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

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Company No.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.6 Income recognition**

- (a) Profit income and expense for all profit-bearing financial instruments are recognised within "profit income" and "profit expense" in the profit or loss using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the profit income or profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Profit accrued and recognised as income prior to the date the financing are classified as non-performing are not clawed-back to the first day of default. Customers' accounts are classified as non-performing where repayments are in arrears for 3 months or more from the first day of default for financing and overdrafts, and after 3 months from maturity date for trade bills, bankers' acceptances and trust receipts.

The Bank's policy on recognition of profit income on financing and advances is in conformity with BNM/GP3i and the revised BNM/GP8-i.

Murabahah income is recognised on effective profit rate basis over the period of the contract based on the financing amounts disbursed. Ijarah income is recognised on effective profit rate basis over the lease term of the financing amount. Tawarruq income is essentially Murabahah contract based income and therefore recognised in the same basis. Istisna' income is also recognised on effective profit rate basis over the contractual period based on financing amount disbursed.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.6 Income recognition (continued)**

- (b) Financing arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.
- (c) Guarantee fees are recognised as income upon issuance of guarantees.

**3.7 Impairment of non-financial assets**

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash-generating-units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

The impairment loss is charged to profit or loss. Impairment losses on goodwill are not reversed. In respect of other non-financial assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.8 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, bank balances and short term deposits maturing within one month.

**3.9 Provisions**

Provisions are recognised when the Economic Entity and the Bank have a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Economic Entity and the Bank expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

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

**3. Summary of significant accounting policies (continued)****3.10 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Economic Entity and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance are recognised as expense in profit or loss during the financial year in which they are incurred.

Property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Renovations	10% - 20%
Computer equipment and software	20% - 33¼ %
Office equipment, furniture and fixtures	20% - 33¼%
Motor vehicles	20%

Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in other operating income in profit or loss.

At the end of the reporting period, the Economic Entity and the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount.

**3.11 Intangible assets****(i) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.11 Intangible assets (continued)**

## (ii) Licenses

Acquired licenses are shown at cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is derived using the straight-line method to allocate the cost of licenses over their estimated useful lives, not exceeding a period of five years.

**3.12 Current and deferred income taxes**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of statements of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

**3.13 Zakat**

The obligation and responsibility of payment of Zakat lies with the ultimate individual shareholders and the depositors of the Bank. As such, no accrual of Zakat expenses is recognised in the financial statements of the Bank.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.14 Employee benefits**Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

Defined contribution plans

A defined contribution plan is a pension plan under which the Economic Entity and the Bank pay fixed contributions to the national pension scheme, Employees' Provident Fund, and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior years. The Economic Entity and the Bank's contributions to a defined contribution plan are charged to the statement of income in the year to which they relate. Once the contributions have been paid, the Economic Entity and the Bank has no further payment obligations.

**3.15 Contingent assets and contingent liabilities**

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Economic Entity and the Bank. As this may result in the recognition of income that may never be realised, contingent assets are not recognised in the Bank's financial statements.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Economic Entity and the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**3. Summary of significant accounting policies (continued)****3.16 Share capital****(a) Classification**

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

**(b) Share issue costs**

Incremental costs directly attributable to the issue of new shares or options are deducted against share premium account.

**3.17 Joint Venture**

Joint ventures are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Economic Entity with one or more parties where the strategic financial and operating decisions relating to the entities require unanimous consent of the parties sharing control.

The Economic Entity's interest in joint venture is accounted for in the financial statements by the equity method of accounting. Equity accounting involves recognising the Economic Entity's share of the post-acquisition results of jointly controlled entities in profit or loss and its share of post-acquisition changes of the investee's reserves in other comprehensive income. The cumulative post-acquisition changes are adjusted against the cost of the investment and include goodwill on acquisition (net of accumulated impairment loss).

The Economic Entity recognises the portion of gains or losses on the sale of assets by the Economic Entity to the joint venture that is attributable to the other venturers. The Economic Entity does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Economic Entity from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Where necessary, adjustments have been made to the financial statements of joint venture to ensure consistency of accounting policies with those of the Economic Entity.

After application of the equity method, the Economic Entity determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Economic Entity determines whether there is objective evidence of impairment. If there is such evidence, the Economic Entity calculates the impairment amount and recognises the loss as "share of profit of joint venture" in the statement of profit or loss.

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**ASIAN FINANCE BANK BERHAD**  
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**4. Critical accounting estimates and assumptions**

The Economic Entity and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Allowance for impairment of financial assets

In determining impairment of financial assets, management considers objective evidence of impairment and exercises judgement in estimating cash flows and collateral values.

The Economic Entity and the Bank make allowance for losses based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made in estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. Among the factors considered are the Economic Entity and the Bank's aggregate exposure to the customer, the net realisable value of the underlying collateral value, the viability of customer's business model and the capacity to generate sufficient cash flow to service financing obligations and the aggregate amount and ranking of all other creditor claims. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the impairment made.

Fair value of financial instruments

Fair value of financial instruments is determined by reference to quoted market price of the instrument or by using a valuation model, which is based on independently sourced observable or implied market data, mainly profit yield curves, recent market transactions, foreign exchange rates and market volatility. Changes in assumptions and estimates in respect of the parameters used could affect the fair value reported in the financial statements of the Economic Entity and the Bank.

Determination of joint arrangement

In 2008, the Bank and a third party formed an entity, Safeena (L) Ltd, a special purpose vehicle ("SPV") to do syariah compliant funds of marine vessels. The Bank holds 50% of management shares and 50% of participating shares. The features of both management and participating shares are described in Note 12.

Based on the contractual terms, the Bank assessed that it has joint control over the SPV, and the joint arrangement is to be treated as joint venture.

- Joint venture agreement between the Bank and the third party dated 24 June 2008.
- The Bank and the third party jointly to undertake fund management services for the fund.
- The Bank and the third party collectively as Investment Advisors to provide investment advisory services to Safeena (L) Ltd.
- Management shareholders meeting quorum made up of both the Bank and the third party, with unanimous decision making.



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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**5. Cash and short-term funds**

	Economic Entity and Bank	
	2016	2015
	RM	RM
Cash and balances with banks and other financial institutions	40,124,495	72,705,228
Money at call and deposit placements maturing within one month	169,999,893	190,730,643
	<b>210,124,388</b>	<b>263,435,871</b>

**6. Financial investments held-for-trading**

	Economic Entity and Bank	
	2016	2015
	RM	RM
<b>At fair value</b>		
<b>Quoted securities:</b>		
<u>In Malaysia</u>		
Islamic Medium Term Notes	20,140,038	-
	<b>20,140,038</b>	<b>-</b>

**7. Financial investments available-for-sale**

	Economic Entity and Bank	
	2016	2015
	RM	RM
<b>At fair value</b>		
<b>Quoted securities:</b>		
<u>In Malaysia</u>		
Islamic Medium Term Notes	251,300,985	316,831,787
Corporate Sukuk	15,147,191	50,551,432
	<b>266,448,176</b>	<b>367,383,219</b>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**8. Financial investments held-to-maturity**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
<b>At amortised cost</b>		
<b>Quoted securities:</b>		
<u>In Malaysia</u>		
Islamic Medium Term Notes	<b>459,851,257</b>	<b>393,864,137</b>
	<b>459,851,257</b>	<b>393,864,137</b>

**9. Financing and advances**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
<b>At amortised cost</b>		
Term financing		
- house financing	<b>24,697,460</b>	<b>26,116,968</b>
- other term financing	<b>285,314,677</b>	<b>265,146,640</b>
Trust receipts	<b>2,869,467</b>	<b>2,870,199</b>
Staff financing	<b>322,627</b>	<b>356,852</b>
Revolving Credit	<b>1,126,793,273</b>	<b>1,147,644,484</b>
Others	<b>67,207,370</b>	<b>55,450,206</b>
Gross financing and advances	<b>1,507,204,874</b>	<b>1,497,585,349</b>
Less: Allowance for financing and advances:		
- individual impairment allowance	<b>(37,822,797)</b>	<b>(10,062,217)</b>
- collective impairment allowance	<b>(12,398,864)</b>	<b>(28,453,374)</b>
Net financing and advances	<b>1,456,983,213</b>	<b>1,459,069,758</b>

**(i) By type of customer**

Domestic non-bank financial institution		
- Others	<b>50,060,246</b>	<b>100,085,562</b>
Domestic business enterprises		
- Small medium enterprise	<b>7,024,162</b>	<b>12,306,877</b>
- Government	<b>270,273,839</b>	<b>120,143,200</b>
- Others	<b>1,154,073,803</b>	<b>1,237,721,816</b>
Individuals	<b>13,826,327</b>	<b>14,450,280</b>
Foreign entities	<b>11,946,497</b>	<b>12,877,614</b>
	<b>1,507,204,874</b>	<b>1,497,585,349</b>

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ASIAN FINANCE BANK BERHAD  
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## 9. Financing and advances (continued)

	Economic Entity and Bank	
	2016 RM	2015 RM
<b>(ii) By contract</b>		
Ijarah	6,313,929	7,556,125
Qard	321,181	346,475
Bai'	1,500,569,764	1,489,682,749
	<u>1,507,204,874</u>	<u>1,497,585,349</u>
<b>(iii) By profit rate sensitivity</b>		
Fixed rate		
- Other fixed rate financing	62,232,814	82,512,341
Variable		
- Base financing rate	325,600,657	284,731,211
- Cost-plus	1,119,050,222	1,129,995,322
Non-profit sensitive	321,181	346,475
	<u>1,507,204,874</u>	<u>1,497,585,349</u>
<b>(iv) By contractual maturity</b>		
Maturity within one year	1,049,715,344	1,242,802,532
More than one year to three years	92,762,708	62,163,020
More than three years to five years	132,645,365	129,148,967
More than five years	232,081,457	63,470,830
	<u>1,507,204,874</u>	<u>1,497,585,349</u>
<b>(v) By geographical distribution</b>		
Malaysia	1,506,790,229	1,497,130,071
United Kingdom	414,645	455,278
	<u>1,507,204,874</u>	<u>1,497,585,349</u>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**9. Financing and advances (continued)**

	<b>Economic Entity and Bank</b>	
	2016	2015
	RM	RM
<b>(vi) By economic purpose</b>		
Purchase of landed property:		
- Residential	23,076,504	26,363,868
- Non-Residential	97,259,346	126,568,215
Working Capital	1,261,596,683	1,307,288,469
Personal Use	334,964	377,081
Purchase of transport vehicles	2,347	11,038
Purchase of fixed asset (excluding landed properties)	-	23,879,690
Others	124,935,030	13,096,988
	<u>1,507,204,874</u>	<u>1,497,585,349</u>
<b>(vii) By sector</b>		
Agriculture	294,428,962	204,348,325
Mining and quarrying	119,792,958	157,184,731
Manufacturing	201,371,451	198,811,244
Electricity, gas and water	110,081,776	110,153,973
Construction	166,516,602	153,732,128
Purchase of landed property	25,428,349	26,940,512
Wholesale & retail trade and restaurants & hotels	189,783,500	201,831,827
Transport, storage and communication	30,052,009	46,931,845
Finance, insurance, real estate and business services	369,404,793	397,262,645
Purchase of transport vehicles	2,347	11,038
Consumption credit	342,127	377,081
	<u>1,507,204,874</u>	<u>1,497,585,349</u>

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated In Malaysia)**9. Financing and advances (continued)****(viii) Financing by types and Shariah contracts**

<b>Economic Entity and Bank</b>				
<b>2016</b>				
<b>Type</b>	<b>Bai'</b>	<b>Ijarah</b>	<b>Qard</b>	<b>Total financing and advances</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Term Financing	303,697,306	6,313,929	902	310,012,137
House Financing	22,461,796	2,235,664	-	24,697,460
Other term financing	281,235,510	4,078,265	902	285,314,677
Trust receipts	2,869,467	-	-	2,869,467
Staff financing	2,348	-	320,279	322,627
Revolving credit	1,126,793,273	-	-	1,126,793,273
Others	67,207,370	-	-	67,207,370
	<b>1,500,569,764</b>	<b>6,313,929</b>	<b>321,181</b>	<b>1,507,204,874</b>
<b>2015</b>				
<b>Type</b>	<b>Bai'</b>	<b>Ijarah</b>	<b>Qard</b>	<b>Total financing and advances</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Term Financing	283,706,581	7,556,125	901	291,263,606
House Financing	23,753,909	2,363,059	-	26,116,968
Other term financing	259,952,672	5,193,066	901	265,146,639
Trust receipts	2,870,199	-	-	2,870,199
Staff financing	11,278	-	345,574	356,852
Revolving credit	1,147,644,484	-	-	1,147,644,484
Others	55,450,207	-	-	55,450,207
	<b>1,489,682,749</b>	<b>7,556,125</b>	<b>346,475</b>	<b>1,497,585,349</b>

