016.....	39
IV TERMS OF THE SCHEME OF ARRANGEMENT	145
V SALIENT TERMS OF THE MBSB COVERED SUKUK.....	151
VI FURTHER INFORMATION.....	158
NOTICE OF EGM.....	ENCLOSED
NOTICE OF CCM.....	ENCLOSED
PROXY FORM FOR EGM.....	ENCLOSED
PROXY FORM FOR CCM.....	ENCLOSED



MALAYSIA BUILDING SOCIETY BERHAD
(Company no. 9417-K)
(Incorporated in Malaysia)

Registered Office
11th Floor, Wisma MBSB
48, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur
Malaysia

31 December 2017

Board of Directors

Tan Sri Abdul Halim bin Ali (*Chairman/ Non-Independent Non-Executive Director*)

Datuk Shahril Ridza bin Ridzuan (*Non-Independent Non-Executive Director*)

Datuk Syed Zaid bin Syed Jaffar Albar (*Non-Independent Non-Executive Director*)

Dato' Jasmy bin Ismail (*Senior Independent Non-Executive Director*)

Aw Hong Boo (*Independent Non-Executive Director*)

Lim Tian Huat (*Independent Non-Executive Director*)

Ir. Moslim bin Othman (*Independent Non-Executive Director*)

Sazaliza bin Zainuddin (*Non-Independent Non-Executive Director*)

Datuk Johar bin Che Mat (*Independent Non-Executive Director*)

Lynette Yeow Su-Yin (*Independent Non-Executive Director*)

Dr Tunku Alina binti Raja Muhd Alias (*Independent Non-Executive Director*)

To: Our Shareholders

Dear Sir/ Madam,

PROPOSED MERGER

1. INTRODUCTION

On 21 December 2016, our Company announced that BNM had vide its letter on even date, informed our Company that it has no objection-in-principle for our Company to commence negotiations with the Vendors for the proposed merger of MBSB and AFB ("**BNM Letter**"). BNM had, in its letter stipulated a deadline of six (6) months from the date of the BNM Letter for our Company to complete negotiations for the proposed merger of MBSB and AFB.

On 19 June 2017, your Board announced that our Company had on even date, submitted an application to BNM within the stipulated timeframe, to seek the approvals of BNM and/ or the MOF for the proposed merger of MBSB and AFB. On 18 August 2017, your Board announced that the MOF (through BNM), had vide BNM's letter dated 18 August 2017 granted its approval to our Company for the proposed acquisition by MBSB of 100% equity interest in AFB ("**MOF/ BNM Approval**").

On 6 November 2017, RHB Investment Bank and AmInvestment Bank, on behalf of your Board, announced that our Company had on even date entered into the SPA with the Vendors for the proposed acquisition by our Company of the entire equity interest in AFB from the Vendors for an aggregate purchase consideration of RM644,952,807.66 to be satisfied by way of cash amounting to RM396,894,036.26 and the issuance of 225,507,974 Consideration Shares at an issue price of RM1.10 per Consideration Share ("**Announcement**").

On 20 December 2017, RHB Investment Bank and AmInvestment Bank had, on behalf of your Board, announced that the High Court had granted an order for the convening of our CCM for the purpose of considering and, if thought fit, approving a scheme of arrangement, the terms of which are as set out in Appendix IV of this Circular/ Explanatory Statement.

On 28 December 2017, RHB Investment Bank and AmInvestment Bank had, on behalf of your Board, announced that Bursa Securities had vide its letter dated 28 December 2017, approved the listing of and quotation for 225,507,974 Consideration Shares on the Main Market of Bursa Securities, subject to the conditions as set out in Section 8(i)(d) of this Circular/ Explanatory Statement.

THE PURPOSE OF THIS CIRCULAR/ EXPLANATORY STATEMENT IS TO PROVIDE YOU WITH THE RELEVANT DETAILS OF THE PROPOSED MERGER AND TO SEEK YOUR APPROVAL FOR THE RESOLUTIONS TO BE TABLED AT OUR FORTHCOMING EGM AND CCM.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR/ EXPLANATORY STATEMENT BEFORE VOTING ON THE RESOLUTIONS TO BE TABLED AT OUR FORTHCOMING EGM AND CCM RESPECTIVELY.

2. DETAILS OF THE PROPOSED MERGER

The Proposed Merger, which would result in MBSB becoming the financial holding company of AFB, entails the following:-

- (iii) the Proposed Acquisition; and
- (iv) the Proposed Transfer of Identified A&L.

2.1 Proposed Acquisition

2.1.1 Details of the Proposed Acquisition

The Proposed Acquisition entails the acquisition by our Company of 532,530,020 AFB Shares 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, 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 our Company.

Information on the Vendors and AFB are as set out in Appendices I and II of this Circular/ Explanatory Statement respectively.

2.1.2 Mode of settlement of the Purchase Consideration

Our Company had on 23 March 2017 issued the Letter of Offer whereby the Vendors were given the option to receive the relevant Purchase Consideration in the form of the Cash Option or the 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:-

- (iii) Cash Option: Valuation of 1.2 times of the Accepted NA; and/ or
- (iv) Shares Option: Valuation of 1.5 times of the Accepted NA.

Based on the Accepted NA, the Purchase Consideration is expected to be satisfied in the following manner:-

Vendor	Number of AFB Shares held	Cash Option/ Shares Option	Purchase Consideration (RM)	Mode of settlement	
				Cash (RM)	Consideration Shares (Number)
QIB ⁽ⁱ⁾	355,020,013	Cash Option ⁽ⁱⁱ⁾ Shares Option ⁽ⁱⁱ⁾	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 ⁽ⁱ⁾	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

Notes:-

⁽ⁱ⁾ QIB and TIIB have nominated Tadamon Capital BSC as the recipient of 45,101,594 Consideration Shares and 67,652,392 Consideration Shares respectively, vide their letters of nomination dated 2 November 2017 and 5 November 2017 respectively.

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

The decision to grant the Vendors the choice to elect for either the Cash Option or Shares Option was arrived at after taking into consideration, amongst others, our capital structure and substantial shareholders' shareholdings in our Company. Further, the Cash Option and Shares Option presents an opportunity for the Vendors to monetise their investment in AFB and/ or to continue participating in the Merged Entity albeit with a smaller equity stake. The Shares Option allows our Company to reduce the overall cash outlay and the higher valuation for the Shares Option takes into consideration the volatility of our Company's share price which ranged between RM0.69 to RM1.40 during the one (1)-year period prior to the date of the Letter of Offer.

Pursuant to the SPA, the escrow amount which consists of cash and cash equivalent amounts of the Purchase Consideration will be deposited into an escrow account with the Escrow Agent in the following manner:-

Description	Timeframe	Purchase Consideration	
		(%)	(RM)
Deposit	The Deposit was paid in cash on 6 November 2017	10.00	64,495,280.76
Balance Purchase Consideration	To be paid in cash on the Cut-Off Date, if the Conditions Precedent (as defined herein) are not met	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), our Company shall also pay the Balance Purchase Consideration to the Escrow Agent.

The Cash Consideration will be released to QIB and FAB on the Completion Date. Following the 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 our Company (and not paid to QIB, RUSD and TIIB who would have been allotted the Consideration Shares represented by the cash equivalent amount). Further details on the settlement of the Purchase Consideration are set out in Section 2.1.9(ii) of this Circular/ Explanatory Statement.

The abovementioned arrangement was negotiated between the Parties and the payment of the Balance Purchase Consideration to the Escrow Agent would serve to demonstrate our intention to complete the transaction and to reflect our financial capability to satisfy our payment obligations under the SPA. Additionally, placing the Balance Purchase Consideration with the Escrow Agent upon the extension of the Cut-Off Date is also deemed reasonable as the Vendors are providing their continued commitment to the transaction for an additional three (3) months up to the Extended Cut-Off Date.

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 Merged Entity vis-à-vis the license held by AFB to carry on an Islamic banking business in Malaysia;
- (iii) the trading multiples over the past ten (10) years as follows:-
 - (c) banks or their holding companies (where applicable) listed in Malaysia with PBRs ranging between 0.6 to 2.2 times; and
 - (d) precedent transactions involving the acquisition of banks or their holdings companies (where applicable) listed in Malaysia with PBRs ranging between 0.9 to 2.3 times; 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 Circular/ Explanatory Statement.

For information purposes, the Purchase Consideration represents an average PBR 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.

For information purposes, the average PBR of 1.3 times represented by the Purchase Consideration as stated above is based on the proportion of the AFB Shares to be settled by the Cash Option and the Shares Option in accordance with the respective Vendors' selection, as illustrated below:-

$$\text{Average PBR} = \frac{(1.2 \times \text{Accepted NA} \times \text{A}\%) + (1.5 \times \text{Accepted NA} \times \text{B}\%)}{\text{Accepted NA}}$$

Where, A% = the proportion of AFB Shares to be settled in cash = 66.6667%
B% = the proportion of AFB Shares to be settled in Shares = 33.3333%

$$\text{Therefore, Average PBR} = \frac{(1.2 \times 496,117,545 \times 66.6667\%) + (1.5 \times 496,117,545 \times 33.3333\%)}{496,117,545} = \underline{1.3 \text{ times}}$$

The range of trading multiples as set out in Section 2.1.3(iii) above was derived by comparing the PBRs of banks or their holding companies (where applicable) listed in Malaysia based on their respective market prices as at 15 March 2017 (being the latest practicable date prior to the date of issue of the Letter of Offer to the Vendors) as follows:-

- (i) Banks or their holding companies listed in Malaysia

Name	Closing price as at 15 March 2017 (RM)	Market capitalisation as at 15 March 2017 (RM mil)	NA per share as at 31 December 2016 (RM)	PBR (times)
Malayan Banking Bhd	8.75	89,192	6.72	1.3
Public Bank Berhad	19.86	76,689	8.86	2.2
CIMB Group Holdings Bhd	5.36	47,535	5.11	1.0
Hong Leong Bank Berhad	13.58	27,868	10.67	1.3
RHB Bank Bhd	5.18	20,772	5.42	1.0
AMMB Holdings Bhd ("AHB")	4.81	14,498	5.20	0.9
BIMB Holdings Bhd	4.38	7,173	2.44	1.8
Alliance Financial Group Bhd	4.00	6,099	3.22	1.2
Affin Holdings Berhad	2.86	5,557	4.47	0.6
MBSB	1.16	6,727	1.16	1.0

(Sources: Annual reports, quarterly results and Bloomberg)

Based on the table above, banks or their holding companies listed in Malaysia traded at a PBR range of 0.6 to 2.2 times.

As shown above, MBSB, a non-bank financial institution traded at a PBR of 1.0 time. The Purchase Consideration for AFB, an Islamic bank operating in Malaysia, represents an average PBR of 1.3 times (“**Purchase Consideration PBR**”). The Purchase Consideration PBR is within the range of traded PBRs of 0.6 to 2.2 times applicable to banks or their holding companies listed in Malaysia and is also within the range of the precedent transactions involving banks or their holding companies listed in Malaysia of 0.9 times to 2.3 times as detailed in the table below.

(ii) Precedent transactions involving banks or their holding companies listed in Malaysia

Target	Bidder	Mode	Percentage acquired	Offer price	NA per share of Target ⁽ⁱ⁾	PBR
			(%)	(RM)	(RM)	(times)
Bank Islam Malaysia Berhad	BIMB Holdings Berhad	Cash	49.0	2.58	1.37	1.9
Bank Muamalat Malaysia Berhad	DRB-Hicom Berhad	Shares	70.0	6.11	2.85	2.1
RHB Capital Berhad	Aabar Investments	Cash	24.9	10.80	4.60	2.3
EON Capital Berhad	Hong Leong Bank Berhad	Cash	100.0	7.30	5.13	1.4
EON Capital Berhad	Primus Pacific Partners	Cash	20.2	9.55	4.32	2.2
RHB Capital Berhad	Abu Dhabi Commercial Bank	Cash	25.0	7.20	3.30	2.2
Malaysian Industrial Development Finance Berhad	Permodalan Nasional Berhad	Cash	80.0	1.90	2.05	0.9
RHB Capital Berhad	Employees Provident Fund Board	Cash	100.0	4.76	2.70	1.8
AHB	Australia and New Zealand Banking Group	(ii)	26.3	(ii)	(ii)	(ii)

(Sources: Announcements, circulars, annual reports, press releases and news source)

The Bank Muamalat Malaysia Berhad and Bank Islam Malaysia Berhad transactions are the most relevant precedent transactions to the Proposed Acquisition and were completed at PBRs of 2.1 and 1.9 times respectively.

Based on the above, precedent transactions involving other banks or their holding companies listed in Malaysia were completed within a range of PBRs of between 0.9 to 2.3 times.

Notes:-

(i) Based on the latest available audited financial statements of the target companies at the point of each transaction.

(ii) *The offer prices, NA per Share and PBRs for the types of securities of AHB are as follows:-*

<i>Type of security in AHB</i>	<i>Mode</i>	<i>Offer price (RM)</i>	<i>NA per Share (RM)</i>	<i>PBR (times)</i>
<i>Convertible preference shares</i>	<i>Issuance of convertible preference shares for cash</i>	3.05	2.36	1.3
<i>Exchangeable bonds</i>	<i>Issuance of exchangeable bonds for cash</i>	3.05	2.36	1.3
<i>AHB shares acquired from Amcorp Group Berhad</i>	<i>Cash</i>	4.30	2.36	1.8

The Issue Price for the Consideration Shares of RM1.10 was negotiated between the Parties and represents a discount of approximately 6.78% to the one (1)-month 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 our Company must be registered in order to participate in the relevant distribution is on or subsequent to the Completion Date.

The Sale Shares shall be acquired free from all encumbrances 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.

2.1.5 Listing of and quotation for the Consideration Shares

Bursa Securities had vide its letter dated 28 December 2017 granted its approval for the listing of and quotation for 225,507,974 Consideration Shares on the Main Market of Bursa Securities.

2.1.6 Source of funding

The Cash Consideration shall 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 our Company. As such, all liabilities of AFB, including contingent liabilities and guarantees (if any), will be consolidated into our existing Group. Further details of the liabilities of AFB as at FYE 31 December 2016 are as set out in the audited financial statements of AFB in Appendix III of this Circular/ Explanatory Statement.