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

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ASIAN FINANCE BANK BERHAD  
(Incorporated in Malaysia)

## 9. Financing and advances (continued)

	Economic Entity and Bank	
	2016	2015
	RM	RM
<b>(ix) Movement in the allowance for impaired advances and financing</b>		
<b>Individual Assessment Allowance</b>		
Balance beginning of financial year	10,062,217	10,085,406
Allowance made during the financial year (Note 23 (a))	10,494,429	329,952
Amount written back in respect of recoveries (Note 23 (a))	(106,396)	(353,141)
Reclassified from collective assessment allowance	17,372,547	-
Balance as at end of financial year	<u>37,822,797</u>	<u>10,062,217</u>
<b>Collective Assessment Allowance</b>		
Balance beginning of financial year	28,453,374	11,619,643
Allowance made during the financial year (Note 23 (b))	1,318,037	16,833,731
Reclassified to individual assessment allowance	(17,372,547)	-
Balance as at end of financial year	<u>12,398,864</u>	<u>28,453,374</u>
<b>Regulatory reserve as at 31 December 2016</b>	<b>5,233,721</b>	<b>-</b>
<b>As % of gross financing and advances less individual assessment allowances</b>	<b>1.20%</b>	<b>1.91%</b>
<b>(x) Movement in impaired financing and advances</b>		
Balance beginning of financial year	13,096,988	12,981,424
Classified as impaired during the financial year	113,040,116	515,547
Reclassified as non-impaired	(1,017,008)	-
Amount recovered	(185,066)	(399,983)
Balance as at end of financial year	<u>124,935,030</u>	<u>13,096,988</u>
<b>Gross impaired financing and advances ratio</b>	<b>8.29%</b>	<b>0.87%</b>

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**9. Financing and advances (continued)**

	Economic Entity and Bank	
	2016	2015
	RM	RM
<b>(xi) Impaired financing by sector</b>		
Mining and quarrying	74,921,378	-
Manufacturing	299,778	300,510
Construction	5,596,139	5,596,139
Wholesale & retail trade and restaurants & hotels	1,172,542	1,171,245
Finance, insurance, real estate and business services	37,238,143	-
Purchase of landed property	5,699,887	6,029,094
Consumption credit	7,163	-
	<b>124,935,030</b>	<b>13,096,988</b>
<b>(xii) Impaired financing by geographical distribution</b>		
Malaysia	<b>124,935,030</b>	<b>13,096,988</b>

**10. Derivative financial instruments**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of derivative's underlying asset, reference rate or index and is the basis upon which change in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period/year end and are indicative of neither the market risks nor the credit risk.

	Economic Entity and Bank					
	Contract/ Notional amount RM	2016		Contract/ Notional amount RM	2015	
		Fair value			Fair value	
		Assets RM	Liabilities RM		Assets RM	Liabilities RM
<b>Trading derivatives</b>						
<b>Foreign exchange contracts:</b>						
Currency forward						
- Less than one year	<b>209,997,225</b>	<b>212,430</b>	<b>(558,050)</b>	<b>278,184,190</b>	<b>778,580</b>	<b>(940,284)</b>

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)
**11. Other assets**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Prepayment and deposit	1,001,878	1,494,315
Other debtors	2,601,364	2,777,034
	<u>3,603,242</u>	<u>4,271,349</u>

**12. Investment in joint venture**

	<b>Economic Entity</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Unquoted share capital at cost	16,222,255	16,222,255	16,222,255	16,222,255
Less:				
Share of loss impairment	(16,222,255)	(16,222,255)	-	-
	<u>-</u>	<u>-</u>	<u>(16,222,255)</u>	<u>(16,222,255)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Bank invested RM16,222,255 in participating shares of Safeena (L) Ltd, a 50% equity interest in a joint controlled entity with AmanahRaya Investment Bank Ltd. This joint venture is incorporated in the Federal Territory of Labuan, Malaysia under the Labuan Companies Act, 1990. The principal activity of Safeena (L) Ltd is provision of funding for marine vessels.

**(i) Management shares**

The management shares carry the right to vote on any matter which is required under the Labuan Companies Act, 1990, and the right to return of capital paid-up on the management shares (after the return of capital paid-up on the participating shares) and rights to dividend or to share in surplus investments remaining after the return of capital paid up on the shares of Safeena (L) Ltd.



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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)****12. Investment in joint venture (continued)****(ii) Participating shares**

The Principal features of the participating shares are as follows:

- (a) The participating shares do not confer any rights of entitlements to vote at meetings of Safeena (L) Ltd.
- (b) Safeena (L) Ltd may in a management shareholders' meeting declare dividends but no dividend shall exceed the amount recommended by the Board of Directors to be justified by the profits of Safeena (L) Ltd ("the Board").
- (c) The Board may from time to time if they think fit pay such interim dividends on the participating shares as appear to the Board to be justified by the profits of Safeena (L) Ltd.
- (d) The Board may, with the affirmative votes of the management shareholders, distribute in kind among shareholders by way of dividend or otherwise any of the assets of Safeena (L) Ltd provided that no distribution shall be made which would amount to a reduction of capital except in a manner allowed by the Offshore Companies Act, 1990.
- (e) The rights attaching to the participating shareholders may be varied or abrogated with the consent in writing of the management shareholders provided always that the management shareholders act at all times in the interest of Safeena (L) Ltd.
- (f) The participating shareholders do not have the right to require the redemption of any of their participating shares.
- (g) The investments available for distribution amongst the shareholders shall be applied *pari passu* on the return paid-up capital on management shares and participating shares.
- (h) Any surplus investments of Safeena (L) Ltd shall be distributed *pari passu* amongst the participating shareholders and the Investment Advisors as performance fees in accordance with the provisions of the Investment Advisory Services Agreement.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**13. Deferred tax assets**

	Economic Entity and Bank	
	2016 RM	2015 RM
At beginning of the year	-	-
Recognised in the income statement (Note 28)	103,836	(248,623)
Recognised in other comprehensive income	245,390	248,623
At end of the year	<u>349,226</u>	<u>-</u>

The movement in deferred tax assets and liabilities during the financial year comprise the following:

	Financial investment available- for-sale RM	Unutilised tax losses RM	Other temporary difference RM	Total RM
<b>Economic Entity and Bank</b>				
<b>2016</b>				
At 1 January	(394,244)	523,820	(129,576)	-
Recognised in income statement	394,244	(523,820)	233,412	103,836
Recognised in other comprehensive income	245,390	-	-	245,390
At 31 December	<u>245,390</u>	<u>-</u>	<u>103,836</u>	<u>349,226</u>
<b>2015</b>				
At 1 January	(642,867)	1,266,586	(623,719)	-
Recognised in income statement	-	(742,766)	494,143	(248,623)
Recognised in other comprehensive income	248,623	-	-	248,623
At 31 December	<u>(394,244)</u>	<u>523,820</u>	<u>(129,576)</u>	<u>-</u>

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**ASIAN FINANCE BANK BERHAD**  
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**14. Property, plant and equipment**

	Renovations RM	Computer equipment RM	Office equipment, furniture and fixtures RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
<b>Economic Entity and Bank 2016</b>						
<b>Cost</b>						
Balance as at 1 January 2016	5,314,934	4,917,630	1,751,039	763,459	-	12,747,062
Additions	-	552,635	13,620	-	-	566,255
Disposal	-	-	-	-	-	-
Balance as at 31 December 2016	5,314,934	5,470,265	1,764,659	763,459	-	13,313,317
<b>Accumulated Depreciation</b>						
Balance as at 1 January 2016	5,172,110	4,334,565	1,608,730	623,706	-	11,739,111
Charge for the financial year (Note 26)	106,421	223,664	92,428	129,817	-	552,330
Disposal	-	-	-	-	-	-
Balance as at 31 December 2016	5,278,531	4,558,229	1,701,158	753,523	-	12,291,441
<b>Net Book Value</b>						
Balance as at 31 December 2016	36,403	912,036	63,501	9,936	-	1,021,876

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

**14. Property, plant and equipment (continued)**

	Renovations RM	Computer equipment RM	Office equipment, furniture and fixtures RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
<b>Economic Entity and Bank 2015</b>						
<b>Cost</b>						
Balance as at 1 January 2015	5,314,934	5,268,155	1,741,679	763,459	-	13,088,227
Additions	-	290,475	9,360	-	-	299,835
Transfer	-	(641,000)	-	-	-	(641,000)
Balance as at 31 December 2015	5,314,934	4,917,630	1,751,039	763,459	-	12,747,062
<b>Accumulated Depreciation</b>						
Balance as at 1 January 2015	5,058,033	4,580,715	1,511,706	471,014	-	11,621,468
Charge for the financial year (Note 26)	114,077	394,850	97,024	152,692	-	758,643
Disposal/Written off	-	(641,000)	-	-	-	(641,000)
Balance as at 31 December 2015	5,172,110	4,334,565	1,608,731	623,706	-	11,739,111
<b>Net Book Value</b>						
Balance as at 31 December 2015	142,824	583,065	142,308	139,753	-	1,007,951

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ASIAN FINANCE BANK BERHAD  
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## 15. Intangible assets

	Economic Entity and Bank	
	2016	2015
	RM	RM
<b>Computer Software</b>		
<b>Cost</b>		
Balance as at the beginning of the financial year	21,955,910	21,179,889
Additions	421,158	776,021
Balance as at the end of the financial year	<u>22,377,068</u>	<u>21,955,910</u>
<b>Accumulated amortisation</b>		
Balance as at the beginning of the financial year	20,113,270	19,372,453
Charge for the financial year (Note 26)	744,786	740,817
Balance as at the end of the financial year	<u>20,858,056</u>	<u>20,113,270</u>
<b>Net Book Value</b>		
As at the end of the financial year	<u>1,519,012</u>	<u>1,842,640</u>

## 16. Deposits from customers

	Economic Entity and Bank	
	2016	2015
	RM	RM
<b>(i) By type of deposit:</b>		
<b>Non-Mudharabah Funds:</b>		
Demand deposits	56,705,294	178,768,163
Savings deposits	1,650,497	1,953,412
Commodity Murabahah	814,821,973	824,901,661
General investment deposits	10,577,233	9,612,603
	<u>883,754,997</u>	<u>1,015,235,839</u>
<b>Mudharabah Funds:</b>		
Savings deposits	56,888	54,566
General investment deposits	13,922,140	16,396,199
	<u>13,979,028</u>	<u>16,450,765</u>
	<u>897,734,025</u>	<u>1,031,686,604</u>
<b>(ii) The deposits are sourced from the following classes of customers:</b>		
Business enterprises	884,005,053	1,016,209,219
Individuals	13,728,972	15,477,385
	<u>897,734,025</u>	<u>1,031,686,604</u>

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**16. Deposits from customers (continued)**

	<b>Economic Entity and Bank</b>	
	2016	2015
	RM	RM
<b>(iii) The maturity structure of saving deposits, amount payable on demand and term deposits are as follows:</b>		
Due within six months	746,928,809	884,965,446
More than six months to one year	3,774,280	4,295,630
More than one year to three years	104,879,947	-
More than three years	42,150,989	142,425,528
	<u>897,734,025</u>	<u>1,031,686,604</u>
<b>(iv) By type of contract:</b>		
Mudharabah	13,979,028	16,450,765
Tawarruq	825,399,206	834,514,264
Wadiah	58,355,791	180,721,575
	<u>897,734,025</u>	<u>1,031,686,604</u>

**17. Deposits and placements of banks and other financial institutions**

	<b>Economic Entity and Bank</b>	
	2016	2015
	RM	RM
<b>(i) By type of deposit:</b>		
<u>Non-Mudharabah Funds:</u>		
Licensed Islamic banks	-	70,067,833
Other financial institutions	1,048,209,734	922,824,784
	<u>1,048,209,734</u>	<u>992,892,617</u>
<b>(ii) By type of contract:</b>		
Tawarruq	1,048,124,742	992,480,668
Wadiah	84,992	411,949
	<u>1,048,209,734</u>	<u>992,892,617</u>

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**ASIAN FINANCE BANK BERHAD**  
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**18. Other liabilities**

	<b>Economic Entity and Bank</b>	
	2016	2015
	RM	RM
Sundry creditors	8,236,494	5,952,622
Other provisions and accruals	4,048,418	6,134,179
	<u>12,284,912</u>	<u>12,086,801</u>

**19. Ordinary share capital**

	<b>Economic Entity and Bank</b>		<b>Economic Entity and Bank</b>	
	Number of shares 2016	Amount 2016 RM	Number of shares 2015	Amount 2015 RM
Authorised:				
<u>Ordinary shares of RM1.00 each</u>				
As at 1 January / 31 December	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid:				
<u>Ordinary shares of RM1.00 each</u>				
As at 1 January / 31 December	<u>532,530,020</u>	<u>532,530,020</u>	<u>532,530,020</u>	<u>532,530,020</u>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**20. Reserves**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Accumulated Losses	(53,094,267)	(49,685,510)
Statutory Reserve	13,363,710	11,538,745
Regulatory Reserve	5,233,721	-
AFS Reserve	(777,068)	(1,569,330)
	<u>(35,273,904)</u>	<u>(39,716,095)</u>
Statutory Reserve		
At beginning of the financial year	11,538,745	11,275,208
Transfer from net profit for the financial year	1,824,965	263,537
At end of the financial year	<u>13,363,710</u>	<u>11,538,745</u>

The statutory reserves are maintained in compliance with Section 12 of the Islamic Financial Services Act 2013 and are not distributable as cash dividends.