2.1.8 Estimated additional financial commitment

Save for the integration cost for the Proposed Merger which cannot be determined at this juncture, our Board does not expect to incur any additional financial commitments to put AFB's businesses on-stream as it is currently operating as a going concern. For information purposes, the estimated preliminary cost to combine MBSB and AFB's operations to operate as one entity is approximately RM22.0 million which includes, amongst others, relocation cost, advertising and communication costs and professional consultation fees.

2.1.9 Salient terms of the SPA

The salient terms of the SPA include the following:-

(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 date falling on the expiry of the Extended Cut-Off Date, or such later date as the Parties may mutually agree in writing:-

- (a) **by MBSB**: the approval of our shareholders required for the purchase by our Company 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, which has been obtained on 28 December 2017;
- (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, which are not required as confirmed by the respective Vendors;

(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 an escrow account with the Escrow Agent (whichever is later), the Deposit shall be paid by our Company 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, our Company shall also pay the 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 our Company, 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 our Company 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 our Company, upon receipt by the Escrow Agent of joint written instructions signed by the authorised signatory of each of the Vendors and our Company; or

(2) provided that the Conditions Precedent shall have been fulfilled or waived, the Escrow Agent shall:-

(A) on the 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 our Company), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to our Company), 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).

The above arrangement was negotiated on the basis that QIB (to the extent that it is entitled to the Consideration Shares), RUSD and TIIB will receive profits on the relevant escrow amounts, on the same footing as QIB (to the extent that it is entitled to the Cash Consideration) and FAB who will also receive profits on the relevant escrow amounts representing the Cash Consideration up to the Completion Date; and

- (C) on the next business day after the Listing Date, refund to our Company 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.

For information purposes, the profits on the relevant escrow amounts shall accrue to the respective Vendors to compensate the Vendors for the extended timeframe, i.e. the Extended Cut-Off Date.

- (3) the Escrow Agent shall in respect of all payments be jointly authorised by our Company and the Vendors in writing and accordingly our Company 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) our Company 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 our Company), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to our Company) are credited into the account of QIB (or account of such party as QIB may nominate in writing by way of a letter to our Company), RUSD and TIIB (or account of such party as TIIB may nominate in writing by way of a letter to our Company) respectively, with the central depository system (“**CDS**”) of Bursa Depository, 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 our Company), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to our Company) 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, our Company shall pay to each of QIB (or such party as QIB may nominate in writing by way of a letter to our Company), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to our Company) (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 our Company 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 our Company), RUSD and TIIB (or such party as TIIB may nominate in writing by way of a letter to our Company) 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 our Company 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 our Company 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 our Company 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, our Company shall indemnify the Vendors against such losses.

(v) Termination

The Vendors shall be entitled to terminate the SPA by giving written notice to our Company, upon the occurrence of specified events in the SPA, which include, amongst others:-

- (1) on or before the Completion Date, defaults in the performance of obligations contained in the SPA by our Company in respect of the Purchase Consideration or any part thereof or failure to comply with any terms and conditions of the SPA in respect of the Purchase Consideration or any part thereof;
- (2) on or before the Completion Date, a material breach of representation or warranty by our Company in the SPA, which if capable of being remedied, is not remedied within fourteen (14) days from the date of notification by the Vendors;
- (3) on or before the Completion Date, any material breach of any terms or conditions of the SPA or a failure to perform or observe any material undertaking, obligation or agreement in the SPA by our Company, which if capable of being remedied, is not remedied within fourteen (14) days from the date of notification by the Vendors; or
- (4) on or before the Completion Date, failure to issue the Consideration Shares in accordance with the terms and conditions of the SPA by our Company.

Our Company shall be entitled to terminate the SPA by giving written notice to the Vendors, upon the occurrence of specified events in the SPA, which include, amongst others:-

- (1) on or before the Completion Date, defaults in the performance of obligations contained in the SPA by any of the Vendors in respect of the Sale Shares or any part thereof or failure to comply with any terms and conditions of the SPA in respect of the Sale Shares or any part thereof;
- (2) before the Completion Date, a breach of the fundamental warranties by any of the Vendors in the SPA, which if capable of being remedied, is not remedied within fourteen (14) days from the date of notification by our Company;
- (3) any material breach of any terms or conditions of the SPA or a failure to perform or observe any material undertaking, obligation or agreement in the SPA by any of the Vendors, which if capable of being remedied, is not remedied within fourteen (14) days from the date of notification by our Company;
- (4) any one event occurs, or any circumstances arise, to the extent not caused by (i) changes in laws or regulations; or (ii) any transaction contemplated by the SPA or any change in control resulting from the sale and purchase of the Sale Shares or (iii) any act or omission of our Company and/or any of our affiliates; or (iv) any act or omission of the Vendors or AFB with the written consent of our Company or as required to be done under the terms of the SPA or any act or omission of the Co-ordination Committee, which may or may be likely to affect the licence issued by BNM to AFB, or which may or may be likely to result in the said licence being suspended, revoked, terminated, cancelled or withdrawn; or
- (5) any action, sanction or reprimand is taken or imposed by BNM or any other relevant regulatory authorities against AFB to the extent not caused by (i) changes in laws or regulations; or (ii) any transaction contemplated by the SPA or any change in control resulting from the sale and purchase of the Sale Shares; or (iii) any act or omission of our Company and/or any of our affiliates; or (iv) any act or omission of the Vendors or AFB with the written consent of our Company or as required to be done under the terms of the SPA or any act or omission of the Co-ordination Committee.

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 our Company and all profits accruing to the said amounts shall be refunded by the Escrow Agent to our Company upon receipt by the Escrow Agent of written instruction from the authorised signatory of our Company and/ or the Vendors.

2.2 Proposed Transfer of Identified A&L

2.2.1 Details of the Proposed Transfer of Identified A&L

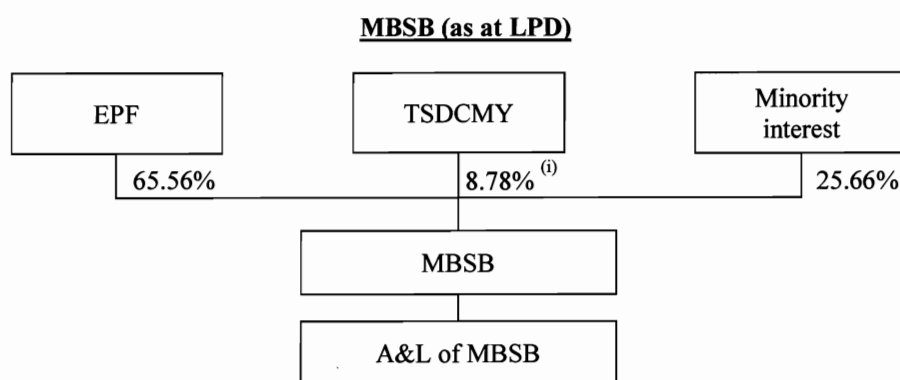
Upon completion of the Proposed Acquisition, our Company will transfer its Identified A&L to AFB in tranches, for a consideration to be determined later based on the book value of the Identified A&L at the latest practicable date prior to the transfer, and satisfied by AFB through the issuance of new AFB Shares (“**Transfer Consideration Shares**”) at an issue price to be determined later.

The Proposed Transfer of Identified A&L will be implemented through a members' scheme of arrangement pursuant to Section 366 of the Act by way of a vesting order from the High Court. The First Tranche Transfer will be implemented after the grant of the vesting order by the High Court. Thereafter, our Company will endeavour to convert its remaining identified conventional A&L into Shariah-compliant A&L for the same to be transferred to AFB in subsequent tranches.

All Residual A&L will be settled or disposed to third parties. Our Company will seek the approval of its shareholders for the disposal of Residual A&L at a later date, if required.

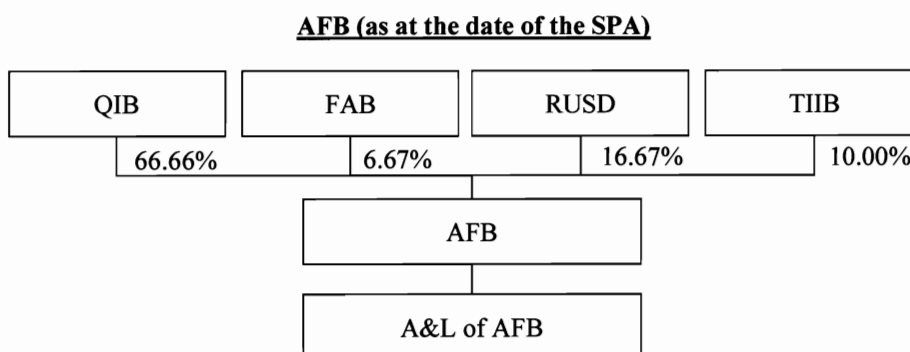
The subsequent tranches of the Proposed Transfer of Identified A&L and the disposal of Residual A&L will be completed within a period of three (3) years from the date of completion of the First Tranche Transfer. The consideration and any resulting gain or loss upon the disposal of Residual A&L cannot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

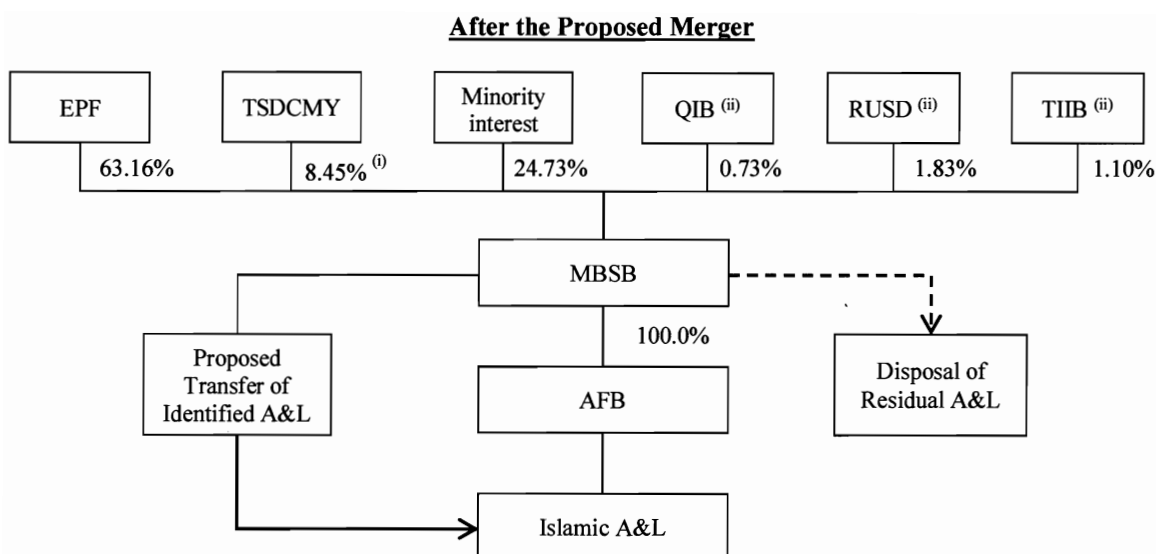
The corporate and shareholdings structures of our Company and AFB before and after the Proposed Merger are as set out below:-



Note:-

⁽ⁱ⁾ Comprises TSDCMY's direct interest of 3.69% and indirect interest of 5.09%.





Notes:-

(i) Comprises TSDCMY's direct interest of 3.55% and indirect interest of 4.90%.

(ii) Or such other party as may be nominated by them to hold their respective Consideration Shares.

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

The Transfer Consideration will be based on the book value of the Identified A&L at the latest practicable date prior to each tranche of the transfer. For illustrative purposes, based on the latest audited financial statements of MBSB for the FYE 31 December 2016, the Islamic and non-Islamic net assets of MBSB Group are as set out below:-

(RM billion)	Assets	Liabilities	NA
Islamic	35.896	32.975	2.921
Non-Islamic	7.372	3.569	3.803

The issue price of the Transfer Consideration Shares will be determined at a later date after taking into consideration the NA per AFB Share.

2.2.3 Ranking of the Transfer Consideration Shares

The Transfer Consideration Shares shall be issued with all rights, benefits and 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, our Company's A&L includes RM2.442 billion nominal value of MBSB Covered Sukuk issued under a 15-year RM3.0 billion nominal value MBSB Sukuk Programme. As a result of the Proposed Merger, our Company proposes to exchange the then outstanding MBSB Covered Sukuk with new AFB Structured Covered Sukuk.

The MBSB Sukuk Programme was established by our Company in 2013 as part of a fund raising exercise to, amongst others, fund the origination of financing assets in line with our 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 our Company, set up to facilitate the issuance of MBSB Covered Sukuk.

Under the Proposed Sukuk Exchange, AFB will issue new AFB Structured Covered Sukuk 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 MBSB Covered Sukuk to be exchanged.

The Proposed Sukuk Exchange is subject to the endorsement from the Shariah Advisory Council of the SC, the lodgement of the AFB Structured Covered Sukuk with the SC and the MBSB Sukukholders’ approval.

3. RATIONALE OF THE PROPOSED MERGER

MBSB was granted an Exempt Finance Company status on March 1, 1972 by the MOF to carry on financing business without a banking license. MBSB was defined as a scheduled institution under the repealed Banking and Financial Institutions Act 1989 (“**BAFIA**”). Although the BAFIA has been repealed and replaced with the Financial Services Act (“**FSA**”) 2013, the exemptions granted remain in full force and effect until amended or revoked as provided under Section 272(a) of the FSA 2013.

As mentioned above, as an Exempt Finance Company, we are able to undertake financing business. However, we face certain limitations especially on the products and services that can be offered and access to the money markets. In the absence of a banking license, the products that can be offered by us are not as wide as those offered by full-fledged banking financial institutions and are limited to corporate financing, personal financing, property financing, fixed deposits and savings. In addition, the limitations in accessing the interbank money market resulted in our cost of funds being relatively higher than those of a full-fledged banking financial institutions.

Notwithstanding the aforesaid limitations, our growth has been notable over the past few years. MBSB’s revenue has grown to RM3.3 billion in 2016 as compared to RM1.3 billion five (5) years ago. In order to facilitate our next phase of growth and to compete with the other financial institutions, we would require a banking license.

We have conducted a strategic analysis of the potential merits of combining our banking operations with AFB’s. The Proposed Merger provides a unique opportunity for us to emerge as a full-fledged Islamic banking franchise in Malaysia. The Merged Entity, based on MBSB and AFB’s respective audited financial statements for the FYE 31 December 2016, would be the second-largest stand-alone Islamic bank in Malaysia, with Islamic assets of around RM38 billion.

As a full-fledged Islamic banking entity, we would have access to funding sources not previously available to us such as current account deposits and interbank funding. This would enable us to diversify our sources of funding and obtain cheaper financing. We will also be in a position to offer an end to end proposition of Islamic banking products and services such as trade facilities, investment advisory services and wealth management products as well as to expand our banking services especially to small and medium enterprises.

We believe that the Proposed Merger will spearhead our future growth and allow us to maintain a competitive edge in the financial industry.

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, BNM 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)

As a financial services provider, our Company offers both conventional and Islamic products. Over the years, our Company 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, auto financing and deposit savings. To-date, the Islamic banking segment is a key contributor to our Company’s revenue.

The Proposed Merger is expected to transform the Merged Entity into a full-fledged Islamic bank in Malaysia that offers universal Islamic banking services to both retail and wholesale banking customers such as, amongst others, deposit taking, wealth management, foreign exchange, investment banking, debt capital management and trade finance. The Merged Entity's proposed provision of a full spectrum of Islamic banking products is in line with our Company'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 Proposed Acquisition would provide our Company the opportunity to participate in the growth of the Islamic banking segment both locally and internationally.

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

5. RISK FACTORS

Our Company 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 services industry in which they operate.

The potential risk factors which may arise from the Proposed Merger includes, but are not limited to the following:-

5.1 Completion risk

The completion of the SPA is conditional upon the satisfaction or waiver, as the case may be, of the Conditions Precedent. There can be no assurance that the Conditions Precedent will be fulfilled or obtained in a timely manner or at all. In the event any of the Conditions Precedent cannot be fulfilled or waived on or before the Cut-Off Date or Extended Cut-Off Date, as the case may be, the SPA shall lapse, the monies held in escrow shall be released to our Company and hence, the Proposed Acquisition will not be completed.

Nevertheless, the Parties will take all reasonable steps to ensure the satisfaction and/ or waiver of the Conditions Precedent in order to facilitate the timely completion of the SPA.

5.2 Acquisition and integration risks

The Proposed Merger is in line with our Group's vision to transform itself into a full-fledged Islamic financial institution in Malaysia. The success in executing such strategy will significantly depend on the successful integration of the operations of our Company with AFB.

AFB has its own systems, processes, policies and practices, governance structures, corporate cultures, management styles as well as accounting, performance management and reward systems. As such, there can be no assurance that our Company and AFB can be successfully integrated and/ or without operational disruptions. Such operational disruptions may result in a loss of clientele, management or key personnel which may have a material adverse effect on the financial and operating conditions of the Merged Entity.

Following the Proposed Acquisition, there can be no assurance that:-

- (i) the anticipated benefits to be derived from the AFB's business will be realised or that the enlarged Merged Entity will be able to generate sufficient revenues to offset the associated acquisition/ integration costs; and
- (ii) the integration between the AFB's business and our Group's business would be undertaken effectively or in a timely manner and any failure/ delay in doing so may have a material adverse effect on our enlarged Group's financial performance.

Nonetheless, a Co-ordination Committee comprising of our Company's and AFB's key/ senior management team has been formed to oversee and monitor the integration process to ensure its success.

5.3 Ability to attract and retain key/ experienced personnel

In view of the anticipated growth and larger business spectrum, the Merged Entity as a full-fledged Islamic bank would require a greater number of experienced personnel in all its key operating areas in order to function effectively and efficiently within the confines of the regulatory environment.

The Merged Entity would also need to engage and retain existing personnel who have the relevant experience and/ or to hire individuals with the necessary expertise to further develop the Islamic banking business of the Merged Entity.

As such, the Merged Entity will have to develop appropriate training programs on Islamic banking products and services to sufficiently equip its existing personnel with the necessary knowledge and expertise in order to implement the full range of products and services the Merged Entity is able to offer as well as to comply with the requirements governing Islamic banks.

5.4 MBSB will be subject to the IFSA

Our Company, as an exempt finance company under the FSA 2013, carries on its financing business without a banking licence. After the Proposed Merger, the Merged Entity shall be operating under an Islamic banking license and will be subject to a different set of requirements under the IFSA which differs from the existing requirements our Company is currently subject to, such as the capital adequacy ratio, liquidity coverage ratio and loan deposit ratio. As such, our Company will be required to perform a full review and assessment of its existing practices and policies to ensure alignment with the requirements of the IFSA.

Further, any change in the IFSA or other regulatory conditions and policies in Malaysia pertaining to Islamic banking could cause the Merged Entity to fall into a position of non-compliance which, if unresolved, may result in the suspension or revocation of its Islamic banking licence. The inability of the Merged Entity to operate its business until such non-compliance is resolved and its licence reinstated would materially and adversely affect its financial and operational condition.

To mitigate this risk, the Merged Entity will engage regularly with BNM, keep abreast with the changes in regulatory environment and will, to the best of its ability, put in place necessary strategies in order to comply with the updated regulations.

5.5 Single Counterparty Exposure Limit

As set out in the IFSA, the Merged Entity is required to comply to the single counterparty exposure limit at both the entity and consolidated level in order to ensure that exposures to a single counterparty and persons connected to it are within a prudent limit at all times.

In light of this, customers who maintain accounts with both our Company and AFB may overlap after the Proposed Merger and the amount, when totalled up may be above the single counterparty exposure limit determined by BNM. In the event any common customer and persons connected with them exceed the said limit, the Merged Entity will not be able to accept further deposits in excess of such limits.

For information purposes, at this juncture, AFB is not able to ascertain whether the combined entity will breach the single counterparty exposure limit. In order to ensure continuous compliance with such requirements, the Merged Entity will review the portfolio list of AFB upon completion of the Proposed Acquisition to ensure that the single counterparty exposure limit is complied with.

5.6 Competition

It should be noted that currently our Company is already operating and competing within the financial services industry. As reported by BNM, as at LPD, there are 16 licensed Islamic financial institutions in Malaysia. As such, the Merged Entity will be operating in a highly competitive industry and is expected to continue to face competition from other domestic and foreign institutions. This may result in pricing pressures, loss of market share and increased labour costs which could have a material adverse effect on the financial and operating conditions of the Merged Entity.

Further, during the Merged Entity's three (3)-year transition period to become a full-fledged Islamic bank, there is a risk that new potential customers may resort to the Merged Entity's competitors resulting in a lower market share for the Merged Entity. Accordingly, no assurance can be given that the Merged Entity can continue to grow at our Company's present rate.

Our Company will continue to focus on its key banking segments while working towards introducing new products and services under the Islamic bank.

Nonetheless, in order to address the increased competition in the industry, the Merged Entity will keep abreast with the developments of Islamic products and services in order to provide innovative Islamic products and services to the market. The Merged Entity will also formulate strategies to compete effectively against its existing and future competitors and undertake extensive marketing and promotional activities to increase awareness of its range of products and services.

5.7 Potential loss on disposal of the Residual A&L

As part of the Company's transformation into a full-fledged Islamic Bank, our Company has undertaken to convert conventional A&L into Syariah-compliant A&L for subsequent transfer to AFB and to dispose the Residual A&L to third parties within three (3) years from the completion of the First Tranche Transfer.

In disposing the Residual A&L, there can be no assurance that the disposal consideration will be equal or greater than the carrying value of the Residual A&L. Should the disposal consideration be less than the carrying value of the Residual A&L, our Company will recognise a loss on disposal which will adversely affect the financial performance of our Group.

Nonetheless, your Board will take all reasonable steps to closely monitor the conversion of conventional A&L and achieve the best negotiated outcome from any disposals of Residual A&L to minimise the occurrence of such losses.

5.8 Goodwill on acquisition

Pursuant to the requirements of the Malaysian Financial Reporting Standard ("MFRS") 3, the Proposed Acquisition is expected to result in our Group having to recognise a goodwill on acquisition. Goodwill as of the Completion Date shall be measured as the excess of the consideration transferred over the fair values of the identifiable assets and liabilities acquired and other separately identifiable intangible assets. For illustrative purposes only, based on our audited consolidated statement of financial position as at 31 December 2016 and the audited NA of AFB as at 31 December 2016, the expected goodwill to be recognised pursuant to the Proposed Acquisition is approximately RM191 million. MFRS 136 then requires goodwill to be subjected to annual impairment reviews. In the event the goodwill is impaired, this will have an adverse effect on the financial performance of the Merged Entity.

There can be no assurance that the review of the goodwill will not result in any adverse financial impact to the Merged Entity.

5.9 Quality of financing portfolio and risk of additional impairment losses for AFB

There can be no assurance that any of AFB's borrowers will not default on their borrowings in the future. Due to differences in provisioning policies, such losses may or may not be sufficiently provided for by AFB, resulting in additional costs being incurred by the Merged Entity upon the impairment of such accounts.

In order to mitigate this risk, the Merged Entity will review the adequacy of its provisioning policies and implement the necessary policies to minimise potential losses that may arise.

6. EFFECTS OF THE PROPOSED MERGER

For illustration 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 our Company 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 FYE 31 December 2016 and up to LPD:-

- (a) The issuance of 125,644,042 new MBSB Shares that were listed and quoted on the Main Market of Bursa Securities on 23 June 2017 ("**DRP Share(s)**") pursuant to our 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 our Company's **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

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

6.2 Substantial shareholders' shareholdings

Based on the Register of Substantial Shareholders of our Company as at LPD, the pro forma effects of the Proposed Merger on the shareholdings of the substantial shareholders of our Company 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.

The Proposed Merger entails the issuance of 225,507,974 Consideration Shares to QIB, RUSSD and TIIB which will result in the proportionate dilution of the existing substantial shareholders' shareholdings in MBSB.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

6.3 NA per Share and gearing

The pro forma effects of the Proposed Merger on the consolidated NA and gearing of our Group based on the latest audited consolidated statement of financial position of our Company as at the FYE 31 December 2016 and on the assumption that the Proposed Merger is 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	6,922,057
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 and 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 the following:-

	<u>RM'000</u>
Retained earnings as at 31 December 2016	705,868
Adjustments for the following:-	
a. Expenses in relation to the Dividend Reinvestment Plan which includes professional and advisory fees, regulatory fees, cost to convene a general meeting, printing costs and postage	(409)
b. Dividend payment for the FYE 31 December 2016	(173,963)
c. Transfer from share option reserves pursuant to the lapse of 1,737,424 ESOS Options	393
Retained earnings (after subsequent events)	531,889

^(iv) Based on the assumption that all Identified A&L are transferred to AFB.

^(v) The MFRS 2 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.

Assuming the fair value of the Consideration Shares based on the traded price as at LPD of RM1.11, the pro forma consolidated NA for the FYE 31 December 2016 after the Proposed Merger will increase by RM2.26 million to RM6.924 billion as a result of the increase in the cost of acquisition.

(vi) After taking into consideration estimated expenses amounting to approximately RM20.18 million which includes professional and advisory fees, regulatory fees, cost to convene an EGM, printing costs and postage 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 EPS

Assuming that the Proposed Merger has been completed on 1 January 2016 and based on our Group's audited consolidated statement of comprehensive income and the audited statement of profit or loss and other comprehensive income of AFB for the FYE 31 December 2016, the pro forma effect of the Proposed Merger is as follows:-

	MBSB	AFB	Merged Entity (iii)	Contribution of AFB	Increase
	RM'000	RM'000	RM'000	%	%
Net income	1,408,967	33,904	1,442,871	2.35	2.41
Profit before tax	338,421	5,017	343,438	1.46	1.48
Profit after tax (attributable to our shareholders)	181,236 (i)	3,650	184,886	1.97	2.01
EPS (sen)	4.41 (ii)		4.27 (iv)		

Notes:-

(i) After deducting estimated expenses of approximately RM20.18 million in relation to the Proposed Merger.

(ii) Based on the weighted average number of MBSB Shares in issue of approximately 4.108 billion MBSB Shares for the FYE 31 December 2016.

(iii) Excludes any integration cost such as operational cost, capital expenditure and rebranding costs which may be incurred arising from the Proposed Merger.

(iv) Based on the weighted average number of MBSB Shares in issue of approximately 4.108 billion MBSB Shares for the FYE 31 December 2016 and the Consideration Shares issued.

Based on the illustration above, the Proposed Merger is expected to result in a dilution in the EPS of our Group. However after taking into consideration the prospects and rationale as set out in Sections 3 and 4 of this Circular/ Explanatory Statement, your Board expects the Proposed Merger to contribute positively to the future financial performance of our Group.

6.5 Convertible securities

Save for the 26,019,779 ESOS Options outstanding, which are exercisable into new MBSB Shares, our 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. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED TO THEM

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

8. APPROVALS REQUIRED

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 our Company, which was obtained vide BNM's letter dated 18 August 2017;
 - (b) MOF and/ or BNM for the proposed disposal by the Vendors of 532,530,020 AFB Shares representing 100% equity interest in AFB to our Company, which was obtained vide its letters to the Vendors dated 18 August 2017;
 - (c) our shareholders for the issuance and allotment of the Consideration Shares for the Proposed Acquisition at our EGM to be convened; and
 - (d) Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities, which was obtained vide its letter dated 28 December 2017, subject to, amongst others, the following conditions:-

No.	Condition	Status of compliance
1.	MBSB, RHB Investment Bank and AmInvestment Bank must fully comply with the relevant provisions under the Main Market Listing Requirements of Bursa Securities pertaining to the implementation of the Proposed Acquisition;	Noted.
2.	MBSB, RHB Investment Bank and AmInvestment Bank to inform Bursa Securities upon the completion of the Proposed Acquisition;	To be complied.
3.	MBSB, RHB Investment Bank and AmInvestment Bank to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Acquisition and Proposed Merger are completed; and	To be complied.
4.	MBSB to furnish Bursa Securities with a certified true copy of the resolutions passed by the shareholders at an extraordinary general meeting approving the Proposed Acquisition and Proposed Merger.	To be complied

- (ii) ancillary approvals:-
- (a) our shareholders for the Proposed Transfer of Identified A&L at our CCM to be convened;
 - (b) holders of the MBSB Structured Covered Sukuk, required for and in connection with the transfer of the Identified A&L;
 - (c) the endorsement of the Proposed Sukuk Exchange by the Shariah Advisory Council of the SC;
 - (d) the lodgement of the AFB Structured Covered Sukuk with the SC in connection with the Proposed Sukuk Exchange;
 - (e) financiers and lenders of our Company, as applicable for and in connection with the transfer of the Identified A&L;

- (f) sanctions of the High Court pursuant to Section 366 of the Act for a scheme of arrangement; and
- (g) any other relevant authorities and/ or parties, including but not limited to any consent required from any government, governmental or regulatory bodies, 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.