The AFS revaluation reserve arises from the change in fair value of investments classified as financial investments available-for-sale. The unrealised gains or losses are transferred to profit or loss upon disposal, de-recognition or impairment of the investment.

The regulatory reserve is maintained in aggregate with collective impairment allowance representing financing loss provision required to be maintained at a minimum level of 1.2% of total outstanding financing and advances less individual impairment allowance.



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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**21. Income derived from investment of depositors' funds**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Income derived from investment of:		
(i) General investment deposit	1,157,865	1,703,275
(ii) Other deposits	89,852,151	103,504,867
	<u>91,010,016</u>	<u>105,208,142</u>
(i) Income derived from investment of general investment deposits		
<u>Finance income and hibah:</u>		
Financing and advances	733,615	1,034,153
Financial investment held-for-trading	800	-
Financial investment available-for-sale	138,064	277,000
Financial investment held-to-maturity	185,433	184,902
Money at call and deposits with financial institutions	99,953	207,220
	<u>1,157,865</u>	<u>1,703,275</u>
(ii) Income derived from investment of other deposits		
<u>Finance income and hibah:</u>		
Financing and advances	56,919,716	62,958,204
Financial investment held-for-trading	62,609	-
Financial investment available-for-sale	10,711,179	16,564,042
Financial investment held-to-maturity	14,400,642	11,588,175
Money at call and deposits with financial institutions	7,758,005	12,394,446
	<u>89,852,151</u>	<u>103,504,867</u>

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)
**22. Income derived from investment of shareholders' funds**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
<u>Finance income and hibah</u>		
Financing and advances	14,070,160	13,361,099
Financial investment held-for-trading	15,589	-
Financial investment available-for-sale	2,646,233	3,479,954
Financial investments held-to-maturity	3,560,093	2,489,426
Money at call and deposits with financial institutions	1,913,813	2,588,601
Total finance income and hibah	<u>22,205,888</u>	<u>21,919,080</u>
Other operating income (Note 22 (a))	7,988,448	10,728,456
	<u><u>30,194,336</u></u>	<u><u>32,647,536</u></u>
Other operating income comprise of:		
(a) Fee and other income:		
Commission	1,003,834	409,001
Fees and other income	7,330,234	10,481,159
Net loss on derivative foreign exchange contracts	(345,620)	(161,704)
Total other operating income	<u>7,988,448</u>	<u>10,728,456</u>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**23. Allowances for impairment on financing and advances**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Allowance for impaired financing and advances:		
(a) Individual impairment allowance (Note 9 (ix))		
- made during the financial year	10,494,429	329,952
- written back during the financial year	(106,396)	(353,141)
(b) Collective impairment allowance (Note 9 (ix))		
- made during the financial year	1,318,037	16,833,731
- written back during the financial year	-	-
	<u>11,706,070</u>	<u>16,810,542</u>

**24. Income attributable to depositors**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Deposits from customers:		
- Mudharabah funds	313,715	2,636,328
- Non-mudharabah funds	29,590,076	32,758,118
	<u>29,903,791</u>	<u>35,394,446</u>
Deposits and placements of banks and other financial institutions:		
- Mudharabah funds	-	845,709
- Non-mudharabah funds	45,690,519	49,455,420
	<u>45,690,519</u>	<u>50,301,129</u>
	<u>75,594,310</u>	<u>85,695,575</u>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**25. Personnel expenses**

	<b>Economic Entity and Bank</b>	
	2016	2015
	RM	RM
Salaries, allowances and bonuses	11,313,700	17,033,977
Contributions to Employee Provident Fund and SOCSO	1,590,438	1,728,910
Medical related expenses	656,959	450,833
Travelling and parking	42,783	146,130
Other staff related cost	602,685	744,607
	<u>14,206,565</u>	<u>20,104,457</u>

**26. Other overheads and expenditures**

	<b>Economic Entity and Bank</b>	
	2016	2015
	RM	RM
<u>Establishment expenses</u>		
Depreciation of property, plant and equipment (Note 14)	552,330	758,643
Amortisation of intangible assets (Note 15)	744,786	740,817
Rental of premises	1,914,772	1,915,441
Software and hardware maintenance	4,904,025	3,911,881
Rental of equipment and network line	302,378	427,628
Security expenses	415,896	400,371
Others	2,143,642	2,563,283
	<u>10,977,829</u>	<u>10,718,064</u>
<u>Marketing expenses</u>		
Advertising and promotional activities	109,208	180,924
Entertainment expenses	18,095	19,587
Travelling expenses	106,506	97,580
	<u>233,809</u>	<u>298,091</u>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**26. Other overheads and expenditures (continued)**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
<u>Administration and general expenses</u>		
Licence and association fees and levies	392,086	378,249
Travelling, transport and accomodation expenses	171,346	301,886
Printing, stationery, postage and clearing charges	342,149	317,039
Telecommunication charges	458,205	447,072
Shariah Committee remunerations (Note 27)	192,000	192,000
Electricity and water	306,971	318,824
Directors related fees (Note 27)	617,043	595,000
Other professional fees	150,967	462,391
Auditors remuneration		
- Statutory audit fees		
- current year	301,000	210,000
- underprovision in prior year	-	3,000
- Regulatory-related services		
- current year	80,000	60,000
- underprovision in prior year	-	5,396
Donations	-	5,000
Others	457,112	157,396
	<u>3,468,879</u>	<u>3,453,253</u>
	<u>14,680,517</u>	<u>14,469,408</u>

Included in the administration and general expenses of the Bank is the directors' remuneration totalling RM617,043 (2015: RM595,000) as disclosed in Note 27.

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**27. Remuneration of key management personnel - Chief Executive Officer ("CEO"), Directors and Shariah Committee**

	Economic Entity and Bank	
	2016	2015
	RM	RM
Non-Executive Directors		
- Fees	617,043	595,000
Chief Executive Officer ("CEO")		
- Salary and other remuneration	-	2,501,478
- Benefit-in-kind	-	189,418
	<u>617,043</u>	<u>3,285,896</u>
Shariah Committee members fees	192,000	192,000
	<u>809,043</u>	<u>3,477,896</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity.

	Economic Entity and Bank	
	2016	2015
	RM	RM
The number of Directors of the Bank whose total remuneration during the financial year falls within the following bands:		
<b>Non-Executive</b>		
Below RM50,000	6	6
Above RM50,000	4	4
	<u>4</u>	<u>4</u>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**28. Taxation**

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Tax expense for the financial year:		
- Malaysian income tax	<b>1,470,797</b>	-
Deferred tax (Note 13):		
- Relating to reversal and origination of temporary differences	<b>249,400</b>	918,343
- Relating to reduction in Malaysian income tax rate	-	54,691
- Overprovision of deferred tax in prior years	<b>(353,236)</b>	<b>(724,411)</b>
	<b>1,366,961</b>	<b>248,623</b>

The numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate are as follows:

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Profit before income tax	<b>5,016,890</b>	<b>775,696</b>
Taxation at Malaysian statutory tax rate of 24%	<b>1,204,054</b>	193,924
Deferred tax recognised in different tax rate	-	(37,299)
Effect on opening deferred tax of reduction in Malaysian income tax rate in 2017	-	54,691
Non-deductible expenses	<b>516,143</b>	182,758
Deferred tax assets not recognised on unutilised business losses	-	578,960
Overprovision of deferred tax in prior years	<b>(353,236)</b>	<b>(724,411)</b>
<b>Income tax expense</b>	<b>1,366,961</b>	<b>248,623</b>

Statutory tax rate will reduce from 25% to 24% effective in year of assessment 2016.

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**ASIAN FINANCE BANK BERHAD**  
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**29. Earnings per share**

Basic earnings per share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
<b>Basic:</b>		
Net profit for the financial year	<u><b>3,649,929</b></u>	<u><b>527,073</b></u>
Weighted average number of ordinary shares in issue	<u><b>532,530,020</b></u>	<u><b>532,530,020</b></u>
Basic earnings per share (sen)	<u><b>0.69</b></u>	<u><b>0.10</b></u>



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


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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**
**30. Significant related party balances and transactions**

## (a) Related parties and relationships

The related parties of and their relationship with the Bank are as follows:

<u>Related parties</u>	<u>Relationship</u>
Qatar Islamic Bank ('QIB')	Shareholder
RUSD Investment Bank ('RUSD')	Shareholder
Tadhamon International Islamic Bank	Shareholder
Financial Assets Bahrain W.L.L. ('FAB')	Shareholder
Pacific-Interlink Sdn Bhd ('PIL')	Director-owned company
Directors and CEO	Key Management Personnel

## (b) Significant related party balances and transactions

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

The significant related party transactions and balances described below were carried out on terms and conditions obtainable on transactions with unrelated parties. Profit rates on all related party transactions are at normal commercial rates. In addition, the outstanding balances are not secured and without any guarantee.

	Shareholders RM	Director-owned company RM	Key management personnel RM
<b>2016</b>			
<u>Income</u>			
Profit income on financing	-	2,077,036	-
Profit income on placement	-	-	-
Other income	49,379	3,076,741	-
	<u>49,379</u>	<u>5,153,777</u>	<u>-</u>
<u>Expenditure</u>			
Profit expense on deposits	-	2,533	-
	<u>-</u>	<u>2,533</u>	<u>-</u>
<u>Amount due to</u>			
Current account and investment deposits	25,638	840,255	175,209
Derivative liabilities	-	1,631	-
	<u>25,638</u>	<u>841,886</u>	<u>175,209</u>
<u>Amount due from</u>			
Financing and advances	-	54,214,657	-
Derivative assets	-	54,399	-
	<u>-</u>	<u>54,269,056</u>	<u>-</u>

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

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ASIAN FINANCE BANK BERHAD  
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## 30. Significant related party balances and transactions (continued)

## (b) Significant related party balances and transactions (continued)

	Shareholders RM	Director-owned company RM	Key management personnel RM
<b>2015</b>			
<u>Income</u>			
Profit income on financing	-	3,001,086	-
Profit income on placement	80,107	-	-
Other income	25,694	4,299,591	-
	<u>105,801</u>	<u>7,300,677</u>	<u>-</u>
<u>Expenditure</u>			
Profit expense on deposits	<u>238,644</u>	<u>2,633</u>	<u>8</u>
<u>Amount due to</u>			
Current account and investment deposits	235,301	1,313,780	112,687
Derivative liabilities	-	1,400	-
	<u>235,301</u>	<u>1,315,180</u>	<u>112,687</u>
<u>Amount due from</u>			
Financing and advances	-	88,925,309	-
Derivative assets	-	39,948	-
	<u>-</u>	<u>88,965,257</u>	<u>-</u>

## (c) Credit exposures arising from transactions with connected parties

	Economic Entity and Bank	
	2016 RM	2015 RM
Outstanding credit exposures with connected parties	<u>67,775,522</u>	<u>91,011,185</u>
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	<u>2.50%</u>	<u>3.38%</u>
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	<u>2.00%</u>	<u>0.00%</u>

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties, which are effective on 1 January 2008.

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

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**31. Commitments and contingencies**

In the normal course of business, the Economic Entity and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

	Principal amount RM	Gross Positive Fair Value - Derivative Contract RM	Credit equivalent amount RM	Risk weighted amount RM
<b>Economic Entity and Bank 2016</b>				
Direct credit substitutes	24,772,375	-	24,772,375	24,646,938
Trade-related contingencies	24,638,085	-	4,927,617	4,927,617
Irrevocable commitments to extend credit:				
- one year or less	218,998,924	-	109,499,462	89,499,462
- over one year to five years	10,026,600	-	5,013,300	5,013,300
- over five years	5,631,037	-	2,815,518	2,737,264
Foreign exchange related contracts				
- one year or less	209,997,225	212,430	3,149,958	954,870
<b>Total</b>	<b>494,064,246</b>	<b>212,430</b>	<b>150,178,230</b>	<b>127,779,451</b>

	Principal amount RM	Gross Positive Fair Value - Derivative Contract RM	Credit equivalent amount RM	Risk weighted amount RM
<b>2015</b>				
Direct credit substitutes	6,659,250	-	6,659,250	6,533,813
Trade-related contingencies	3,991,761	-	798,352	798,352
Irrevocable commitments to extend credit:				
- one year or less	255,046,341	-	127,523,170	127,523,170
- over one year to five years	3,000,000	-	1,500,000	1,500,000
- over five years	6,187,969	-	3,093,985	2,945,489
Foreign exchange related contracts				
- one year or less	278,184,190	778,580	4,225,117	1,078,534
<b>Total</b>	<b>553,069,511</b>	<b>778,580</b>	<b>143,799,874</b>	<b>140,379,358</b>

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**ASIAN FINANCE BANK BERHAD**  
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**31. Commitments and contingencies (continued)****31.1 Capital Commitments**

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Authorised and contracted for	<u><b>2,081,585</b></u>	<u><b>257,695</b></u>

**31.2 Lease Commitments**

The Economic Entity and the Bank has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases, is as follows:

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Within one year	<b>1,069,679</b>	<b>2,618,074</b>
Between one to five years	<b>165,572</b>	<b>2,387,108</b>
	<u><b>1,235,251</b></u>	<u><b>5,005,182</b></u>

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


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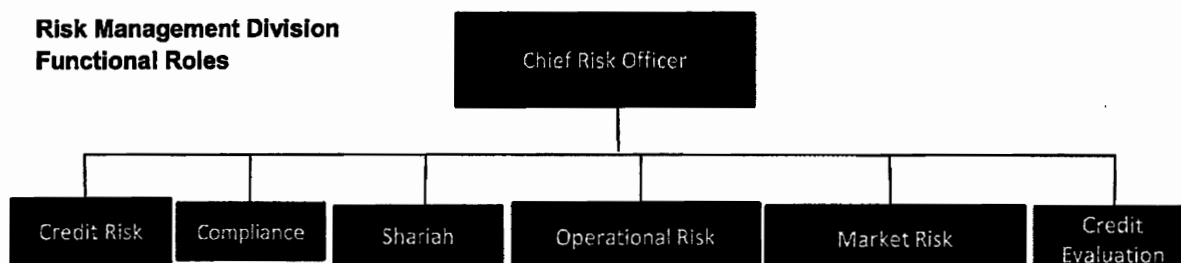
**ASIAN FINANCE BANK BERHAD**  
**(Incorporated In Malaysia)**
**32. Financial risk management**

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks, measure these risks, manage the risk position, determine capital allocations and report independently. The Bank regularly reviews its risk management practices to reflect changes in markets, products and best market practice.

Whilst defining the risk as the possibility of losses or profits foregone, which may be caused by internal or external factors, the Bank aimed to achieve an appropriate balance between risk and return and minimise potential adverse effect on the financial performance.

The Risk Management Division is headed by the Chief Risk Officer ("CRO") who reports independently to the Board Risk Committee ("BRC"), chaired by an independent non executive director. On quarterly basis reports are submitted to the BRC covering Credit, Market, Operational and Compliance risks areas. Please refer to table below for Risk Management Division's organisation chart.

The function of BRC is to provide oversight and management of all risks that is consistent with the Bank's overall business objectives and desired risk profile. It also provides independent evaluation and advice on the adequacy, effectiveness and integrity of risk management practices at all levels within the Bank.



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


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**ASIAN FINANCE BANK BERHAD**  
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**32. Financial risk management (continued)****32.1 Credit risk management**

Credit risk is the risk of suffering financial loss, where customers or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from financing activities and also credit enhancement activities including provision of financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to credit risks arising from investments in Sukuk (Islamic Bond) and from its trading activities, including non-equity trading portfolio assets and settlement balances with market counterparties.

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk based on sector and other relevant risk profiles which are inherent to the Bank.

Impairment and provisioning policies

Impairment allowances are recognised for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment as provided for in the Classification & Impairment Provisions for Financing.

**(a) Collaterals**

The Bank adopted a range of policies and practices to mitigate credit risk. Among the principal collateral types for financing are:

- Secured financing over residential properties (mortgages)
- Charges over business assets such as premises and properties being financed
- Charges over vessels, aircrafts and automobiles being financed
- Charges over Mudharabah General Investment Account, foreign currency deposits and cash deposits/margins

Longer-term financing to corporate entities are generally secured; revolving credit facilities are generally partially secured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual financing and advances.

Collateral held as security for financial assets other than financing depends on the nature of the instrument. Sukuk, Islamic commercial papers and other eligible Islamic bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

**(b) Maximum exposure to credit risk**

The following table represents credit risk exposure to the Economic Entity and the Bank, before taking account of any collateral held or other credit enhancements and after allowance for impairment where appropriate.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**32. Financial risk management (continued)****32.1 Credit risk management (continued)****(b) Maximum exposure to credit risk (continued)**

For financial assets recognised in the statements of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees and similar contracts granted, it is the maximum amount that the Economic Entity and the Bank would have to pay if the guarantees were called upon. For credit related commitments and contingencies that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

	<b>Economic Entity and Bank</b>	
	2016	2015
	RM	RM
<b>Credit risk exposure relating to on-balance sheet assets:</b>		
Short-term funds (exclude cash in hand)	206,527,938	260,538,098
Financial assets and investments portfolios		
- Held-for-trading	20,140,038	-
- Available-for-sale	266,448,176	367,383,219
- Held-to-maturity	459,851,257	393,864,137
Financing and advances	1,456,983,213	1,459,069,758
Derivative assets	212,430	778,580
Other assets	3,603,242	4,271,349
	<u>2,413,766,294</u>	<u>2,485,905,141</u>
<b>Credit risk exposure of off-balance sheet items:</b>		
Commitment and contingencies	<u>494,064,246</u>	<u>553,069,511</u>
<b>Total maximum credit risk exposure</b>	<u>2,907,830,540</u>	<u>3,038,974,652</u>

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**32. Financial risk management (continued)****32.1 Credit risk management (continued)****(b) Maximum exposure to credit risk (continued)**

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing and advances for the Bank is at 24.40% as at 31 December 2016 (31 December 2015: 24.07%). The financial effect of collateral held for other financial assets is not significant.

**(c) Credit risk concentration**

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The analysis of credit risk concentrations based on the industry sectors of the counterparty for items recognised in the statements of financial position as at 31 December 2016 are set out in the following pages.



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ASIAN FINANCE BANK BERHAD  
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## 32. Financial risk management (continued)

## 32.1 Credit risk management (continued)

## (c) Credit risk concentration (continued)

	Short-term funds and placements with financial institution	Financial investment held-for- trading	Financial investment available- for-sale	Financial investment held-to- maturity	Financing and advances #	Other financial assets *	On balance sheet total	Commitment and contingencies
	RM	RM	RM	RM	RM	RM	RM	RM
Economic entity and Bank 2016								
Agriculture	-	-	-	-	294,425,962	-	294,428,962	27,000,000
Mining and quarrying	-	-	-	-	119,792,958	-	119,792,958	8,704,214
Manufacturing	-	-	-	-	201,371,451	-	201,371,451	23,657,480
Electricity, gas and water	-	-	20,121,178	137,280,644	110,081,776	-	267,483,598	-
Construction	-	-	9,952,527	267,266,863	166,516,602	-	443,735,792	125,221,500
Wholesale & retail trade and restaurants & hotels	-	-	-	-	189,783,500	-	189,783,500	63,588,704
Transport, storage and communication	-	-	50,220,657	-	30,052,009	-	80,272,666	300,000
Finance, insurance and business services	206,527,938	20,140,038	186,153,814	40,088,710	369,404,793	-	822,315,293	244,961,331
Education, Health & Others	-	-	-	-	-	-	-	-
Household	-	-	-	-	25,772,823	-	25,772,823	631,037
Others	-	-	-	15,215,240	-	-	19,030,912	-
	206,527,938	20,140,038	266,448,176	459,851,257	1,507,204,874	3,815,672	2,463,987,955	494,064,246
	3,596,450	-	-	-	-	-	3,596,450	-
Assets not subject to credit risk	210,124,388	20,140,038	266,448,176	459,851,257	1,507,204,874	3,815,672	2,467,584,405	494,064,246

# Excludes collective and individual impairment of RM12,398,864 and RM37,822,797 respectively.

\* Other financial assets consist of derivative assets and other assets amounting to RM212,430 and RM3,603,242 respectively.

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

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ASIAN FINANCE BANK BERHAD  
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(c) Credit risk concentration (continued)

	Short-term funds and placements with financial institution	Financial investment available- for-sale	Financial investment available- for-sale	Financial investment held-to- maturity	Financing and advances #	Other financial assets *	On balance sheet total	Commitment and contingencies
	RM	RM	RM	RM	RM	RM	RM	RM
<b>Economic entity and Bank</b>								
2015								
Agriculture	-	-	-	-	204,348,325	-	204,348,325	75,000,000
Mining and quarrying	-	-	-	-	157,184,731	-	157,184,731	21,467,500
Manufacturing	-	-	-	-	198,811,244	-	198,811,244	14,991,761
Electricity, gas and water	-	-	70,820,955	66,086,238	110,153,973	-	247,063,166	15,000,000
Construction	-	-	-	257,237,688	153,732,128	-	410,969,816	94,173,375
Wholesale & retail trade and restaurants & hotels	-	-	-	-	201,831,827	-	201,831,827	36,822,144
Transport, storage and communication	-	-	95,527,837	15,228,469	46,931,845	-	157,688,151	597,610
Finance, insurance and business services	260,538,098	-	201,034,427	40,091,059	397,262,845	-	898,926,229	293,829,151
Education, Health & Others	-	-	-	-	-	-	-	-
Household	-	-	-	-	27,328,631	-	27,328,631	1,187,970
Others	-	-	-	15,219,663	-	-	20,268,612	-
	260,538,098	-	367,383,219	393,864,137	1,497,585,349	5,049,929	2,524,420,732	553,069,511
	2,897,773	-	-	-	-	-	2,897,773	-
Assets not subject to credit risk	263,435,872	-	367,383,219	393,864,137	1,497,585,349	5,049,929	2,527,318,505	553,069,511

# Excludes collective and individual impairment of RM28,453,374 and RM10,062,217 respectively.

\* Other financial assets consist of derivative assets and other assets amounting to RM778,580 and RM4,271,349 respectively.

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

**32. Financial risk management (continued)****32.1 Credit risk management (continued)****(d) Credit quality**Financing and guarantees

The Bank assess credit quality of financing and advances using internal rating models which have been developed internally and combine statistical analysis with credit officers' judgement.

Stringent measures and processes are in place before credit proposals are submitted for consideration. All credit proposals are first processed and evaluated by the originating Business Units before being independently reviewed by Credit Analysis of the Risk Management Division.

The Bank has established an internally designed rating model for corporate, commercial and consumer financing that enables the Bank to categorise the credit risk thereby assisting them in making informed decisions on credit approvals. The overall rating is derived based on several chosen factors subsisting as at a given reference date.

Credit reviews are conducted on a regular basis based on the customer's financial and market position, industry, economic condition and conduct of account. The Executive Committee of the Board sanctions credit beyond the discretionary limit of the Credit and Investment Committee of the management and the Chief Executive Officer.

Sukuk

For Sukuk, external rating such as Standard & Poor's, Moody's, Fitch, RAM and MARC rating or their equivalents are used by the Treasury Division for managing the credit risk exposures and supplemented by the Bank's own assessment through the use of internal ratings models.

Others

The credit quality of financial assets other than financing and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to Aa3
- A1 to A3
- Baa1 to Baa3
- P1 to P3
- Non rated

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ASIAN FINANCE BANK BERHAD  
(Incorporated in Malaysia)

## 32. Financial risk management (continued)

## 32.1 Credit risk management (continued)

## (d) Credit quality (continued)

## (i) Financing and advances

Financing and advances are summarised as follows:

	Economic Entity and Bank	
	2016	2015
	RM	RM
Neither past due nor impaired	1,282,522,598	1,446,930,998
Past due but not impaired	99,747,246	37,557,363
Impaired	124,935,030	13,096,988
Gross financing and advances	1,507,204,874	1,497,585,349
Less: Individual allowance	(37,822,797)	(10,062,217)
Collective allowance	(12,398,864)	(28,453,374)
Net financing and advances	1,456,983,213	1,459,069,758

## (a) Financing and advances neither past due nor impaired

Analysis of financing and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	Economic Entity and Bank	
	2016	2015
	RM	RM
<u>Internal Credit Rating (CRR)</u>		
CRR1 - CRR3	257,713,382	287,523,633
CRR4 - CRR6	864,883,355	1,132,875,107
CRR7 - CRR10	151,385,541	17,651,147
Non rated CRR	8,540,320	8,881,111
	1,282,522,598	1,446,930,998

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ASIAN FINANCE BANK BERHAD  
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## 32. Financial risk management (continued)

## 32.1 Credit risk management (continued)

## (d) Credit quality (continued)

## (i) Financing and advances (continued)

## (b) Financing and advances past due but not impaired

Analysis of aging of financing and advances that are past due but not impaired is as follows:

	Economic Entity and Bank	
	2016	2015
	RM	RM
Past due up to 30 days	98,630,252	35,702,442
Past due 30 to 60 days	885,922	1,415,990
Past due 60 to 90 days	231,072	438,931
	<u>99,747,246</u>	<u>37,557,363</u>

## (c) Impaired financing and advances

Financing and advances that are individually determined to be impaired are as follows:

	Economic Entity and Bank	
	2016	2015
	RM	RM
Gross impaired financing and advances	124,935,030	13,096,988
Less: Individual impairment allowance	<u>(37,822,797)</u>	<u>(10,062,217)</u>
Net impaired financing and advances	<u>87,112,233</u>	<u>3,034,771</u>

The movements of allowances for impaired financing and advances are set out in Note 9.