9. DIRECTORS' STATEMENT AND RECOMMENDATION

Your Board, after having considered all aspects including but not limited to the prospects, rationale and effects of the Proposed Merger, is of the opinion that the Proposed Merger is in the best interest of our Company.

Accordingly, your Board recommends that you vote in favour of the resolutions to be tabled at our forthcoming EGM and CCM.

10. CORPORATE PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Merger, there is no other corporate exercise which has been announced by our Company but is pending completion.

11. HISTORICAL SHARE PRICES

The monthly high and low transacted market prices of MBSB Shares as traded on Bursa Securities for the past 12 months preceding the date of this Circular/ Explanatory Statement are as follows:-

	High (RM)	Low (RM)
<u>2016</u>		
December	0.935	0.880
<u>2017</u>		
January	1.120	0.905
February	1.210	1.100
March	1.300	1.120
April	1.340	1.140
May	1.360	1.270
June	1.380	1.280
July	1.340	1.210
August	1.350	1.170
September	1.280	1.120
October	1.170	1.080
November	1.240	1.060
Last transacted market price on 3 November 2017 (being the day prior to the Announcement)		1.110
Last transacted market price as at LPD		1.110

(Source: Bloomberg)

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to the approvals being obtained from the relevant authorities, the tentative timeline for the implementation of the Proposed Merger is as set out below:-

No.	Key milestones	Tentative timeline
(i)	<ul style="list-style-type: none">EGM and CCM for the Proposed MergerSPA becomes unconditional	End January 2018
(ii)	<ul style="list-style-type: none">Completion of the SPAListing of the Consideration Shares	Early February 2018
(iii)	High Court sanction obtained	Early March 2018
(iv)	Completion of the First Tranche Transfer	End March 2018

The subsequent tranches of the Proposed Transfer of Identified A&L and the 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 of this Circular/ Explanatory Statement.

13. EGM

Our EGM, the notice of which is enclosed in this Circular/ Explanatory Statement, will be held at Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Tuesday, 23 January 2018 at 10.00 a.m., or at any adjournment thereof, for the purpose of considering and if thought fit, passing the resolution to give effect to the Proposed Merger.

If you are unable to attend and vote in person at our EGM, please complete, sign and send the enclosed relevant Proxy Forms in accordance with the instructions therein as soon as possible and in any event so as to arrive at our Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, not less than 48 hours before the time appointed for holding our EGM or any adjournment thereof. The lodging of the Proxy Forms will not preclude you from attending and voting in person at our EGM should you subsequently wish to do so.

For information purposes, please note the requisite majority required for passing a resolution at our forthcoming EGM will be a simple majority (namely a majority of more than 50% of the members present in person or by proxy voting in favour).

14. CCM

Our CCM, the notice of which is enclosed in this Circular/ Explanatory Statement, will be held, with leave of the High Court at Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Tuesday, 23 January 2018 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of our EGM to be held at the same venue and on the same day at 10.00 a.m., whichever is the later, for the purpose of considering and if thought fit, passing the resolution to give effect to the Proposed Transfer of Identified A&L.

If you are unable to attend and vote in person at our forthcoming CCM, please complete, sign and send the enclosed relevant Proxy Forms in accordance with the instructions therein as soon as possible and in any event so as to arrive at our Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, not less than 48 hours before the time appointed for holding our CCM or any adjournment thereof. The lodging of the Proxy Forms will not preclude you from attending and voting in person at our CCM should you subsequently wish to do so.

When the Proposed Transfer of Identified A&L, as approved by our shareholders at our forthcoming CCM and sanctioned by the High Court (with or without modification) becomes effective, it will be binding upon the entitled shareholders of our Company on an entitlement date to be determined later, on which the names of such entitled shareholders must be registered in our Company's Record of Depositors as at 5.00 p.m. in order to be entitled to vote for the Proposed Transfer of Identified A&L, whether or not the existing shareholders of our Company were present at the CCM or voted at all.

For clarity, please note that the requisite majority for passing a resolution at our forthcoming CCM is different from the requisite majority required for passing a resolution at our forthcoming EGM. The requisite majority for our CCM is a majority of 75% of the total value of the members present and voting either in person or by proxy at the relevant meeting.

15. FURTHER INFORMATION

You are advised to refer to the attached appendices for further information.

Yours faithfully
For and on behalf of the Board
MALAYSIA BUILDING SOCIETY BERHAD

TAN SRI ABDUL HALIM BIN ALI
(Chairman/ Non-Independent Non-Executive Director)

INFORMATION ON THE VENDORS

Information relating to the Vendors as set out in Appendix I of this Circular have been obtained from publicly available documents (where available) as well as from the Vendors.

1. QIB

1.1 Background

QIB (*Company No.: 03002200*) was incorporated on 8 July 1982 as the first Islamic financial institution in Qatar. It is currently the largest Islamic bank and the second largest bank by total assets in Qatar with a network of 30 branches and offices as at 31 December 2016. QIB has a growing international footprint with investments in the United Kingdom, Malaysia, Sudan and Lebanon.

QIB is primarily involved in corporate, retail and investment banking in accordance with Islamic sharia rules as determined by the Sharia Supervisory Board of QIB.

QIB was listed on the Qatar Stock Exchange on 26 May 1997 with Qatar Holding, a subsidiary of the Qatar Investment Authority, being the single largest shareholder of QIB with a 16.9% shareholding.

The issued and paid-up share capital of QIB as at LPD is QAR 2,362,932,000 comprising 236,293,200 ordinary shares in QIB.

1.2 Substantial shareholder

As at LPD, the substantial shareholder of QIB (holding 5% or more) is as follows:-

Name	Country of incorporation	Direct		Indirect	
		No. of QIB Shares	%	No. of QIB Shares	%
Qatar Holding (subsidiary of Qatar Investment Authority)	Qatar	39,945,218	16.90	-	-

1.3 Board of directors

The particulars of the Directors of QIB as at LPD are as follows:-

Name	Designation	Nationality	Direct		Indirect	
			No. of QIB Shares	%	No. of QIB Shares	%
Sheikh Jassim Bin Hamad Bin Jassim Bin Jaber Al Thani	Chairman	Qatari	-	-	10,867,109	4.60
Abdullatif Bin Abdulla Al Mahmoud	Vice Chairman	Qatari	-	-	325,000	0.14
Mohamed Bin Issa Al Mohannadi	Board Member	Qatari	250,000	0.11	-	-
Abdul Rahman Abdulla Abdul Ghani Naseer	Board Member	Qatari	250,636	0.11	-	-
Mansour Al Muslah	Board Member	Qatari	385,388	0.16	-	-

INFORMATION ON THE VENDORS (Cont'd)

Name	Designation	Nationality	Direct		Indirect	
			No. of QIB Shares	%	No. of QIB Shares	%
Abdulla Bin Saeed Al Eidah	Board Member	Qatari	-	-	1,969,110	0.83
Nasser Rashid S. Al-Kaabi	Board Member	Qatari	-	-	250,000	0.11
Sheikh Ali Bin Ghanim Bin Ali Al Thani	Board Member	Qatari	-	-	250,000	0.11
Sheikh Abdulla Bin Khaled Bin Thani Al Thani	Board Member	Qatari	-	-	250,000	0.11

2. FAB
2.1 Background

FAB (Company No. 69198-1) is a limited liability company incorporated on 3 July 2008 in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21 of 2001 and its subsequent amendments. FAB is principally an investment holding company (With Limited Liabilities) and carries out the following activities:-

- (i) owning, buying and selling shares and securities for FAB's account; and
- (ii) carrying out all acts and services relating to the realisation of the foregoing objects.

The principal activity of its subsidiary includes carrying out all activities required to promote FAB's business and join other established companies and set up branches, divisions, subsidiaries, regional offices or own shares and stocks in other established companies and other activities to achieve the objects of FAB.

The single largest shareholder of FAB is Financial Assets MENA WLL with a 99.75% shareholding, which in turn is a wholly-owned subsidiary of Global MENA Financial Assets Limited.

The issued and paid-up share capital of FAB as at LPD is BHD 20,000 comprising 400 ordinary shares in FAB.

2.2 Substantial shareholders

Based on the Register of Substantial Shareholders of FAB as at LPD, the substantial shareholders of FAB (holding 5% or more) are as follows:-

Name	Country of incorporation	Direct		Indirect	
		No. of FAB Shares	%	No. of FAB Shares	%
Financial Assets MENA WLL	Bahrain	399	99.75	-	-
Global MENA Financial Assets Limited	Guernsey	-	-	399 ⁽ⁱ⁾	99.75

Note:-

⁽ⁱ⁾ Deemed interested by virtue of its interest in Financial Assets Mena WLL.

INFORMATION ON THE VENDORS (Cont'd)

2.3 Board of directors

The particulars of the Directors of FAB as at LPD are as follows:-

Name	Designation	Nationality	Direct		Indirect	
			No. of FAB Shares	%	No. of FAB Shares	%
Richard L. Denton	Board of Director	British	-	-	-	-
Samir Rahmatullah Sayeed	Board of Director	British	-	-	-	-
Abdul Wahab Al-Halabi	Board of Director	British	-	-	-	-
Anne Shirley Ewing	Board of Director	British	-	-	-	-
Sulaiman Al Rubaie	Board of Director	Kuwaiti	-	-	-	-

3. RUSD**3.1 Background**

RUSD (*Company No. LL-03380*) was incorporated in August 2002 and based in Labuan, Malaysia. It obtained its licence in February 2003 and is regulated by the guidelines set by the International Business Finance Centre (IBFC), Labuan, Malaysia, one of the leading regulatory bodies in the Asia Pacific group.

RUSD provides premium services to private individuals of high-net worth, banks and financial institutions, insurance companies, pension trustees, corporations, charities and endowments (Awqaf). Its specialisation is in the areas of Investment Banking, Portfolio Management and Wealth Management & Estate Planning.

Dr. Saleh J. Malaikah has the majority stake in RUSD, with direct ownership of 39.80% and indirect ownership of 49.59%.

3.2 Board of directors

The Directors of RUSD as at LPD are Dr. Saleh J. Malaikah (Chairman), Naseeruddin Ahmad Khan (Director), Hussain Hassan Biyari (Director) and Rizwan Razzak (Director and Chief Executive Officer).

4. TIIB**4.1 Background**

TIIB (Commercial Registration No.: 21/2057) was founded in 1996 based on the Islamic Banks Law in the Republic of Yemen. The bank runs assets that are estimated at YER499 billion (equivalent to approximately USD1.994 billion). Its fixed capital is YER20 billion (equivalent to approximately USD80 million).

TIIB has experience that spans over 20 years and has more than 700 employees with a total of 24 branches spread over most Yemeni governorates.

The issued and paid-up share capital of TIIB as at LPD is YER20,000,000,000 comprising 20,000,000 ordinary shares in TIIB.

INFORMATION ON THE VENDORS (Cont'd)

4.2 Substantial shareholders

Based on the Register of Substantial Shareholders of TIIB as at LPD, the substantial shareholders of TIIB (holding 5% or more) are as follows:-

Name	Country of incorporation/ Nationality	Direct		Indirect	
		No. of TIIB Shares	%	No. of TIIB Shares	%
The heirs of the Late Tawfik Abdulrahim Mutaheer	Yemeni	1,781,397	8.91	-	-
Ali Mohammed Saeed	Yemeni	1,008,926	5.04	-	-

4.3 Board of directors

The particulars of the Directors of TIIB as at LPD are as follows:-

Name	Designation	Nationality	Direct		Indirect	
			No. of TIIB Shares	%	No. of TIIB Shares	%
Abdulgabbbar Hayel Saeed	Chairman	Yemeni	465,151	2.33	-	-
Shawki Ahmed Hayel Saeed	Vice Chairman	Yemeni	198,288	1.00	-	-
Mohamed Abdo Saeed	Board Member	Yemeni	343,683	1.80	-	-
Dirhem Abdo Saeed Anam	Board Member	Yemeni	-	-	-	-
Mahfouhd Ali Mohammed Saeed	Board Member	Yemeni	425,904	2.20	-	-
Ahmed Musaed Ahmed Al-Gharasi	Board Member	Yemeni	39,829	0.20	-	-
Prof. Dawood Abdulmalek Yahya Al-hidabi	Board Member	Yemeni	100	*	-	-
Abdo Ahmed Mohammed Al-Daqaf	Board Member	Yemeni	100	*	-	-
Abdulghani Mohammed Nasser Al-Sanabani	Board Member	Yemeni	-	-	-	-

Note:-

* *Negligible*

INFORMATION ON AFB

1. BACKGROUND AND BUSINESS OVERVIEW

AFB was incorporated on 28 November 2005 in Malaysia and is principally engaged in the Islamic banking business and the provision of related financial services in Malaysia since its incorporation.

AFB offers a range of Shariah-compliant products mainly in the following areas:-

- (i) corporate and commercial banking - offering provision of trade finance, project and structured finance facilities; and
- (ii) treasury - offering money market and investment products namely Wakalah Deposit-I, Mudharabah Special Investment Account and Commodity Murabahah.

As at LPD, AFB has two (2) branches located in Kuala Lumpur and Johor Bahru.

For the FYE 31 December 2016, AFB's total distributable income (excluding allowance for impairment) amounting to RM121.2 million was generated from investment of depositors' funds and shareholders' funds. The main investment was from financing and advances which contributed approximately 59.2% or RM71.7 million.