## Credit Risk Mitigation ("CRM") Disclosures

In mitigating its credit exposure, the Bank currently employs the cash collateral (one of the form of collaterals under Credit Risk Mitigation), which provides 0% risk weights. Other form of collaterals such as financing facility against charges over residential and commercial properties, pledged over shares, and supports in the form of debentures, assignments and guarantees are not taken into consideration as CRM and are therefore assigned with 100% risk weights.

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

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ASIAN FINANCE BANK BERHAD  
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## 32. Financial risk management (continued)

## 32.1 Credit risk management (continued)

## (d) Credit quality (continued)

## (ii) Short term funds, financial assets and investments portfolios

Short-term funds, financial assets and investments portfolios for the Economic Entity and the Bank by rating agency designation are as follows:

	Short term funds RM	Financial investments portfolios RM	Derivative assets RM	Other assets RM
<b>Economic Entity and Bank</b>				
<b>2016</b>				
Neither past due nor impaired				
AAA	171,209,514	267,490,977	-	-
AA and below	35,272,124	206,842,879	-	-
Unrated*	46,300	272,105,615	212,430	3,603,242
	<u>206,527,938</u>	<u>746,439,471</u>	<u>212,430</u>	<u>3,603,242</u>
Individually impaired	-	-	-	-
	<u>206,527,938</u>	<u>746,439,471</u>	<u>212,430</u>	<u>3,603,242</u>
<b>2015</b>				
Neither past due nor Impaired				
AAA	165,999,695	218,886,488	-	-
AA and below	68,713,851	272,446,137	-	-
Unrated*	25,824,551	271,981,479	778,580	4,271,349
	<u>260,538,097</u>	<u>763,314,104</u>	<u>778,580</u>	<u>4,271,349</u>
Individually impaired	-	-	-	-
	<u>260,538,097</u>	<u>763,314,104</u>	<u>778,580</u>	<u>4,271,349</u>

\*The unrated financial assets/investment portfolios are all government guaranteed securities.

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

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**32. Financial risk management (continued)****32.2 Market Risk**

The Economic Entity and the Bank take on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, profit rate and foreign exchange. Market risks arise from the open positions in profit rate, prices and foreign exchange products. The market risks arising from trading and non-trading activities are concentrated in the Treasury Division, and monitored by Market Risk Department of Risk Management Division. Regular reports are submitted to the Board Risk Committee.

**(i) Profit Rate Risk**

The Economic Entity and the Bank is exposed to the risks associated with effects of fluctuations in the prevailing levels of profit rate on the financial position and cash flow of its portfolio.

**Market Risk Measurement Techniques**

The marking to market ("MTM") concept is used to determine the value of the open position, and the result are compared against the cut-loss limit set by the Board. The Treasury Division takes small amount of open position in foreign exchange, and all customer requirements is closed back to back. The trading in capital market is on highly rated and liquid Commercial Papers ("CPs"). The sukuk investments funded by the same currency which eliminate the foreign exchange risk.

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


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**ASIAN FINANCE BANK BERHAD**  
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**32. Financial risk management (continued)****32.2 Market Risk (continued)****(i) Profit Rate Risk (continued)**Profit rate sensitivity analysis

Market risk sensitivity assessment is based on the changes in key variables, such as profit rates while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables and the impact on the re-priced mismatches of assets and liabilities position of the Economic Entity and the Bank as at 31 December 2016.

	<b>Economic Entity and Bank</b>	
	<b>Impact on profit after tax RM</b>	<b>Impact on equity RM</b>
<b><u>2016</u></b>		
+100 basis points (‘bps’)	4,282,745	4,282,745
-100 basis points (‘bps’)	(4,282,745)	(4,282,745)
<hr/>		
<b><u>2015</u></b>		
+100 basis points (‘bps’)	4,754,040	4,754,040
-100 basis points (‘bps’)	(4,754,040)	(4,754,040)
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32. Financial risk management (continued)

32.2 Market risk

(i) Profit Rate Risk

Economic Entity and Bank	Non-trading book						Trading book RM	Total RM	Effective profit rate %
	Up to 1 months RM	1-3 months RM	3-12 months RM	1-5 years RM	Over 5 years RM	Non-profit sensitive RM			
2016									
<b>Assets</b>									
Cash and short term funds	169,999,893	-	-	-	-	-	210,124,388	3.03	
Financial investments held-for-trading	-	-	20,140,038	-	-	-	20,140,038	2.32	
Financial investments available-for-sale	-	15,159,594	25,118,866	226,167,353	-	-	266,446,176	4.01	
Financial investments held-to-maturity	51,008,219	-	5,008,581	253,000,560	150,833,897	-	459,851,257	4.29	
Financing and advances - performing	668,375,058	294,547,042	85,793,244	225,408,073	107,146,427	(12,398,864)	1,369,870,980	5.06	
- non performing	-	-	-	-	-	87,112,233	87,112,233	-	
Derivative assets	202,203	10,227	-	-	-	-	212,430	-	
Other assets	-	-	-	-	-	3,603,242	3,603,242	-	
Tax recoverable	-	-	-	-	-	5,416,157	5,416,157	-	
Statutory deposits	-	-	-	-	-	30,373,822	30,373,822	-	
Deferred tax assets	-	-	-	-	-	349,226	349,226	-	
Property and equipment	-	-	-	-	-	1,021,876	1,021,876	-	
Intangible assets	-	-	-	-	-	1,519,012	1,519,012	-	
<b>Total assets</b>	<b>859,585,373</b>	<b>309,716,863</b>	<b>137,060,729</b>	<b>704,575,986</b>	<b>257,980,324</b>	<b>157,123,562</b>	<b>2,456,042,837</b>		

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## 32. Financial risk management (continued)

## 32.2 Market risk (continued)

## (i) Profit Rate Risk (continued)

Economic Entity and Bank	Non-trading book						Trading book RM	Total RM	Effective profit rate %
	Up to 1 months RM	1-3 months RM	3-12 months RM	1-5 years RM	Over 5 years RM	Non-profit sensitive RM			
2016									
<b>Liabilities</b>									
Deposits from customers	221,016,819	453,349,856	72,020,221	146,485,307	-	4,862,822	897,734,025	3.59	
Deposits and placements of banks and other financial institutions	219,043,157	449,282,827	373,736,015	-	-	6,147,735	1,048,209,734	3.87	
Derivative liabilities	460,959	97,091	-	-	-	-	558,050		
Other liabilities	-	-	-	-	-	12,284,912	12,284,912		
<b>Total liabilities</b>	<b>440,519,935</b>	<b>902,729,774</b>	<b>445,766,236</b>	<b>146,485,307</b>	<b>-</b>	<b>23,295,469</b>	<b>1,958,786,721</b>		
<b>Total shareholders equity</b>	<b>440,519,935</b>	<b>902,729,774</b>	<b>445,766,236</b>	<b>146,485,307</b>	<b>497,256,116</b>	<b>23,295,469</b>	<b>497,256,116</b>		
<b>Total profit-sensitivity gap</b>	<b>449,065,438</b>	<b>(593,012,911)</b>	<b>(308,695,507)</b>	<b>558,090,679</b>	<b>(239,275,792)</b>	<b>133,828,093</b>	<b>-</b>		

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**32. Financial risk management (continued)**

**32.2 Market risk (continued)**

**(i) Profit Rate Risk (continued)**

Economic Entity and Bank	Non-trading book						Trading book RM	Non-profit sensitive RM	Over 5 years RM	Total RM	Effective profit rate %
	Up to 1 months RM	1-3 months RM	3-12 months RM	1-5 years RM	Over 5 years RM	Non-profit sensitive RM					
2015											
<b>Assets</b>											
Cash and short term funds	190,730,643	-	-	-	-	-	-	-	263,436,871	-	3.12
Financial investments held-for-trading	-	-	-	-	-	-	-	-	-	-	-
Financial investments available-for-sale	-	35,565,082	115,754,445	216,061,329	-	-	2,363	-	367,383,219	-	4.34
Financial investments held-to-maturity	-	-	15,228,469	217,568,214	161,049,454	-	-	-	393,864,137	-	4.28
Financing and advances - performing	776,271,020	345,869,803	120,657,130	191,311,987	50,388,421	-	(28,453,374)	-	1,456,034,987	-	5.07
- non performing	-	-	-	-	-	-	3,034,771	-	3,034,771	-	-
Derivative assets	753,830	24,750	-	-	-	-	-	-	778,580	-	-
Other assets	-	-	-	-	-	-	4,271,349	-	4,271,349	-	-
Tax recoverable	-	-	-	-	-	-	4,082,904	-	4,082,904	-	-
Statutory deposits	-	-	-	-	-	-	34,683,822	-	34,683,822	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	1,007,951	-	1,007,951	-	-
Intangible assets	-	-	-	-	-	-	1,842,640	-	1,842,640	-	-
<b>Total assets</b>	<b>967,755,493</b>	<b>381,449,635</b>	<b>251,640,044</b>	<b>624,959,530</b>	<b>211,437,875</b>	<b>-</b>	<b>93,177,654</b>	<b>-</b>	<b>2,530,420,231</b>	<b>-</b>	

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ASIAN FINANCE BANK BERHAD  
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32. Financial risk management (continued)

32.2 Market risk (continued)

(i) Profit Rate Risk (continued)

Economic Entity and Bank	Non-trading book						Trading book RM	Total RM	Effective profit rate %
	Up to 1 months RM	1-3 months RM	3-12 months RM	1-5 years RM	Over 5 years RM	Non-profit sensitive RM			
2015									
<b>Liabilities</b>									
Deposits from customers	536,451,358	293,612,539	54,027,961	142,000,000	-	5,594,746	1,031,686,605	3.09	
Deposits and placements of banks and other financial institutions	404,032,424	504,533,752	74,570,412	-	-	9,756,029	992,892,617	3.78	
Derivative liabilities	886,884	43,400	-	-	-	-	940,284	-	
Other liabilities	-	-	-	-	-	12,086,801	12,086,801	-	
<b>Total liabilities</b>	<b>941,380,666</b>	<b>798,189,691</b>	<b>128,598,373</b>	<b>142,000,000</b>	<b>-</b>	<b>27,437,576</b>	<b>2,037,606,307</b>	<b>-</b>	
Total shareholders equity	-	-	-	-	482,813,925	-	482,813,925	-	
	<b>941,380,666</b>	<b>798,189,691</b>	<b>128,598,373</b>	<b>142,000,000</b>	<b>482,813,925</b>	<b>27,437,576</b>	<b>2,530,420,231</b>	<b>-</b>	
<b>Total profit-sensitivity gap</b>	<b>26,374,827</b>	<b>(416,740,056)</b>	<b>123,041,671</b>	<b>482,959,530</b>	<b>(281,376,050)</b>	<b>65,740,076</b>	<b>-</b>	<b>-</b>	

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**ASIAN FINANCE BANK BERHAD**  
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**32. Financial risk management (continued)****32.2 Market Risk (continued)****(ii) Foreign Exchange Risk**

The USD/MYR moved in the range of 3.8668 in January 2016 to 4.4862 in December 2016. The Bank's proprietary position is controlled by the net open position limit of RM20.0 million. All the commercial transactions were covered back to back. The result of the foreign exchange translation gains or losses on assets are compensated by the foreign exchange gains or losses on liabilities. The table below shows the sensitivity of the Economic Entity and the Bank's profit to movement in foreign exchange rates as at 31 December 2016:

	<b>Economic Entity and Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>Impact</b>	<b>Impact</b>
	<b>on profit</b>	<b>on profit</b>
	<b>after tax</b>	<b>after tax</b>
	<b>RM</b>	<b>RM</b>
1%	<b>20,049</b>	<b>20,340</b>
-1%	<b>(20,049)</b>	<b>(20,340)</b>

The impact on profit arises from transactional exposures from parallel shifts in foreign exchange rates.

The projection assumes that foreign exchange rates move by the same amount and, therefore, do not reflect the potential impact on profit of some rates changing while others remain unchanged. The projections also assume that all other variables are held constant and are based on a constant reporting date position.

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## 32. Financial risk management (continued)

## 32.2 Market risk (continued)

## (ii) Foreign Exchange Risk (continued)

Economic Entity and Bank 2016	USD	MYR	Others	Total
<b>Assets</b>				
Cash and short-term funds	32,487,169	174,788,357	2,848,862	210,124,388
Financial investments held-for-trading	-	20,140,038	-	20,140,038
Financial investments available-for-sale	-	266,448,176	-	266,448,176
Financial investments-held-to-maturity	-	459,851,257	-	459,851,257
Financing and advances	102,139,687	1,354,843,526	-	1,456,983,213
Derivative assets	54,399	158,031	-	212,430
Other assets	-	3,603,242	-	3,603,242
Tax recoverable	-	5,416,157	-	5,416,157
Statutory deposits with				
Bank Negara Malaysia	-	30,373,822	-	30,373,822
Deferred tax assets	-	349,226	-	349,226
Property, plant and equipment	-	1,021,876	-	1,021,876
Intangible assets	-	1,519,012	-	1,519,012
<b>Total Assets</b>	<b>134,681,255</b>	<b>2,318,512,720</b>	<b>2,848,862</b>	<b>2,456,042,837</b>
<b>Liabilities</b>				
Deposits from customers	6,548,669	890,075,757	1,109,599	897,734,025
Deposits and placements of banks and other financial institutions	-	1,048,209,734	-	1,048,209,734
Derivative liabilities	69,922	488,128	-	558,050
Other liabilities	-	12,284,912	-	12,284,912
<b>Total Liabilities</b>	<b>6,618,591</b>	<b>1,951,058,531</b>	<b>1,109,599</b>	<b>1,958,786,721</b>
<b>Net on-balance sheet financial position</b>	<b>128,062,664</b>	<b>367,454,189</b>	<b>1,739,263</b>	<b>497,256,116</b>

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ASIAN FINANCE BANK BERHAD  
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## 32. Financial risk management (continued)

## 32.2 Market risk (continued)

## (ii) Foreign Exchange Risk (continued)

Economic Entity and Bank 2015	USD	MYR	Others	Total
<b>Assets</b>				
Cash and short-term funds	39,017,797	168,880,120	55,537,954	263,435,871
Financial investments held-for-trading	-	-	-	-
Financial investments available-for-sale	-	367,383,219	-	367,383,219
Financial investments-held-to-maturity	-	393,864,137	-	393,864,137
Financing and advances	159,938,977	1,299,130,781	-	1,459,069,758
Derivative assets	2,250	390,556	385,774	778,580
Other assets	-	4,271,349	-	4,271,349
Tax recoverable	-	4,082,904	-	4,082,904
Statutory deposits with				
Bank Negara Malaysia	-	34,683,822	-	34,683,822
Deferred tax assets	-	-	-	-
Property, plant and equipment	-	1,007,951	-	1,007,951
Intangible assets	-	1,842,640	-	1,842,640
<b>Total Assets</b>	<b>198,959,024</b>	<b>2,275,537,478</b>	<b>55,923,728</b>	<b>2,530,420,231</b>
<b>Liabilities</b>				
Deposits from customers	6,545,138	884,136,186	141,005,280	1,031,686,604
Deposits and placements of banks and other financial institutions	-	992,892,617	-	992,892,617
Derivative liabilities	59,418	666,000	214,866	940,284
Other liabilities	-	12,086,801	-	12,086,801
<b>Total Liabilities</b>	<b>6,604,556</b>	<b>1,889,781,604</b>	<b>141,220,146</b>	<b>2,037,606,306</b>
<b>Net on-balance sheet financial position</b>	<b>192,354,468</b>	<b>385,755,874</b>	<b>(85,296,418)</b>	<b>492,813,925</b>

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)****32. Financial risk management (continued)****32.3 Liquidity Risk**

Liquidity risk is the risk that the bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

**(i) Liquidity Risk Management Process**

The Bank's liquidity management process, as carried out within the bank and monitored by an Asset Liability Committee ("ALCO") support team of Treasury Division includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or is borrowed by customers. The Treasury maintains an active presence in local and global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the financial position against internal and BNM requirements under the BNM Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR"); and
- Managing the concentration and profile of Sukuk maturities.

Monitoring and reporting take in the form of cash flow measurement and projections for the next day, week and month respectively, as these are the key periods for liquidity management.

**(ii) Funding Approach**

Sources of liquidity are regularly reviewed by ALCO in maintaining a wide diversification by currency, geography, provider, product and term.



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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**32. Financial risk management (continued)****32.3 Liquidity Risk (continued)****(iii) Assets held for managing liquidity risk**

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of:

- Cash and balances with central banks;
- Certificates of deposit;
- Other securities that are readily acceptable as a pledge assets with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Banks trading portfolios.

**(iv) Derivative Liabilities**

The Bank had put in place the infrastructure for the transaction of the foreign exchange currency forward.

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**ASIAN FINANCE BANK BERHAD**  
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**32. Financial risk management (continued)****32.4 Fair value of financial assets and liabilities****(a) Determination of fair value and fair value hierarchy**

All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;**

For financial instruments classified as Level 1, the valuation are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

**Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices)**

For financial instruments classified as Level 2, their values are based on quoted prices in inactive markets, or whose values are based on models - but the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability. These would include certain bonds, government bonds, corporate debt securities, derivatives and certain issued notes.

**Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs)**

For financial instruments classified as Level 3, their values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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## 32. Financial risk management (continued)

## 32.4 Fair value of financial assets and liabilities (continued)

## (a) Determination of fair value and fair value hierarchy (continued)

The following table represents assets and liabilities measured at fair value and classified by level with the following fair value measurement hierarchy:

	Economic Entity and Bank Fair value				Total fair value RM
	Carrying value RM	Level 1 RM	Level 2 RM	Level 3 RM	
<b>2016</b>					
<b>Financial assets:</b>					
<b>Financial investments held-for-trading</b>	20,140,038	-	20,140,038	-	20,140,038
<b>Financial investments available-for-sale</b>	266,448,176	-	266,448,176	-	266,448,176
<b>Derivative assets</b>	212,430	-	212,430	-	212,430
	<u>286,800,644</u>	<u>-</u>	<u>286,800,644</u>	<u>-</u>	<u>286,800,644</u>
<b>Financial liabilities:</b>					
<b>Derivative liabilities</b>	558,050	-	558,050	-	558,050
	<u>558,050</u>	<u>-</u>	<u>558,050</u>	<u>-</u>	<u>558,050</u>
	Economic Entity and Bank Fair value				Total fair value RM
	Carrying value RM	Level 1 RM	Level 2 RM	Level 3 RM	
<b>2015</b>					
<b>Financial assets:</b>					
<b>Financial investments held-for-trading</b>	-	-	-	-	-
<b>Financial investments available-for-sale</b>	367,383,219	-	367,383,219	-	367,383,219
<b>Derivative assets</b>	778,580	-	778,580	-	778,580
	<u>368,161,799</u>	<u>-</u>	<u>368,161,799</u>	<u>-</u>	<u>368,161,799</u>
<b>Financial liabilities:</b>					
<b>Derivative liabilities</b>	940,284	-	940,284	-	940,284
	<u>940,284</u>	<u>-</u>	<u>940,284</u>	<u>-</u>	<u>940,284</u>

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**32. Financial risk management (continued)****32.4 Fair value of financial assets and liabilities (continued)****(b) Financial instruments not measured at fair value**

The following table summarises the carrying amounts and the estimated fair values of those financial assets not presented on the Economic Entity and the Bank balance sheet at their fair value and which their carrying amounts are different from their fair values:

	Economic Entity and Bank	
	Carrying value RM	Fair value RM
<b>2016</b>		
<b>Financial assets:</b>		
<b>Financing and advances</b>		
- Financing and advances to customers	1,507,204,874	1,463,031,524
	<u>1,507,204,874</u>	<u>1,463,031,524</u>
<b>2015</b>		
<b>Financial assets:</b>		
<b>Financing and advances</b>		
- Financing and advances to customers	1,497,585,349	1,449,784,395
	<u>1,497,585,349</u>	<u>1,449,784,395</u>

**(i) Financing to customers**

The estimated fair value of financing represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**(ii) Investment securities**

The fair value for securities held-to-maturity assets is based on market prices. All other available-for-sale assets are already measured and carried at fair value.

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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)****32. Financial risk management (continued)****32.4 Fair value of financial assets and liabilities (continued)****(b) Financial instruments not measured at fair value (continued)****(iii) Deposits from banks and due to customers**

The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

**33. Capital adequacy****Capital management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
- To safeguard the Bank ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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## 33. Capital adequacy (continued)

	Economic Entity and Bank	
	2016	2015
	RM	RM
<b><u>CET1 Capital</u></b>		
Paid-up ordinary share capital	532,530,020	532,530,020
Accumulated losses	(53,094,267)	(49,685,510)
AFS revaluation reserve	(777,068)	(1,569,330)
Statutory reserve	13,363,710	11,538,745
Regulatory reserve**	5,233,721	-
	<u>497,256,116</u>	<u>492,813,925</u>
Less : CET1 regulatory adjustments		
Deferred tax assets	(349,226)	-
Cumulative losses of AFS financial instruments	562,352	537,614
Regulatory reserve attributable to financing**	(5,233,721)	-
Total CET1 capital	<u>492,235,521</u>	<u>493,351,539</u>
<b><u>Tier 1 Capital</u></b>		
Additional Tier 1 capital instruments	-	-
Less: Tier 1 regulatory adjustments	-	-
Total Tier 1 capital	<u>492,235,521</u>	<u>493,351,539</u>
<b><u>Tier II Capital</u></b>		
Collective impairment/allowance for bad and doubtful financing ^	11,090,712	28,407,853
Regulatory reserve**	5,233,721	-
Total Tier II capital	<u>16,324,433</u>	<u>28,407,853</u>
Total capital base	<u>508,559,954</u>	<u>521,759,392</u>
Breakdown of risk weighted assets in various categories of risk weights are as follows:		
	2016	2015
	RM'000	RM'000
<b><u>Total risk weighted assets ("RWA")</u></b>		
- Credit risk	1,952,246	1,951,619
- Market risk	1,744	3,144
- Operational risk	94,281	97,903
Total RWA	<u>2,048,271</u>	<u>2,052,666</u>
<b><u>Capital ratios</u></b>		
CET1 capital	24.032%	24.035%
Tier 1 capital	24.032%	24.035%
Total capital ratio	<u>24.829%</u>	<u>25.419%</u>

^ Excludes collective assessment impairment allowance attributable to financing and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing" issued 6 April 2015

\*\* The regulatory reserve is maintained in aggregate with collective impairment allowance representing financing loss provision required to be maintained at a minimum level of 1.2% of total outstanding financing and advances less individual impairment allowance.

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

Company No.

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**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**34. Operational Risk Management**

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal process, people and systems or from external events. As such, operational risk is inherent in the Bank's business and operational activities. The primary responsibility of managing such risks rests with the respective operating department/unit.

The Bank takes a proactive stance on identifying and profiling principal potential operational risks and implementing relevant risk mitigation and contingency procedures. One of the Bank's primary safeguards against operational risks is the existence of a sound internal control system, based on the principle of dual control, checks and balances, segregation of duties, independent checks and verification processes, segmented system access control and multi-tier internal transaction authorization process. The controls are documented through a set of policies and procedures at the individual business unit level.

The Risk Management Division has established and maintained an effective internal control environment that incorporates Key Risk Indicators ("KRIs"), Operational Risk Loss Event Report ("ORLER"), Risk Control Self Assessment ("RCSA"), Operational Risk Integrated Online Network ("ORION") Key Risk Indicators and Compliance Status Indicator ("CSI") which monitors and reports risk areas at different levels throughout the Economic Entity and the Bank. These KRIs, ORLER, RCSA, ORION and CSI are designed to ensure status, position and compliance that the Bank is operating within established policies and guidelines. Operational Risk capital computation is using the Basic Indicator Approach ("BIA"). In addition, the Bank also placed a mechanism to manage and report fraud and anti-money laundering and anti-terrorist financing activities to ensure compliance with internal and regulatory requirements.

**35. Donations or charity funds**

Sources and applications of Charity Fund as at 31 December 2016

	<b>Economic Entity and Bank 2016 RM</b>
<b>Sources</b>	
Gharamah from Late Payment Charges	
Balance carried from 2015	451,997
Collection during the period 2016	<u>1,649,662</u>
	<u>2,101,659</u>
<b>Application</b>	
Distribution of balance carried from 2015	
Fund contribution for schools, mosques, universities and non-government organisation during the period 2016	<u>(401,997)</u>
<b>Balance as at the end of period</b>	<u><u>1,699,662</u></u>

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

Company No.