As at LPD, AFB does not have any subsidiary or associated company. However, AFB holds a 50% equity interest in Safeena (L) Ltd, a jointly-controlled entity with AmanahRaya Investment Bank Ltd, which was incorporated in the Federal Territory of Labuan, Malaysia under the Labuan Companies Act, 1990. It is principally involved in the provision of funding for marine vessels.

The particulars of the key licence relating to the business of AFB are as follows:-

Licence	: Licence to transact Islamic banking business in Malaysia
Issuing Authority	: Ministry of Finance, Malaysia

2. SHARE CAPITAL

The ordinary share capital of AFB as at LPD is RM532,530,020 comprising 532,530,020 ordinary shares in AFB.

3. SUBSTANTIAL SHAREHOLDERS

Based on the Register of Substantial Shareholders of AFB as at LPD, the substantial shareholders of AFB (holding 5% or more) are as follows:-

Name	Country of incorporation	No. of AFB Shares held	%
QIB	Qatar	355,020,013	66.66
FAB	Bahrain	35,502,001	6.67
RUSD	Malaysia	88,755,004	16.67
TIIB	Yemen	53,253,002	10.00

INFORMATION ON AFB (Cont'd)

4. BOARD OF DIRECTORS

The particulars of the Directors of AFB and their respective shareholdings in AFB as at LPD are as follows:-

Name	Designation	Nationality	Direct		Indirect	
			No. of AFB Shares	%	No. of AFB Shares	%
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Independent Non-Executive Chairman	Malaysian	-	-	-	-
Dr Saleh Jameel Malaikah	Non-Independent Non-Executive Director	Saudi Arabian	-	-	-	-
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack	Independent Non-Executive Director	Malaysian	-	-	-	-
Zakir Hussain Rizvi	Non-Independent Non-Executive Director	Pakistani	-	-	-	-
Abdul Rahim Abdul Hamid	Independent Non-Executive Director	Malaysian	-	-	-	-
Datuk Azrulnizam Abdul Aziz	Independent Non-Executive Director	Malaysian	-	-	-	-
Dr Loh Leong Hua	Independent Non-Executive Director	Malaysian	-	-	-	-

5. MATERIAL LITIGATION

Save as disclosed below, as at LPD, AFB is not engaged in any material litigation, either as plaintiff or defendant, claims or arbitration and AFB is not aware of any proceedings, pending or threatened involving AFB:-

- (i) AFB has filed a claim on 18 January 2013 against Biosis Cosmeceuticals Sdn Bhd (formerly known as Hi-City (MFG) Sdn Bhd) for the outstanding amount of RM347,312.77 owed by Biosis Cosmoceuticals Sdn Bhd. with default charges thereon. Judgement has been obtained for an amount of RM347,312.77 and default charges against Biosis Cosmeceuticals Sdn Bhd. Both the debtor and its corporate guarantor have been wound up in other proceedings at the Shah Alam High Court on 27 July 2016.
- (ii) AFB has filed a claim on 15 November 2013 against Ikatan Masyhur (M) Sdn Bhd for the amount of RM550,162.04 with default charges thereon owed by the Ikatan Masyur (M) Sdn Bhd. A consent judgment was entered on 25 June 2014 for the amount of RM538,235.24, inclusive of charges for late payment, costs and profits computed as at 12 June 2014. The debtor has been wound up on 20 September 2016, and the guarantor has been issued a receiving and adjudication order on 6 October 2016 at the High Court of Johor.

INFORMATION ON AFB (Cont'd)

- (iii) AFB issued a notice of demand under Section 218 of the Companies Act 1965 dated 4 June 2013 against Cosmorex Engineering (M) Sdn Bhd for the amount of RM5,699,561.89 as at 4 June 2013. AFB has subsequently filed a winding-up petition on 7 October 2013 against Cosmorex Engineering (M) Sdn Bhd for the amount of RM5,635,150.45 as at 14 January 2013 being the outstanding amount owed by Cosmorex Engineering (M) Sdn Bhd, and charges and costs. The debtor has been wound up on 28 November 2013, and the guarantors have been adjudicated bankrupt on 28 April 2014 and 30 April 2014. There was a public auction on 8 November 2017 at a reserve price of RM684,000.00, whereby AFB successfully purchased the land at RM874,000.00.
- (iv) AFB has filed a claim against Dasar Realiti Sdn Bhd for the amount of RM1,051,785.19 being the outstanding payment of a debt owed by Dasar Realiti Sdn Bhd. Dasar Realiti Sdn Bhd has been wound up on 23 January 2015 at the High Court of Kuala Lumpur, and the guarantors have been adjudicated bankrupt on 19 January 2015 and 10 March 2015.
- (v) AFB has at different dates commenced legal action against 5 of its customers named below, and the suits against the said customers were consolidated on 26 February 2016. AFB obtained a judgment in default against the said customers in respect of the amounts owed by them as specified below. AFB has further filed originating summons against the developer, Sepang Goldcoast Sdn Bhd and 2 others for the purpose of obtaining vacant possession of the properties assigned to AFB to secure the facilities granted by AFB, whereby all of the properties at The Golden Palm Tree Water Villas, Sepang Gold Coast were held under leasehold title H.S.(D) 18370 PT5247 Mukim and Daerah Sepang, State of Selangor:
- (a) on 24 June 2015, a judgment in default against Iqbal Hussain was entered for the amount of RM634,383.60, where the assigned property was Parcel No. 3C-009 (Type Canary Palm) Storey No. Level 1 of Building No. L113;
- (b) on 17 September 2014, a judgment in default was entered against Rehana Begum for the amount of RM463,284.10, where the assigned property was Parcel No. 2B-015A (Type Travelers Palm Upper 2), Storey No. Level 2 (First Floor) of Building No. R14A;
- (c) on 2 June 2015, a judgment in default was entered against Anthony David Ascough for the amount of RM571,916.80, where the assigned property was Parcel 2A-011 (Type: Canary Palm) Storey No. Level 1 of Building No. L58;
- (d) on 18 June 2015, a judgment in default was entered against Azhar Iqbal for the amount of RM979,994.80, where the assigned property is Parcel No. 2C-017 (Type: Ivory Palm 2), Storey No. Level 1 of Building No. R49; and
- (e) on 18 May 2015, a judgment in default was entered against Aria Arianalab for the amount of RM407,071.10, where the assigned property was Parcel No. 2C-008 (Type: Canary Palm) Storey No. Level 1 of Building No. R65.

The High Court dismissed the application of AFB to obtain vacant possession of the assigned property. However, the Court of Appeal granted vacant possession to AFB to take possession of the 5 properties above, under the Deed of Assignment (Rental Proceeds) and Deed of Assignment (by way of Security).

- (vi) AFB has on 23 April 2014 obtained a judgment in default against Shaikh Fahad Ahmad Rashed for the amount of RM4,120,268.20 being the outstanding amount owed by Shaikh Fahad Ahmad Rashed. A Bankruptcy Notice was served by way of substituted service, and an adjudication order and receiving order were obtained on 27 January 2016.

6. MATERIAL CONTRACTS

As at LPD, AFB has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within two (2) years immediately preceding the LPD.

INFORMATION ON AFB (Cont'd)

7. HISTORICAL FINANCIAL INFORMATION**7.1 Financial summary**

The summary of the financial information of AFB as extracted from the audited financial statements of AFB for the FYEs 31 December 2014 to 31 December 2016 and unaudited six (6)-month FPE 30 June 2017 are as follows:-

	<----- Audited FYE 31 December ----->			Unaudited 6-month FPE 30 June 2017
	2014	2015	2016	
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Income derived from investment of depositors' funds	104,059	105,208	91,010	43,614
Income derived from investment of shareholders' funds	25,551	32,648	30,194	15,357
Allowances for impairment on financing and advances	(8,537)	(16,811)	(11,706)	(22,747)
Total distributable income	121,073	121,045	109,498	36,224
Income attributable to depositors	(76,531)	(85,696)	(75,594)	(36,567)
Personnel expenses	(15,551)	(20,104)	(14,207)	(9,698)
Other overheads and expenditures	(14,658)	(14,469)	(14,680)	(8,944)
PBT	14,333	776	5,017	(18,985)
Taxation	643	(249)	(1,367)	-
Net profit for the financial year	14,976	527	3,650	(18,985)
Number of AFB Shares ('000)	532,530	532,530	532,530	532,530
Earnings per AFB Share (sen)				
– Basic and diluted	2.81	0.10	0.69	(7.19)
NA/ Shareholders funds	493,074	492,814	497,256	479,414
NA per AFB Share attributable to equity holders	0.93	0.93	0.93	0.90
Total borrowings	-	-	-	-
Gearing ⁽ⁱ⁾	n.a.	n.a.	n.a.	n.a.

Note:-

n.a. Not applicable as AFB does not have any borrowings, i.e. sukuk.

7.2 Commentaries on past performance**(i) FYE 31 December 2014**

AFB recorded a PBT of RM14.33 million (2013: PBT of RM7.47 million) and profit after taxation of RM14.98 million (2013: profit after taxation of RM7.57 million).

The increase in PBT for 2014 was mainly due to the increase in income derived from investment of depositors' funds of RM13.04 million and decrease in personnel expenses of RM3.57 million, while being offset by an increase in income attributable to depositors of RM10.75 million.

Net assets increased by RM16.90 million to RM493.07 million (2013: RM476.17 million) mainly due to increase in reserves arising from total comprehensive profit for the period.

INFORMATION ON AFB (Cont'd)

(ii) FYE 31 December 2015

AFB recorded PBT of RM0.78 million (2014: PBT of RM14.33 million) and profit after taxation of RM0.53 million (2014: profit after taxation of RM14.98 million).

The decrease in PBT for 2015 was due to, amongst others, higher allowance for impairment on financing and advances by RM8.27 million, higher income attributable to depositors of RM9.16 million and higher personnel expenses by RM4.55 million, while being offset by an increase in income derived from investment of shareholders' funds of RM7.10 million.

Net assets decreased by RM0.26 million to RM492.81 million (2014: RM493.07 million) mainly due to total comprehensive loss recorded for the period.

(iii) FYE 31 December 2016

AFB recorded PBT of RM5.02 million (2015: PBT of RM0.78 million) and profit after taxation of RM3.65 million (2015: profit after taxation of RM0.53 million).

Improved PBT for 2016 was due to, amongst others, lower income attributable to depositors by RM10.10 million, lower financing impairment allowance by RM5.10 million and lower personnel expenses by RM5.90 million, while being offset by a decrease in income derived from investment of depositors' funds of RM14.20 million.

Net assets increased by RM4.45 million to RM497.26 million for 2016 (2015: RM492.81 million) mainly due to total comprehensive profit recorded for 2016.

(iv) Six (6)-month FPE 30 June 2017

AFB recorded a loss before taxation of RM18.99 million (FPE 30 June 2016 ("1H2016"): profit before taxation of RM3.47 million) and loss after taxation of RM18.99 million (1H2016: profit after taxation of RM2.30 million)

The loss before taxation for the FPE 30 June 2017 was mainly due to allowance made for impairment on financing of RM22.75 million during the period. This was partially offset by higher income derived from investment of shareholders' fund and lower income attributable to depositors.

Net assets decreased by RM17.21 million to RM479.41 million (1H2016: RM496.62 million) mainly due to decrease in reserves arising from total comprehensive loss for the period.

7.3 Changes in accounting policies and estimates

The following are descriptions of certain changes in accounting policies as disclosed in the audited consolidated financial statements for FYE 31 December 2013.

Effective from 1 January 2013:

AFB adopted certain new and amended Malaysian Financial Reporting Standards ("MFRS") mandatory for annual financial periods beginning on or after 1 January 2013 including MFRS 10 "Consolidated Financial Statements", MFRS 11 "Joint Arrangement" and MFRS 101 "Presentation of Financial Statements". In addition, the application of MFRS 12 "Disclosure of Interest in Other Entities" resulted in additional disclosures in the financial statement.

7.4 Audit qualification

There were no audit qualifications on the audited financial statements on AFB for the FYEs 31 December 2014 to 31 December 2016.

INFORMATION ON AFB (Cont'd)

7.5 Material commitments and contingent liabilities

In the normal course of business, the AFB makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions, hence they are not provided for in the material statements.

As at extracted from the unaudited financial statements of AFB for the six (6)-month FPE 30 June 2017	Principal amount	Gross Positive Fair Value – Derivative Contract	Credit equivalent amount	Risk weighted amount
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	24,550,875	-	24,550,875	24,425,438
Trade related contingencies	55,925,857	-	11,185,171	11,185,171
Irrevocable commitments to extend credit:-				
– One year or less	341,644,650	-	170,822,325	128,146,272
– Over one year to five years	13,904,103	-	6,952,052	6,946,392
– Over five years	217,316	-	108,658	81,494
Foreign exchange related contracts:				
– One year or less	100,598,954	112,963	1,594,297	720,354
TOTAL	536,841,755	112,963	215,213,378	171,505,121

8. PROFIT AND DIVIDEND RECORD

The profit record of AFB is as set out in Section 7 of Appendix II of this Circular/ Explanatory Statement. AFB has not declared any dividends for the past three (3) FYEs 31 December 2014 to 2016.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK
--

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

**STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.
716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

Contents	Page
Directors' report	1 - 16
Independent auditors' report	17 - 20
Statements of financial position	21
Statements of profit or loss and other comprehensive income	22 - 23
Statements of changes in equity	24 - 25
Statements of cash flows	26
Notes to the financial statements	27 - 100
Statement by directors	101
Statutory declaration	102
Report of the Shariah Committee	103 - 104

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors have pleasure in submitting their report together with the audited financial statements of Asian Finance Bank Berhad ("the Bank") for the financial year ended 31 December 2016. The Economic Entity includes both the Bank and the equity accounted joint venture referred to in Note 12 of the financial statements.