716122 | P

**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**35. Donations or charity funds (continued)**

Sources and applications of Charity Fund as at 31 December 2015

	<b>Economic Entity and Bank 2015 RM</b>
<b>Sources</b>	
Gharamah from Late Payment Charges	
Balance carried from 2014	321,108
Collection during the period 2015	451,997
	<u>773,105</u>
<b>Application</b>	
Distribution of balance carried from 2014	
Education fund contribution to Universities & School during the period 2015	(321,108)
	<u>451,997</u>

As a deterrent mechanism against cases of default by customers in discharging their financial obligation arising from Islamic contracts, the imposition of late payment charge by Islamic banking institutions under the concept of gharamah (fine or penalty) is allowable. Gharamah is not allowed to be recognised as income, and it must be channeled to specified charitable bodies.

**36. 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.

**37. Approval of financial statements**

The financial statements have been approved on 29 May 2017 for issue in accordance with a resolution of Board of Directors.



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

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Company No.

716122	P
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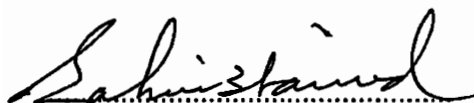
**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**STATEMENT BY DIRECTORS**  
Pursuant to Section 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 21 to 100 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Economic Entity and of the Bank as of 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors 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

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

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Company No.

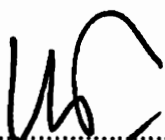
716122 P

**ASIAN FINANCE BANK BERHAD**  
(Incorporated in Malaysia)**STATUTORY DECLARATION**

Pursuant to Section 251(1)(b) of the Companies Act, 2016

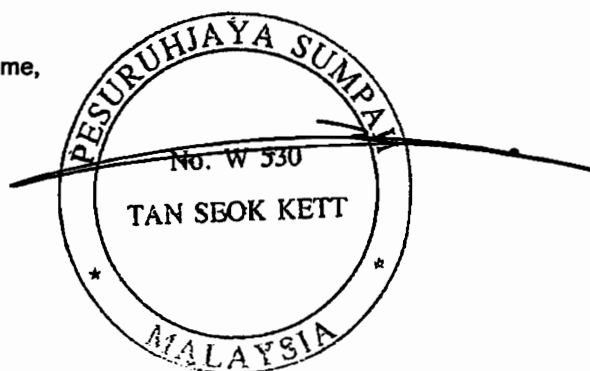
I, Khalid Mahmood Bhaimia, the officer primarily responsible for the financial management of ASIAN FINANCE BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 21 to 100 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Khalid Mahmood Bhaimia, UK Passport number: 536517966, at Kuala Lumpur in Federal Territory on 29 May 2017.



.....  
KHALID MAHMOOD BHAIMIA  
CHIEF EXECUTIVE OFFICER

Before me,



Lot 350, 3rd Floor, Wisma MPL,  
Jalan Raja Chulan,  
50200 Kuala Lumpur.

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

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Company No.

716122	P
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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**

**SHARIAH COMMITTEE'S REPORT**

In the name of Allah, the most Beneficent, the most Merciful.

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions:

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Asian Finance Bank Berhad during the year ended 31 December 2016. We have also conducted our review to form an opinion as to whether Asian Finance Bank Berhad have complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The Management of Asian Finance Bank Berhad is responsible for ensuring that the Bank conducts its business in accordance with Shariah principles. It is our responsibility to form our independent opinion, based on our review of the operations for Asian Finance Bank Berhad, and to report to you.

We have assessed the work carried out by Shariah Review and Shariah Audit which included examining, on a test basis, each type of transaction, the relevant documents and procedures adopted by Asian Finance Bank Berhad.

We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that Asian Finance Bank Berhad has not violated the Shariah principles.

In our opinion:

- the contracts, transactions and dealings entered into by Asian Finance Bank Berhad during the year ended 31 December 2016 that we have reviewed are in compliance with Shariah principles;
- the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and
- all earnings that have been realised from sources or by means prohibited by Shariah principles, have been disposed to charitable causes where necessary as shown in Note 35 to the financial statements.

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

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Company No.

716122	P
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**ASIAN FINANCE BANK BERHAD**  
**(Incorporated in Malaysia)**

We, the members of the Shariah Committee of Asian Finance Bank Berhad, do hereby confirm that the operations of Asian Finance Bank Berhad for the year ended 31 December 2016 have been conducted in conformity with the Shariah principles.

Chairman of Shariah Committee:

**Sheikh Dr. Abdul Sattar Abu Ghuddah**

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**TERMS OF THE SCHEME OF ARRANGEMENT**


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**MALAYSIA BUILDING SOCIETY BERHAD SCHEME OF ARRANGEMENT**

In respect of the proposed merger of Malaysia Building Society Berhad (“**MBSB**”) and Asian Finance Bank Berhad (“**AFB**”) (“**Proposed Merger**”)

Pursuant to Sections 366 and 370 of the Companies Act 2016

**SCHEME BETWEEN**

**MALAYSIA BUILDING SOCIETY BERHAD** (Company No. 9417-K) having its registered address at 11<sup>th</sup> Floor, Wisma MBSB, 48, Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur (“**MBSB**”); and

**THE MEMBERS OF MBSB**
**1. Definitions and Interpretations**
**1.1 Definitions**

In this MBSB Scheme:

<b>A&amp;L</b>	means assets and liabilities of MBSB;
<b>AFB</b>	means Asian Finance Bank Berhad;
<b>AFB Shares</b>	means ordinary shares in AFB;
<b>Business Day</b>	means a day other than a Saturday, Sunday or public holiday in Kuala Lumpur, Malaysia;
<b>Cash Consideration</b>	means RM396,894,036.26 in cash, to be paid as part settlement of the Purchase Consideration to QIB and FAB;
<b>Companies Act</b>	means the Companies Act 2016;
<b>Conditions Precedent</b>	means the conditions set out in Clause 3.1 of this MBSB Scheme;
<b>Consideration Share(s)</b>	means 225,507,974 new MBSB Shares to be issued at the Issue Price as part settlement of the Purchase Consideration to QIB, RUSD and TIIB;
<b>Court</b>	means the High Court of Malaya;
<b>Effective Date</b>	means the date on which the MBSB Scheme becomes effective upon the order granted by the Court pursuant to Sections 366(3) and 370(2) of the Companies Act, being lodged with the Registrar of Companies pursuant to Sections 366(5) and 370(4) of the Companies Act;
<b>FAB</b>	means Financial Assets Bahrain W.L.L.;

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**TERMS OF THE SCHEME OF ARRANGEMENT (Cont'd)**


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<b>First Tranche Transfer</b>	means the first tranche of the Proposed Transfer of Identified A&L to be implemented after the grant of the Vesting Order;
<b>Identified A&amp;L</b>	means 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;
<b>MBSB Members</b>	means the members of MBSB, whose names appear in the record of depositors of MBSB;
<b>MBSB Scheme</b>	means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to section 366 of the Companies Act to effect the Proposed Transfer of Identified A&L;
<b>Non-Financial Subsidiaries</b>	means the shares held by MBSB in its non-financial subsidiaries;
<b>Proposed Acquisition</b>	means the proposed acquisition by MBSB of the Sale Shares from the Vendors for the Purchase Consideration;
<b>Proposed Transfer of Identified A&amp;L</b>	means proposed transfer of the Identified A&L of MBSB to AFB via a scheme of arrangement for the Transfer Consideration;
<b>Purchase Consideration</b>	means the aggregate purchase consideration of RM644,952,807.66 for the Proposed Acquisition, which will be satisfied via the Cash Consideration and Consideration Shares;
<b>QIB</b>	means Qatar Islamic Bank;
<b>Registrar of Companies</b>	means the registrar designated under subsection 20A(1) of the Companies Commission of Malaysia Act 2001;
<b>RUSD</b>	means RUSD Investment Bank Inc;
<b>Sale Shares</b>	means 532,530,020 AFB Shares representing 100% of the ordinary share capital of AFB;
<b>TIIB</b>	means Tadhamon International Islamic Bank;
<b>Transfer Consideration</b>	means 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;
<b>Vendors</b>	means the registered shareholders of AFB, namely QIB, FAB, RUSD and TIIB; and
<b>Vesting Order</b>	means the 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.

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**TERMS OF THE SCHEME OF ARRANGEMENT (Cont'd)**

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**1.2 Interpretation**

In this MBSB Scheme, unless a contrary intention appears:

- (a) words or expressions importing the singular include the plural and vice versa;
- (b) words or expressions importing a gender include the other gender;
- (c) words or expressions denoting individuals include corporations, firms, unincorporated bodies, government authorities and instrumentalities;
- (d) where a word or expression is defined or given meaning, another grammatical form has a corresponding meaning;
- (e) any heading, index, table of contents or marginal note is for convenience only and does not affect the interpretation of this MBSB Scheme;
- (f) a reference to a clause, paragraph or subparagraph is a reference to a clause, paragraph or subparagraph of this MBSB Scheme;
- (g) a reference to this MBSB Scheme or another document includes that document as amended, varied, novated, supplemented or replaced from time to time;
- (h) a reference to legislation or a provision of legislation includes:
  - (1) all regulations, orders or instruments issued under the legislation or provision; and
  - (2) any modification, consolidation, amendment, re-enactment, replacement or codification of such legislation or provision;
- (j) references to “include” and “including” are to be construed without limitation;
- (k) words or expressions defined in the Companies Act have the same meaning when used in this MBSB Scheme;
- (l) a reference to time is to Malaysia time; and
- (m) a period of a “year” is reference to a time period expiring on the anniversary of the date from which the said time period commences, and a period of “years” shall be construed accordingly.

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**TERMS OF THE SCHEME OF ARRANGEMENT (Cont'd)**


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**2. Preliminary****2.1 MBSB**

MBSB is public limited company incorporated under the Companies Act 1965 and registered in Malaysia.

**2.2 AFB**

AFB is a public limited company incorporated under the Companies Act 1965 and registered in Malaysia.

**2.3 The Proposed Merger**

The Proposed Merger encompasses the Proposed Acquisition and the Proposed Transfer of Identified A&L and would result in MBSB becoming the financial holding company of AFB.

**(a) Proposed Acquisition**

On 6 November 2017, MBSB had entered into a share purchase agreement (“SPA”) with the Vendors for the Proposed Acquisition.

The Proposed Acquisition entails the acquisition by MBSB of the Sale Shares for the Purchase Consideration, which is to be satisfied via a combination of the Cash Consideration and Consideration Shares. Upon completion of the Proposed Acquisition, AFB will become a wholly-owned subsidiary of MBSB.

**(b) Proposed Transfer of the Identified A&L**

Upon completion of the Proposed Acquisition, MBSB will transfer all of its Identified A&L to AFB in tranches, for the Transfer Consideration. The Transfer Consideration is to be satisfied by AFB through the issuance of new AFB Shares (“Transfer Consideration Shares”) at an issue price to be determined at a later date.

Thereafter and within a period of three (3) years from the date of completion of the First Tranche Transfer, MBSB will convert its remaining identified conventional A&L into Shariah-compliant A&L for the same to be transferred to AFB in subsequent tranches and settle or dispose of all its residual conventional financial A&L which cannot be converted into Shariah-compliant A&L and its Non-Financial Subsidiaries (“Residual A&L”) to third parties.

**3. Conditions Precedent****3.1 Conditions Precedent**

The MBSB Scheme is conditional upon:

- (a) the completion of the SPA in accordance with its terms;
- (b) the Court granting an order for a scheme meeting pursuant to an application made by MBSB Members pursuant to Section 366 of the Companies Act;
- (c) MBSB Members approving the MBSB Scheme at the scheme meeting by the requisite majority of seventy-five per centum (75%) of the total value of the MBSB Members, present and voting, as required under the Section 366(3) of the Companies Act; and



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**TERMS OF THE SCHEME OF ARRANGEMENT (Cont'd)**

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- (d) the Court granting an order pursuant to Sections 366 and 370 of the Companies Act, in respect of the MBSB Scheme and the Vesting Order, and the lodgment of the order with the Registrar of Companies.

**3.2 Order of the Court**

MBSB shall provide to the Court evidence, as the Court may request, confirming the fulfilment of the Conditions Precedent listed under Clauses 3.1(a), 3.1(b) and 3.1(c) hereof.

**4. The MBSB Scheme****4.1 The MBSB Scheme**

- (a) The Proposed Transfer of Identified A&L will be implemented after the Proposed Acquisition, when the SPA is completed in accordance with its terms.
- (b) Pursuant to the Proposed Transfer of Identified A&L, MBSB proposes to:
  - (1) transfer all of 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 Transfer Consideration Shares at an issue price to be determined later, whereby:
    - (A) the First Tranche Transfer of the Identified A&L will be transferred to AFB after the grant of the Vesting Order by the Court; and
    - (B) after the First Tranche Transfer and upon the conversion of the identified conventional A&L of MBSB, subsequent tranches of the Identified A&L will be transferred to AFB within three (3) years from the date of completion of the First Tranche Transfer;
  - (2) convert such part of its remaining residual identified conventional A&L into Shariah-compliant A&L within three (3) years from the date of completion of the First Tranche Transfer for the same to be transferred to AFB in subsequent tranches under paragraph 4.1(b)(1)(B) above.
- (c) In consideration of the transfer of the Identified A&L, AFB shall issue the Transfer Consideration Shares to MBSB.
- (d) In connection with the above, MBSB will settle or dispose of all its Residual A&L to third parties within three (3) years from the date of completion of the First Tranche Transfer.