PRINCIPAL ACTIVITIES

The Economic Entity and the Bank are principally engaged in the Islamic Banking business and the provision of related financial services. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Economic Entity and Bank	
	2016	2015
	RM	RM
Profit before taxation	5,016,890	775,696
Taxation	<u>(1,366,961)</u>	<u>(248,623)</u>
Net profit for the financial year	<u><u>3,649,929</u></u>	<u><u>527,073</u></u>

DIVIDENDS

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not propose the payment of any dividends in respect of the current financial year at the forthcoming Annual General Meeting.

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfer to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**DIRECTORS OF THE BANK**

The Directors who served during the financial year until the date of this report are:

Y. Bhg Dato' Dr. Md Khir Abdul Rahman
Dr. Saleh Jameel Malaikah
Zakir Hussain Rizvi
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack
Abdul Rahim Abdul Hamid
Y. Bhg Datuk Azrulnizam Abdul Aziz (Appointed w.e.f. 1 March 2017)
Dr. Loh Leong Hua (Appointed w.e.f. 1 March 2017)
Dr. Fouad Hayel Saeed Anam (Resigned w.e.f 28 February 2017)
Rakesh Sanghvi (Resigned w.e.f 28 February 2017)
Gourang Hemani (Resigned w.e.f 28 February 2017)
Tarek Youssef Fawzi (Appointed 18 May 2016 and Resigned w.e.f 28 February 2017)
Giles Cunningham (Resigned w.e.f 11 March 2016)

DIRECTORS' INTERESTS IN SHARES

According to the register of directors' shareholding, no Director holding office at 31 December 2016 had any interest in the shares of the Bank and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than directors' remuneration and benefits-in-kind as disclosed in Note 27 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except the related party transactions as disclosed in Note 30 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

ISSUE OF SHARES AND DEBENTURES

There were no changes in the issued and paid-up capital of the Bank during the financial year.
There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Bank during the financial year.

INDEMNITY AND INSURANCE COSTS

During the financial year, the total amount of insurance effected for the Directors and the officers of the Bank is RM111,310.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**BAD AND DOUBTFUL FINANCING AND ADVANCES**

Before the financial statements of the Economic Entity and the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad financing and advances and the making of allowance for impaired financing and advances, and satisfied themselves that all known bad debts financing and advances have been written off and adequate allowances had been made for impaired financing and advances.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad financing and advances, or the amount of the allowances for bad and doubtful financing and advances, in the financial statements of the Economic Entity and the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Economic Entity and the Bank were made out, the Directors took reasonable steps to ensure that the value of any current assets, other than financing and advances, which were unlikely to be realised in the ordinary course of business, as shown in the accounting records of the Economic Entity and the Bank, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Economic Entity and the Bank misleading.

VALUATION METHOD

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Economic Entity and the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Economic Entity and the Bank which have arisen since the end of the financial year and which secures the liabilities of any other person, or
- (b) any contingent liabilities of the Economic Entity or the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

No contingent or other liability of the Economic Entity and the Bank have become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Economic Entity and the Bank to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Economic Entity and the Bank, that would render any amount stated in the financial statements misleading.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 | P

**ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)****ITEM OF AN UNUSUAL NATURE**

The results of the operations of the Economic Entity and the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material an unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, in the opinion of the Directors, likely to affect substantially the results of the operations of the Economic Entity and the Bank for the current financial year in which this report is made.

BUSINESS PLAN AND OUTLOOK

Stalling global trade, weak investment, and heightened policy uncertainty have depressed world economic activity. Global growth is estimated to have fallen to 2.3 % in 2016—the weakest performance since the global financial crisis and is expected to rise to 2.7 % in 2017. Better growth projection mainly reflecting a recovery in emerging market and developing economies ("EMDEs") while advanced economies continue to struggle with subdued growth and low inflation amid uncertainty on policy direction, tepid investment, and sluggish productivity growth.

EMDE economic growth is expected to accelerate to 4.2% in 2017 from estimated 3.4% in 2016 and is expected to contribute 1.6% to global growth in 2017 (accounting for about 60% of global growth). Better growth prospect mainly attributed to anticipated increase in commodity prices, particularly oil. However, outlook is clouded by a number of factors—most prominently, uncertainty about global trade prospects and advanced-economy policies, subdued investment, sluggish productivity growth, and demographic factors.

Malaysia's gross domestic product ("GDP") growth rate is projected to reach 4.2% in 2016, with slow improvement moving forward. Private consumption is expected to continue driving economic growth, supported by low unemployment, government income-support measures and a reduction in the overnight policy rate. Private investment growth is expected to moderate, as commodity prices and global economic activity remain subdued. The GDP growth rate is projected to remain broadly constant at 4.3% in 2017 before rising to 4.5% in 2018, as commodity prices recover and the global economy accelerates. (*World Bank*)

Despite challenging environment, the Bank will continue to enhance and foster good relationship with its stakeholders and is expected to record positive results going forward to preserve its value and also ensure sustainability going forward. Strategies and approaches will constantly be reviewed to suit business needs, customers' expectations and business requirements, with appropriate risk mitigations in place while ensuring compliance with regulatory requirements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**STATEMENT OF CORPORATE GOVERNANCE****Introduction**

The Board of Directors ("the Board") of the Bank are pleased to report the application by the Bank of the principles contained in the Malaysian Code on Corporate Governance ("the Code") and the extent of compliance with the best practices of the Code. Although the Bank is not a listed company, the Board has endeavoured to apply the principles and comply with the relevant best practices of corporate governance as set out in the Code. The Bank is also required to comply with Bank Negara Malaysia ("BNM")'s policy document on Corporate Governance ("BNM/RH/PD 029-9") issued on 3 August 2016.

BOARD OF DIRECTORS**The Board**

The Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank achieves best practice in the conduct of the Bank's business and operational activities. An indication of the Board's commitment is reflected in the conduct of regular Board meetings by the Bank and the incorporation of various processes and systems to achieve a risk and control awareness culture as well as the establishment of relevant Board Committees and Management Committees at the Bank.

The Board assumes responsibility for effective stewardship and control of the Bank and has established terms of reference to assist in the discharge of this responsibility.

The roles and responsibilities of the Board broadly covers formulation of corporate policies and strategies, overseeing and evaluating the conduct of the Bank's business, identifying principal risks and ensuring the implementation of appropriate systems to manage these risks, reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by BNM as specified in guidelines and circulars issued by BNM, from time to time.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia and BNM's policy document on Corporate Governance ("BNM/RH/PD 029-9") issued on 3 August 2016.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

BOARD OF DIRECTORS (CONTINUED)**Board Composition**

The Board currently has seven (7) members, comprising five (5) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors, as follows:-

Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Chairman (Independent Non-Executive)
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack	Director (Independent Non-Executive)
Abdul Rahim Abdul Hamid	Director (Independent Non-Executive)
Y. Bhg Datuk Azrulnizam Abdul Aziz	Director (Independent Non-Executive)
Dr. Loh Leong Hua	Director (Independent Non-Executive)
Dr. Saleh Jameel Malaikah	Director (Non-Independent Non-Executive)
Zakir Hussain Rizvi	Director (Non-Independent Non-Executive)

The Directors bring together to the Board a wide range of business management skills, as well as banking and financial experience required for the management of the Bank. All Board members participate fully in the deliberation and decision-making process on the key issues involving the Bank.

There are clear division of responsibilities between the Board and the Chief Executive Officer ("CEO") to ensure that there is balance of power and authority. The CEO's primary responsibilities are to implement the policies and decisions of the Board, manage the Bank's day-to-day operations, setting the plan and direction, benchmark and targets for the Bank, tracking compliance and business progress, initiating innovative business ideas to create competitive edge and development of business and corporate strategies with the aim of enhancing shareholders' wealth.

Each Non-Executive Director brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

All decisions of the Board are based on the decision of the majority and no single Board member can make any decisions on behalf of the Board, unless duly authorised by the Board of Directors. This enables the Board to effectively discharge its principal responsibilities as set out in the Code.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

BOARD OF DIRECTORS (CONTINUED)**Board Meetings**

The Board met eleven (11) times during the financial year ended 31 December 2016. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:-

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	11/11	100
Dr. Saleh Jameel Malaikah	9/11	81.8
Dr. Fouad Hayel Saeed Anam	9/11	81.8
Zakir Hussain Rizvi	10/11	90.9
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack	11/11	100
Rakesh Sanghvi	10/11	90.9
Abdul Rahim Abdul Hamid	9/11	81.8
Gourang Hemani	11/11	100
Tarek Youssef Fawzi (Appointed w.e.f. 18 May 2016)	5/7	71.4
Giles Cunningham (Resigned w.e.f. 11 March 2016)	1/1	100

Scheduled board meetings are structured with a pre-set agenda. The Board's principal key focus amongst others is the overall strategic direction, financial and corporate developments of the Bank. Key matters such as the Bank's business and marketing strategy and budget, annual and interim results, material contracts, major capital expenditures and credit policies and guidelines are reserved for the Board's decision.

Supply of Information

The Bank continues to strive to achieve full compliance with regulatory and statutory requirements. To this end, the Bank is continuously improving processes to ensure compliance. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, reports on operational, financial and corporate issues, performance of the Bank and management proposals that require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary as well as to independent professional advice, including the internal auditors and risk management department.

Re-election

As per the requirement of Companies Act, 2016 and the Articles of Association of the Bank, in every subsequent Annual General Meeting ("AGM") following the first AGM, one third of the Directors for the time being or if their number is not three, or a multiple of three, then the number nearest to one third, shall retire from office, and being eligible, will offer themselves for re-election.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 | P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**BOARD OF DIRECTORS (CONTINUED)****Training and Education**

As part of the training programme for its Directors, the Bank prepared for the use of its Directors, the Directors' Handbook and organised training programmes and regular briefings and updates by its in-house professionals as well as the external auditors. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge.

New Directors are furnished with BNM's policy document on Corporate Governance ("BNM/RH/PD 029-9") issued on 3 August 2016 for their reference on major duties and responsibilities of a director.

DISCLOSURE OF BOARD COMMITTEES**Nomination Committee**

During the financial year ended 31 December 2016, five (5) Nomination Committee meetings were held. Details of the Committee and their attendance are as follows:-

Name of Director	Designation	Total Meetings Attended	Percentage of Attendance (%)
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack	Chairman	5/5	100
Dr. Fouad Hayel Saeed Anam	Member	5/5	100
Zakir Hussain Rizvi	Member	3/5	60
Abdul Rahim Abdul Hamid	Member	4/5	80
Gourang Hemani	Member	4/5	80
Dr. Saleh Jameel Malaikah	Member	-	-
(Extension of tenure w.e.f. 15 March 2016)			

The Nomination Committee's functions and responsibilities are set out in the terms of reference as follows:-

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for position of Chief Executive Officer;
- Review and recommend to the Board all Board appointments and re-appointments and removals including the Chief Executive Officer;
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required;
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board;
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)**Remuneration Committee**

During the financial year ended 31 December 2016, a Meeting of the Board Remuneration Committee was scheduled to be held on Monday, 14 March 2016, however due to lack of quorum, the Chairman of the Board Remuneration Committee instructed the Company Secretary to escalate the matters scheduled to be tabled before the Board Remuneration Committee which are the Proposed Increment and Bonus for Eligible Employees of Asian Finance Bank Berhad for the year 2015 and the Proposed Allowance for the Chairman of the Interim Management Committee to be escalated before the Meeting of the Board of Directors on 15 March 2016. In October 2016, following from the recommendations of the BNM Policy Document on Corporate Governance issued on 3 August 2016, the Board Remuneration Committee was merged with the Board Nomination Committee to become the enlarged Board Nominations & Remuneration Committee. The meetings of Board Nominations & Remuneration Committee were held twice in 2016.

The membership of the Board Remuneration Committee in 2016 [before merger with the Board Nomination Committee] were as follows:

Name of Director	Designation
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Chairman
Giles Cunningham (Resigned w.e.f. 11 March 2016)	Member
Rakesh Sanghvi	Member
Dr. Saleh Jameel Malaikah (Appointed w.e.f on 15 March 2016)	Member
Tarek Youssef Fawzi (Appointed w.e.f. 18 May 2016)	Member

The Remuneration Committee's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the framework governing the remuneration of the:
 - Directors;
 - Chief Executive Officer; and
 - Key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors (if any) and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.

The membership of the merged Board Nominations & Remuneration Committee in 2016 were as follows:

Name of Director	Designation	Total Meetings Attended	Percentage of Attendance (%)
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack	Chairman	2/2	100
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Member	2/2	100
Abdul Rahim Abdul Hamid	Member	2/2	100
Gourang Hemani	Member	2/2	100
Rakesh Sanghvi	Member	1/2	50
Tarek Youssef Fawzi (Appointed w.e.f. 18 May 2016)	Member	0/2	-
Dr. Saleh Jameel Malaikah	Member	2/2	100
Dr. Fouad Hayel Saeed Anam	Member	2/2	100
Zakir Hussain Rizvi	Member	2/2	100

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)**Board Audit Committee**

During the financial year ended 31 December 2016, eight (8) meetings were held. Details of the Committee and their attendance are as follows:-

Name of Director	Designation	Total Meetings Attended	Percentage of Attendance (%)
Abdul Rahim Abdul Hamid	Chairman	7/8	87.5
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Member	8/8	100
Giles Cunningham (Resigned w.e.f. 11 March 2016)	Member	-	-
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack (Re-appointed as member on 9 March 2016)	Member	3/5	60
Tarek Youssef Fawzi (Appointed w.e.f. 18 May 2016)	Member	4/5	80

The Audit Committee's functions and responsibilities are set out in the terms of reference as follows:

- Ensure that accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts.
- Review the statement of financial position and statement of comprehensive income for submission to the Board of Directors and ensure the prompt publication of annual financial statements;
- Review the internal controls, including the scope of the internal audit programme, the internal audit findings and recommend actions to be taken by management. The reports of internal auditors and the Committee should not be subject to the clearance of the Chief Executive or Executive Directors. The Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;
- Review with the external auditors, the scope of their audit plan, and the system of the internal accounting controls, the audit reports, the assistance given by management and its staff to the auditors and any findings and action to be taken. The Committee should also select external auditors for appointment by the Board each year and recommend their fees to the Board for approval; and
- To perform any other functions as defined by the Board.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)**Board Risk Management Committee**

During the financial year ended 31 December 2016, five (5) meetings were held. Details of the Committee and their attendance are as follows:-

Name of Director	Designation	Total Meetings Attended	Percentage of Attendance (%)
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Chairman	5/5	100
Giles Cunningham (Resigned w.e.f. 11 March 2016)	Member	-	-
Rakesh Sanghvi	Member	3/5	60
Abdul Rahim Abdul Hamid	Member	4/5	80
Tarek Youssef Fawzi (Appointed w.e.f. 18 May 2016)	Member	3/5	60

The Risk Management Committee is responsible for providing oversight and management of all risks in the Bank and to ensure that there is an ongoing process to continuously manage the Bank's risk proactively.

A statement on the Bank's Risk Management Framework is set out in Note 32 to the financial statements for the financial year ended 31 December 2016.

The Risk Management Committee's functions and responsibilities are set out in the terms of reference as follows:

- Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval;
- Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- Ensuring infrastructure, resources and systems are in place for risk management that is ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Islamic bank's risk taking activities;
- Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities;
- If engages in Mudharabah and Musharakah financing or investments, the Committee is responsible for ensuring that a comprehensive risk management infrastructure is in place for managing the risks associated with these contracts, that includes, at a minimum;
- Establishment of a process of periodic review on performance of Mudharabah and Musharakah financing or investments;

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)**Board Risk Management Committee (continued)**

- Identification and establishment of exit strategies for Mudharabah and Musharakah financing or investments, including extension and redemptions;
- Updates the board on any material progress of Mudharabah and Musharakah financing or investments in timely manner; and
- Ensure that senior management discharges its responsibilities for the development and effective implementation of the ICAAP ("Internal Capital Adequacy Assessment Process").

DISCLOSURE OF SHARIAH COMMITTEE

During the financial year ended 31 December 2016, four (4) meetings were held. Details of the Committee and their attendance are as follows:-

Name of Director	Designation	Total Meetings Attended	Percentage of Attendance (%)
Sheikh Dr. Abdul Sattar Abu Ghuddah	Chairman	4/4	100
Sheikh Prof. Dr. Ali Muhyealdin Ali Al-Quradaghi	Member	4/4	100
Sheikh Dr. Waleed Bin Hadi	Member	4/4	100
Sheikh Dr. Mohammad Zaini Bin Yahya	Member	4/4	100
Sheikh Nushi Bin Dato' Dr Mahfodz	Member	4/4	100

Duties, Responsibilities & Accountability Of The Shariah Committee

The main duties and responsibilities of the Shariah Committee are as follow:-

1. Responsibility and accountability

To understand that in the course of discharging the duties and responsibilities as a Shariah Committee member, they are responsible and accountable for all Shariah decisions, opinions and views provided by them.

2. Advise to the Board and the Bank

To advise the Board and provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles at all times.

3. Endorse Shariah policies and procedures

To endorse Shariah policies and procedures prepared by the Bank and to ensure that they do not contain any elements which are not in line with Shariah.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)**Duties, Responsibilities & Accountability Of The Shariah Committee (continued)****4. Endorse and validate relevant documentations**

To ensure that the products of the Bank comply with Shariah principles, the Shariah Committee must approve:

- i) the terms and conditions contained in the forms, contracts, agreements, or other legal documentations used in executing the transactions; and
- ii) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product.

5. Assess work carried out by Shariah Review and Shariah Audit

To assess the work carried out by Shariah Review and Shariah Audit in order to ensure compliance with Shariah matters which form part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report.

6. Assist related parties on Shariah matters

The related parties of the Bank such as its legal counsel, auditor or consultant may seek advice on Shariah Matters and the Shariah Committee to provide the necessary assistance to the requesting party.

7. Advise on matters to be referred to the Shariah Advisory Council ("SAC")

Advise the Bank to consult the SAC on Shariah matters that could not be resolved.

8. Provide written Shariah opinions

To provide written Shariah opinions in circumstances where the Bank make reference to the SAC for further deliberation, or when the Bank submits applications to BNM for new product approval.

The Shariah Committee members' profiles are as follows:

SHEIKH DR. ABDUL SATTAR ABU GHUDDAH (Chairman of the Committee)

Sheikh Dr. Abdul Sattar Abdul Karim Mohammed Abu Ghuddah was born in Syria in 1940. He graduated from University of Damascus, Syria with a Bachelor of Shariah (1964) and a Bachelor of Law (1965). Subsequently, he obtained a Master degree in Shariah (1966), Master degree in Ulum Hadith (1967) and a Doctor of Philosophy (1975) in Fiqh Muqaran (Comparative Fiqh) from University of Al-Azhar, Egypt.

His prior working experience includes being a Lecturer in Maahad Imam Dakwah, Riyadh (1966), Researcher and Shariah expert for Fiqh Encyclopedia of Ministry of Waqaf, Kuwait (1967-1971 and 1977-1990), Lecturer at Maahad Dini, Kuwait (1974-1976), Lecturer at Faculty of Shariah and Faculty of Law, Kuwait University (1983-1986) and Fellow at Institute of Saleh Kamel for Islamic Economic Studies, University of Al-Azhar (1990-1991).

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)**Duties, Responsibilities & Accountability Of The Shariah Committee (continued)****SHEIKH DR. ABDUL SATTAR ABU GHUDDAH (Chairman of the Committee) (continued)**

Currently he holds the position of Shariah advisor for various organization such as AAOIFI, Dallah Al-Barakah Banking Group, Qatar Islamic Bank, Q Invest, QIB UK and Masraf al-Rayan. In addition, he is also a member of International Islamic Fiqh Academy of OIC and Shariah expert for Islamic Fiqh Academy of World Muslim League.

SHEIKH PROF. DR ALI MUHYEALDIN AL-QURADAGHI

Prof. Dr. Ali Muhyealdin Ali Al-Quradaghi was born in Iraq in 1949. His academic qualification includes a Bachelor of Shariah (1975) from University of Baghdad, a Master degree in Shariah (1980) and a Doctor of Philosophy in Shariah and Law (1985) from University of Al-Azhar. He previously work with University of Qatar in the Faculty of Shariah and Islamic Studies as the Head of Department of Fiqh and Usul Fiqh.

He is currently holding the position of Secretary General, International Association of Islamic Scholars and Deputy Chairman of European Council for Fatwa and Research and as a Shariah advisor for various organization such as AAOIFI, First Investment Company (Kuwait), Qatar Islamic Insurance and Dubai Islamic Bank. He is a Shariah expert for International Islamic Fiqh Academy of OIC and Islamic Fiqh Academy of World Muslim League.

SHEIKH DR. WALEED BIN HADI

Sheikh Dr. Waleed bin Hadi is a Qatari who previously served as a judge in Qatar Shariah court in 1991. He graduated from Faculty of Shariah and Islamic Studies, University of Qatar with a Bachelor of Fiqh and Usul Fiqh (1991). His post graduate qualification includes a Master degree (2002) in Fiqh Muqaran (Comparative Fiqh) from Faculty of Shariah and Law, Omdurman Islamic University, Sudan and a Doctor of Philosophy in Shariah (2009) from Imam Muhammad Ibn Saud Islamic University, Saudi Arabia.

He is currently the Shariah advisor for various organization such as AAOIFI, Qatar Islamic Bank, Q Invest, QIB UK, Masraf al-Rayan and International Islamic Liquidity Management Corporation.

SHEIKH DR. MOHAMMAD ZAINI BIN YAHYA

Sheikh Dr. Mohammad Zaini Bin Yahya was born in Malaysia in 1972. He graduated from Al-Azhar University (Egypt), with a Bachelor in Shariah Islamiyyah (1995). He holds Masters in Shariah (1999) from National University of Malaysia and PhD in Usul Fiqh, International Islamic University Malaysia. He started his career as a Coordinator Practical Industry Training. Journal Editor (2008).

His current position as a Lecturer in Islamic Studies at National University of Malaysia. The field of specialisation in his teaching areas is Fiqh and Usul Fiqh.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

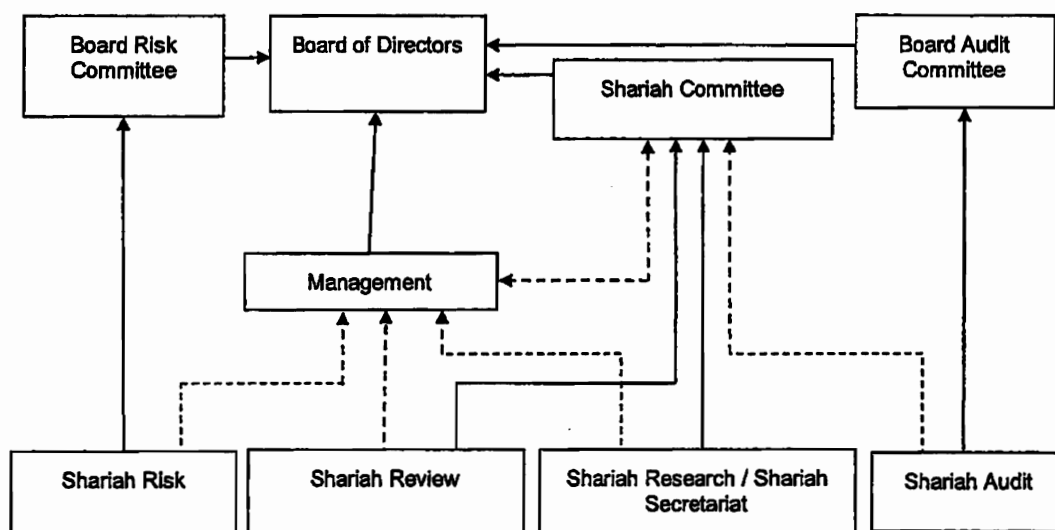
Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)**Duties, Responsibilities & Accountability Of The Shariah Committee (continued)****SHEIKH NUSHI BIN DATO' DR MAHFODZ**

Sheikh Nushi Bin Dato' Dr Mahfodz is a Malaysian and was born in 1975. He graduated at Yarmouk University (Jordan), with a Bachelor in Shariah (1997). He holds Master in Shariah (2001) from Aly Al-Bayt University. He started his career as a Lecturer in Shariah and Islamic Studies. His current position as a Lecturer in Islamic Studies at Selangor International Islamic University College.

Structure of Shariah Compliance Framework of Asian Finance Bank

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**SIGNIFICANT EVENT**

In 2014, there have been disagreements between the shareholders due to difference in interpreting the Shareholder Agreement, Deed of Assignments and the Company's Article of Association. The disagreements between the shareholders are subsequently referred to the High Court of Malaya where the Bank is named as one of the defendants. Appeals have been filed against the High Court decision and there have been hearings in the Court of Appeal in 2015. During the year, the Bank has been withdrawn from the suit between the shareholders.

AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016) have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 26 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors



DATO' DR. MD KHIR ABDUL RAHMAN
DIRECTOR



ABDUL RAHIM ABDUL HAMID
DIRECTOR

Kuala Lumpur, Malaysia

Date: 29 May 2017

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (*Cont'd*)

KPMG PLT
 (LLP0010081-LCA & AF 0758)
 Chartered Accountants
 Level 10, KPMG Tower
 8 First Avenue, Bandar Utama
 47800 Petaling Jaya
 Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
 Fax +60 (3) 7721 3399
 Internet www.kpmg.com.my

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ASIAN FINANCE BANK BERHAD

(Company No. 716122-P)
 (Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Asian Finance Bank Berhad, which comprise the statements of financial position as at 31 December 2016 of the Economic Entity and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Economic Entity and of the Bank for the year then ended, and notes to the financial statements including a summary of significant accounting policies, as set out on pages 21 to 100.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Economic Entity and of the Bank as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Economic Entity and of the Bank in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

KPMG PLT, a limited liability partnership established under Malaysian law is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG PLT (LLP0010081-LCA) was registered on 27.12.2016 and from the date thereof, was converted from a conventional partnership, KPMG, to a limited liability partnership.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)



Company No. 716122-P

*Asian Finance Bank Berhad
Independent Auditors' Report for the
Financial Year Ended 31 December 2016*

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Bank are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Economic Entity and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Economic Entity and of the Bank does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Economic Entity and of the Bank, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Economic Entity and of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Economic Entity and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Economic Entity and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Economic Entity and of the Bank, the Directors are responsible for assessing the ability of the Economic Entity and of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Economic Entity or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Economic Entity and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)



Company No. 716122-P

*Asian Finance Bank Berhad
Independent Auditors' Report for the
Financial Year Ended 31 December 2016*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Economic Entity and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Economic Entity and of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Economic Entity and of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Economic Entity and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Economic Entity and of the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Economic Entity and of the Bank, including the disclosures, and whether the financial statements of the Economic Entity and of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)



Company No. 716122-P

*Asian Finance Bank Berhad
Independent Auditors' Report for the
Financial Year Ended 31 December 2016*

Other Matters

The financial statements of the Economic Entity and of the Bank for the year ended 31 December 2015 were audited by another Chartered Accountant who expressed an unmodified opinion on those statements on 6 May 2016.

This report is made solely to the members of the Economic Entity and of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Petaling Jaya, Selangor

Date: 29 May 2017

Adrian Lee Lye Wang
Approval Number: 2679/11/17(J)
Chartered Accountant

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	Economic Entity and Bank	
		2016 RM	2015 RM
Assets			
Cash and short-term funds	5	210,124,388	263,435,871
Financial investments held-for-trading	6	20,140,038	-
Financial investments available-for-sale	7	266,448,176	367,383,219
Financial investments held-to-maturity	8	459,851,257	393,864,137
Financing and advances	9	1,456,983,213	1,459,069,758
Derivative assets	10	212,430	778,580
Other assets	11	3,603,242	4,271,349
Tax recoverable		5,416,157	4,082,904
Statutory deposits with Bank Negara Malaysia		30,373,822	34,683,822
Investment in joint venture	12	-	-
Deferred tax assets	13	349,226	-
Property, plant and equipment	14	1,021,876	1,007,951
Intangible assets	15	1,519,012	1,842,640
Total assets		2,456,042,837	2,530,420,231
Liabilities			
Deposits from customers	16	897,734,025	1,031,686,604
Deposits and placements of banks and other financial institutions	17	1,048,209,734	992,892,617
Derivative liabilities	10	558,050	940,284
Other liabilities	18	12,284,912	12,086,801
Total liabilities		1,958,786,721	2,037,606,306
Equity			
Ordinary share capital	19	532,530,020	532,530,020
Reserves	20	(35,273,904)	(39,716,095)
Total equity		497,256,116	492,813,925
Total liabilities and equity		2,456,042,837	2,530,420,231
Commitments and contingencies	31	494,064,246	553,069,511
Capital Adequacy			
	33	Economic Entity and Bank	
CET1 capital		24.032%	24.035%
Tier 1 capital		24.032%	24.035%
Total capital ratio		24.829%	25.419%

The accompanying accounting policies and notes form an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
 (Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Economic Entity and Bank	
		2016 RM	2015 RM
Income derived from investment of depositors' funds	21	91,010,016	105,208,142
Income derived from investment of shareholders' funds	22	30,194,336	32,647,536
Allowances for impairment on financing and advances	23	(11,706,070)	(16,810,542)
Total distributable income		109,498,282	121,045,136
Income attributable to depositors	24	(75,594,310)	(85,695,575)
		33,903,972	35,349,561
Personnel expenses	25	(14,206,565)	(20,104,457)
Other overheads and expenditures	26	(14,680,517)	(14,469,408)
Profit before taxation		5,016,890	775,696
Taxation	28	(1,366,961)	(248,623)
Net profit for the financial year		3,649,929	527,073
Profit attributable to:			
Owners of the Bank		3,649,929	527,073
Non-controlling interest		-	-
		3,649,929	527,073
Earnings per shares (sen)			
Basic	29	0.69	0.10

The accompanying accounting policies and notes form an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
 (Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	Economic Entity and Bank	
	2016	2015
	RM	RM
Profit for the financial year	3,649,929	527,073
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent period:		
Financial investments available-for-sale		
- Net amount transferred to profit or loss	826,446	(1,035,931)
- Unrealised net loss on revaluation	(44,979)	-
Income tax relating to components of other comprehensive income	10,795	248,623
Other comprehensive income/(loss) for the financial year	792,262	(787,308)
Total comprehensive income/(loss) for the financial year	4,442,191	(260,235)
Total comprehensive income/(loss) attributable to:		
Owners of the Bank	4,442,191	(260,235)
Non-controlling interest	-	-
	4,442,191	(260,235)

The accompanying accounting policies and notes form an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
 (Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Share Capital RM	Accumulated Losses RM	Statutory Reserve RM	Regulatory Reserve RM	AFS Reserve RM	Total RM
<u>Economic Entity and Bank</u>						
2016						
Balance as at 1 January 2016	532,530,020	(49,685,510)	11,538,745	-	(1,569,330)	492,813,925
Net profit for the financial year	-	3,649,929	-	-	-	3,649,929
Transfer to statutory reserve	-	(1,824,965)	1,824,965	-	-	-
Transfer to regulatory reserve	-	(5,233,721)	-	5,233,721	-	-
Other comprehensive income/(loss):						
Financial investments available-for-sale						
- Net amount transferred to profit or loss	-	-	-	-	826,446	826,446
- Unrealised net loss on revaluation	-	-	-	-	(44,979)	(44,979)
Income tax relating to components of other comprehensive income	-	-	-	-	10,795	10,795
Total other comprehensive income for the year	-	-	-	-	792,262	792,262
Balance as at 31 December 2016	<u>532,530,020</u>	<u>(53,094,267)</u>	<u>13,363,710</u>	<u>5,233,721</u>	<u>(777,068)</u>	<u>497,256,116</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	Share Capital RM	Accumulated Losses RM	Statutory Reserve RM	Regulatory Reserve RM	AFS Reserve RM	Total RM
<u>Economic Entity and Bank</u>						
2015						
Balance as at 1 January 2015	532,530,020	(49,949,046)	11,275,208	-	(782,022)	493,074,160
Net profit for the financial year	-	527,073	-	-	-	527,073
Transfer to statutory reserve	-	(263,537)	263,537	-	-	-
Other comprehensive (loss)/income:						
Financial investments available-for-sale - Unrealised net loss on revaluation	-	-	-	-	(1,035,931)	(1,035,931)
Income tax relating to components of other comprehensive income	-	-	-	-	248,623	248,623
Total other comprehensive loss for the year	-	-	-	-	(787,308)	(787,308)
Balance as at 31 December 2015	532,530,020	(49,685,510)	11,538,745	-	(1,569,330)	492,813,925

The accompanying accounting policies and notes form an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Economic Entity and Bank	
	2016	2015
	RM	RM
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	5,016,890	775,696
Adjustments for:		
Depreciation of property, plant and equipment (Note 26)	552,330	758,643
Amortisation of intangible assets (Note 26)	744,786	740,817
Profit income from:		
- Investment on financial investments held-for-trading	(117,889)	-
- Investment on financial investments available-for-sale	(14,395,698)	(18,929,638)
- Investment on financial investments held-to-maturity	(18,397,340)	(14,328,470)
Net (gain)/loss on sale of financial investments available-for-sale	900,221	(1,391,358)
Unrealised loss from financial investments held-for-trading	38,892	-
Net accretion of discount less amortisation of premium	251,173	65,966
Allowances for losses on financing and advances (Note 23)	11,706,070	16,810,542
Operating loss before working capital changes	(13,700,565)	(15,497,802)
Adjustments for change in operating assets and liabilities:		
Financing and advances	(9,619,525)	261,600,867
Derivative assets	566,150	(33,830)
Other assets	422,717	(3,294,857)
Statutory deposit with Bank Negara Malaysia	4,310,000	9,330,000
Deposits from customers	(133,952,579)	(135,168,376)
Deposits and placements of banks and other financial institutions	55,317,117	(186,455,666)
Derivative liabilities	(382,234)	(12,015,266)
Other liabilities	198,111	3,279,572
Cash used in operating activities	(96,840,808)	(78,255,358)
Taxation paid	(2,804,050)	(248,623)
Net cash used in operating activities	(99,644,858)	(78,503,981)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 14)	(566,255)	(299,835)
Purchase of intangible assets (Note 15)	(421,158)	(776,021)
Net proceeds from:		
- Purchase of financial investments held-for-trading	(20,061,041)	-
- Sale of financial investments available-for-sale	115,222,782	207,876,353
- Purchase of financial investments held-to-maturity	(47,840,953)	(116,523,615)
Net cash generated from investing activities	46,333,375	90,276,882
ANALYSIS OF CASH AND CASH EQUIVALENT		
Net (decrease)/increase in cash and cash equivalents	(53,311,483)	11,772,901
Cash and cash equivalents at beginning of financial year	263,435,871	251,662,970
Cash and cash equivalents at end of financial year (Note 5)	210,124,388	263,435,871

The accompanying accounting policies and notes form an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

1. General information

The Economic Entity and the Bank are principally engaged in the Islamic banking business and the provision of related financial services. There have been no significant changes in these principal activities during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia. The address of the registered office and principal place of business of the Bank is 2nd Floor Podium Block, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The principal activity of the joint venture is provision of funding for marine vessel. The results of the joint venture is equity accounted in the financial statements of the Economic Entity.

2. Basis of preparation of the financial statements

The financial statements of the Economic Entity and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRS") and requirements of the Companies Act 1965.

The financial statements of the Economic Entity and of the Bank have been prepared under the historical cost convention, except for financial investments available-for-sale, financial assets held-for-trading and derivatives that have been measured at fair value.

The financial statements of the Bank incorporate those activities which have been undertaken by the Bank in compliance with Shariah principles. Islamic banking generally refers to the acceptance of deposits and granting of financing under Shariah principles.

The financial statements are presented in Ringgit Malaysia ("RM") and rounded to the nearest RM, unless otherwise stated.

2.1 Statement of compliance

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Economic Entity and the Bank:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

2. Basis of preparation of the financial statements (continued)**2.1 Statement of compliance (continued)*****MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018***

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contract – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfer of Investment Property*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*

MFRSs, Interpretations and amendments effective from a date yet to be determined

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Economic Entity and the Bank plan to apply the abovementioned applicable accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017;
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018 except for amendments to MFRS 1, MFRS 2, MFRS 4, MFRS 28 and MFRS 140 which are not applicable to the Economic Entity and the Bank; and,
- from the annual period beginning on 1 January 2019 for the accounting standard, that is effective for annual periods beginning on or after 1 January 2019.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

2. Basis of preparation of the financial statements (continued)**2.1 Statement of compliance (continued)**

Material financial impact of initial application of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* are discussed below:

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Constructions of Real Estate*, IC interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition might be different as compared with the current practices.

The adoption of MFRS 15 may result in a change in accounting policy. The Economic Entity and the Bank are currently assessing the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

This standard requires all financial assets to be classified based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are to be initially measured at fair value. Subsequent to initial recognition, depending on the business model under which these assets are acquired, these will be measured at either fair value or amortised cost.

This standard also specifies the requirements for the classification and measurement of financial liabilities, which are generally similar to the requirements of MFRS 139. However, this standard requires that for financial liabilities designated at fair value through profit or loss, changes in fair value attributable to the credit risk of that liability are to be presented in other comprehensive income, whereas the remaining amount of the change in fair value will be presented in profit or loss.

The adoption of MFRS 9 may result in a change in accounting policy. The Economic Entity and the Bank are currently assessing the financial impact that may arise from the adoption of MFRS 9.

The initial application of the other applicable accounting standards, amendments and interpretations are not expected to have any material financial impact to the current and prior period financial statements of the Economic Entity and the Bank.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**3. Summary of significant accounting policies****3.1 Foreign currencies****(a) Functional and presentation currency**

Items included in the financial statements of the Economic Entity and the Bank are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Economic Entity and the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3.2 Fair value measurement

The Economic Entity and the Bank measure financial instruments, such as derivatives at fair value at each balance sheet date. Also, the fair value of financial instruments measured at amortised cost are disclosed in Note 32.4(b).

Fair value is the price that would be received to sell asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of principal market, the most advantageous market.

The Economic Entity and the Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. Maximising the use of relevant observable inputs and minimising the use of unobservable input.

The categories of fair value for financial assets are further described in Note 32.4(a).

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)
3. Summary of significant accounting policies (continued)
3.3 Financial assets
(a) Classification

The Economic Entity and the Bank classify their financial assets in the following categories: at fair value through profit or loss, financing and advances, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. It also includes derivative instruments where currently applicable only to Bank's forward foreign exchange contracts.

(ii) *Financing and advances*

Financing and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are in the form of Ijarah, Qard and Bai'.

These contracts are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method. The contracts are stated at net of unearned income and any amounts written off less any impairment loss.

(iii) *Financial investments held-to-maturity*

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Economic Entity and the Bank's management has the positive intention and ability to hold to maturity. If the Economic Entity and the Bank were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale.

(iv) *Financial investments available-for-sale*

Financial investments available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122 | P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.3 Financial assets (continued)****(b) Recognition and initial measurement**

Regular purchases and sales of financial assets are recognised on the settlement-date; the date that an asset is delivered to or by the Economic Entity and the Bank.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit or loss.

Derivative instruments are initially recognised at fair value, which is normally zero or negligible at inception.

(c) Subsequent measurement – gain and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing and advances and financial investments held-to-maturity are subsequently carried at amortised cost using the effective profit method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in profit or loss in the period in which the changes arise. Changes in the fair value of financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 3.5) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Profit and dividend income on financial investments available-for-sale are recognised separately in profit or loss. Profit on financial investments available-for-sale calculated using the effective profit method is recognised in profit or loss. Dividends income on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payments is established.

Derivatives are subsequently measured at fair value. Fair value are obtained from comparing with contracted rate. All derivatives are carried as assets when fair value is positive and liabilities when fair value is negative. Changes in fair value are recognised immediately in profit or loss.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.3 Financial assets (continued)**(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Economic Entity and the Bank has transferred substantially all risks and rewards of ownership.

When financial investments available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

3.4 Financial liabilities

The Economic Entity's and the Bank's holding in financial liabilities are recognised at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions.

3.5 Impairment of financial assets

(a) Assets carried at amortised cost

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)**3.5 Impairment of financial assets (continued)****(a) Assets carried at amortised cost (continued)**

The criteria that the Economic Entity and the Bank use to determine that there is objective evidence of an impairment loss include:

- When an asset is non-performing (see Note 3.6 (a));
- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in profit or principal payments;
- The Economic Entity and the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'financing and advances' or a 'held-to-maturity investment' has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.5 Impairment of financial assets (continued)****(a) Assets carried at amortised cost (continued)**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

For financing and advances, the Economic Entity and the Bank first assess whether objective evidence of impairment exists individually for financing and advances that are individually significant, and individually or collectively for financing and advances that are not individually significant. If the Economic Entity and the Bank determine that no objective evidence of impairment exists for an individually assessed financing and advances, whether significant or not, it includes the asset in a group of financing and advances with similar credit risk characteristics and collectively assess them for impairment.

The Economic Entity and the Bank address impairment of financing and advances via either individually assessed allowance or collectively assessed allowance.

i) Individual impairment allowance

The Economic Entity and the Bank determine the allowance appropriate for each individual significant impaired financing and advances on an individual basis. The allowances are established based primarily on estimates of the realisable value of the collateral to secure the financing and advances and are measured as the difference between the carrying amount of the financing and advances and the present value of the expected future cash flows discounted at original effective profit rate of the financing and advances. All other financing and advances that have been individually evaluated, but not considered to be individually impaired are assessed collectively for impairment.

AUDITED FINANCIAL STATEMENTS OF AFB FOR THE FYE 31 DECEMBER 2016 (Cont'd)

Company No.

716122	P
--------	---

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.5 Impairment of financial assets (continued)****(a) Assets carried at amortised cost (continued)****ii) Collective impairment allowance**

Financing and advances which are not individually significant or those that have been individually assessed with no evidence of impairment loss are grouped together for portfolio impairment assessment. These financing and advances are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio are taken into consideration. When there are insufficient historical data available, past information from the industry have been used instead.

(b) Assets classified as available-for-sale

The Economic Entity and the Bank assess at the end of the reporting period whether there is objective evidence that a financial asset or a bank of financial assets is impaired.

For debt securities, the Economic Entity and the Bank use criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.