**4.2 Lodgment of Scheme Order**

Pursuant to Section 366(5) and Section 370(4) of the Companies Act, MBSB shall lodge an office copy of the order of the Court approving the MBSB Scheme, including the Vesting Order, with the Registrar of Companies within seven days of the making of the order.

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**TERMS OF THE SCHEME OF ARRANGEMENT (Cont'd)**

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**4.3 Effective Date and Duration**

The MBSB Scheme will be effective from the date of the lodgment of the office copy of the order of the Court approving the MBSB Scheme, including the Vesting Order, with the Registrar of Companies.

The MBSB Scheme will be effective for a duration of three (3) years from the date of the First Tranche Transfer.

**5. General Provisions****5.1 Authority to MBSB**

- (a) Each MBSB Member consents to MBSB and AFB doing all acts and things as may be necessary or desirable to give full effect to the MBSB Scheme and the transactions contemplated by it; and
- (b) each MBSB Member, without the need for any further act, irrevocably appoints MBSB and each of its directors and officers (jointly and severally) as its agent and attorney for the purpose of executing any document or doing any other act necessary or expedient to give effect to the terms of this MBSB Scheme and the transactions contemplated by it.

**5.2 Further Assurance**

MBSB and AFB will execute all documents and do all acts and things as may be necessary or desirable to give full effect to the MBSB Scheme and the transaction contemplated by it.

**5.3 Amendments to the MBSB Scheme**

If the Court proposes to approve the MBSB Scheme subject to any alterations or conditions, MBSB may consent on behalf of all persons concerned, by its counsel, to those alterations or conditions to which MBSB and AFB have consented in writing.

**5.4 Governing Law**

- (a) This MBSB Scheme is governed by the laws of Malaysia; and
- (b) each MBSB Member irrevocably and unconditionally submits, in connection with this MBSB Scheme, to the non-exclusive jurisdiction of the Court and any courts which have jurisdiction to hear appeals from the Court.

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**SALIENT TERMS OF THE MBSB COVERED SUKUK**


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The salient terms of the MBSB Covered Sukuk are as set out below. Unless expressly defined, expressions used in the section below shall have the same meaning as defined in the Information Memorandum dated 25 November 2013.

**Structured Covered Sukuk Programme (“Programme”)**

- Programme Limit** : The programme limit is up to RM3,000 million in nominal value structured covered sukuk commodity murabahah (“**Structured Covered Sukuk Murabahah**”). The aggregate outstanding nominal value of all the Tranches issued under the Programme at any point in time shall not exceed RM3,000 million, subject always to the maturity of any issue of the Structured Covered Sukuk Murabahah shall not exceed the tenure of the Programme.
- Islamic Principles used** : Murabahah (Cost-Plus Sale): A contract that refers to the sale and purchase transaction for the financing of an asset whereby the cost and profit margin (mark-up) are made known and agreed by all parties involved.
- Tenure** : The tenure of the Programme is fifteen (15) years from the date of first issuance. The first issue thereunder shall not be later than two (2) years from the date of the SC’s approval. The Programme is available for issue within a period of five (5) years from the first issuance date of the Structured Covered Sukuk Murabahah.
- Profit/ coupon/ rental rate** : The Structured Covered Sukuk Murabahah will be issued at par or at a premium or at a discount. The profit rate shall be determined and agreed prior to each issuance of the Structured Covered Sukuk Murabahah and are payable at semi-annual intervals in arrears with the first payment commencing six (6) months from the issue date of each series of each Tranche and the last ending on the date falling on the maturity of each series of each Tranche.
- Rating** : The indicative rating for the issuance of first Tranche under the Programme by RAM Rating Services Berhad is AA1. The rating for subsequent Tranches will be determined prior to the respective Tranche issue. All subsequent issues under the Programme will be rated.
- The credit rating for each Tranche may vary depending on profile and characteristics of the Tranche Cover Assets backing the relevant Tranche of Structured Covered Sukuk Murabahah.
- Utilisation of Proceeds** : The proceeds arising from the issuance of the Structured Covered Sukuk Murabahah will be utilised for the following purposes:-
- (i) to subscribe for the Sukuk Murabahah (“**SPV Sukuk Murabahah**”) in relation to a RM4,000 million Sukuk Murabahah issuance programme (“**SPV Sukuk Murabahah Programme**”).  
  
Jana Kapital Sdn Bhd (“**JKSB**” or the “**SPV**”) will then utilise the proceeds arising from the issuance of the SPV Sukuk Murabahah to purchase an identified portfolio of financing receivables which comply with certain eligibility criteria (“**Financing Receivables**”) from an issuer and to prefund a liquidity reserve account. The issuer will in turn use the sales proceeds of the Financing Receivables for its working capital purposes, including funding of its origination of financing assets in line with its business activities; and
  - (ii) to fund the trustee’s disbursement account for a sum of RM30,000.00 which will be solely operated and strictly used by Malaysian Trustees Berhad (“**Sukuk Trustee**”) in carrying out its duties in the Programme Events of Default.

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**SALIENT TERMS OF THE MBSB COVERED SUKUK (Cont'd)**


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Purchase of Financing Receivables : Under the Programme, the issuer will at any time and from time to time throughout Programme Availability Period sell to JKSB the Financing Receivables. JKSB will utilise the proceeds arising from the issuance of the SPV Sukuk Murabahah to purchase the Financing Receivables from the issuer.

Sale of Financing Receivables : Under the Programme, the issuer will at any time and from time to time throughout the Programme Availability Period sell to JKSB the Financing Receivables which comply with the Eligibility Criteria.

The purchase consideration of the Financing Receivables under the sale will be equal to the Financing Receivables' aggregate outstanding principal balance as at the relevant purchase date. Such purchase consideration to be paid by JKSB to the issuer shall be in the form of cash and/ or such other consideration to be agreed upon between the issuer and JKSB. Such other purchase consideration shall be subordinated to the obligations of JKSB under the Covered Sukuk Guarantee.

The issuer will make certain representations and warranties in the Master Sale and Purchase Agreement with respect to itself and the Financing Receivables.

Each sale of Financing Receivables will be by way of legal assignment for legal purposes.

There are eligibility criteria for the Financing Receivables. The eligibility criteria in relation to each Financing Receivable that must be satisfied as of the relevant issue date.

#### Further Financing Receivables Purchase

Any purchase of further Financing Receivables will be subject to no occurrence of the Programme Events of Default, Servicer Event of Default and SPV Event of Default, meeting the Liquidity Reserve Target Level, no occurrence of Stop Issuance Trigger ("SIT") event as well as a written confirmation of the rating agency of no adverse impact on the credit rating.

#### Clean-up Call

If the Financing Receivables of any Tranche Cover Assets (as defined herein) shall fall to or below 10% of the outstanding principal value initially purchased from the issuer or if all the series of the Structured Covered Sukuk Murabahah of that relevant Tranche shall have been fully redeemed, JKSB will grant the issuer a first right of refusal to repurchase all the outstanding Financing Receivables in relation to that Tranche, provided that JKSB would be able to discharge all its payment obligations to the Sukukholders of the relevant Tranche of Structured Covered Sukuk Murabahah, payments preferred by law and all advisers/ third party service providers.

#### Mandatory Repurchase of Portfolio Pool

Under the terms of the Master Sale and Purchase Agreement, the occurrence of any of the following events which in the opinion of the SPV affects all the Tranche Cover Assets of all outstanding Tranches will, by written notice from JKSB to the issuer, oblige such repurchase by the issuer:-

- (i) the failure by the issuer to comply with any applicable law with respect to the Financing Receivables;
- (ii) the failure to vest and maintain vested in JKSB a perfected ownership interest in the Financing Receivables free and clear of any encumbrances;

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**SALIENT TERMS OF THE MBSB COVERED SUKUK (Cont'd)**


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- Sale of Financing Receivables (Cont'd) : Mandatory Repurchase of Portfolio Pool (Cont'd)
- (iii) any successful dispute, claim or defence of any of the obligor as to the legality and enforceability of any Financing Receivables and such dispute, claim or defence would be applicable to all Financing Receivables; and
  - (iv) any successful attempt by any person to avoid, rescind or set aside any transfer by the issuer to JKSB of the Financing Receivables under any law, including any bankruptcy law or other insolvency law and such avoidance, rescission or setting aside would be applicable to all Financing Receivables.
- SIT Events : Upon occurrence of a SIT event as set out below, no new Tranche can be issued. SIT events shall include, but are not limited to the following:-
- (i) occurrence of a servicer failing to effect transfer or deposit any payment as required under a servicing agreement and a servicer fails to perform any of its obligations under a servicing agreement or breaches any of the terms of the servicing agreement (including the representations and warranties) and (except where in the opinion of JKSB such failure is not capable of being remedied) does not cure such default within 14 days after the earlier of (i) receipt of written notice thereof from JKSB; and (ii) having actual knowledge thereof;
  - (ii) occurrence of a Programme Events of Default;
  - (iii) occurrence of SPV Events of Default;
  - (iv) breach of the Asset Coverage Test (as defined herein) for any Tranche issued from time to time (“**Tranche**”) and it still remains not remedied; and
  - (v) failure to meet the target level for any Tranche and it still remains not remedied.
- Dual recourse : MBSB Sukukholders of each Tranche will have recourse to MBSB as well as the respective pool of the Financing Receivables held by JKSB (“**Tranche Cover Assets**”) and the proceeds therefrom.
- Tranche of Structured Covered Sukuk Murabahah : Each Tranche will consist of multiple series of Structured Covered Sukuk Murabahah with different maturities. Each Tranche will be backed by the respective Tranche Cover Assets.
- The tenure and issue size of each series of each Tranche shall be determined before their issue date and upon finalisation of projected cash flows provided always that the maturity of each series of each Tranche does not exceed the tenure of the Programme.
- Securities/Collateral : The securities backing each Tranche are as follows:
- (i) first charge over the relevant designated accounts for that Tranche including monies standing to the credit of the same;
  - (ii) assignment of the sale and purchase agreement and the supplemental sale and purchase agreement, if any, for that Tranche;
  - (iii) assignment of all of JKSB's rights, interests, titles and benefits in and to the Tranche Cover Assets for that Tranche; and

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**SALIENT TERMS OF THE MBSB COVERED SUKUK (Cont'd)**


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Securities/ Collateral : (iv) assignment of the rights of MBSB and its subsidiaries under the relevant  
(Cont'd) Tranche of SPV Sukuk Murabahah.

(collectively referred to as “**Tranche Security**”)

There will also be a master security for all tranches.

Programme Events of : In the circumstances where any of the Programme Events of Default occurs, and  
Default subject to any remedy period, where applicable, the Sukuk Trustee, may at its sole and absolute discretion and shall, if instructed by the MBSB Sukukholders to give to the issuer, as instructed by the MBSB Sukukholders of the relevant Tranche by an extraordinary resolution, a notice in writing to JKSB (“**SPV Acceleration Notice**”), declare a Programme Event of Default has occurred and the Sukuk Trustee shall enforce its rights under relevant issue documents and/ or relevant transaction documents, including that as against the issuer (but not, for the avoidance of doubt, against JKSB under the Covered Sukuk Guarantee) all Tranches of outstanding Structured Covered Sukuk Murabahah shall thereupon immediately become, due and repayable. The issuer shall be obliged to pay all the outstanding payment upon occurrence of any of the Programme Events of Default mentioned above.

Upon:-

- (i) the Structured Covered Sukuk Murabahah becomes immediately due and repayable against the issuer; and/ or
- (ii) subject to the remedy period, where applicable, the occurrence of the Programme Event of Default,

the Sukuk Trustee shall forthwith serve a written notice to pay (“**Notice to Pay**”) on JKSB pursuant to the Covered Sukuk Guarantee and JKSB shall be required to make payments of the guaranteed amounts when the same shall become due for payment in accordance with the terms of the Covered Sukuk Guarantee and the respective Tranche of the Structured Covered Sukuk Murabahah.

For the avoidance of doubt, the Sukuk Trustee shall forthwith serve a Notice to Pay to JKSB upon the occurrence of a Programme Event of Default regardless whether an Issuer Acceleration Notice is served or a Programme Event of Default has been declared.

Covered Sukuk : JKSB will issue an unconditional and irrevocable guarantee to guarantee the  
Guarantee payment of the deferred payments. As security for the Covered Sukuk Guarantee, JKSB will, amongst others, assign Tranche Cover Assets in favour of the Sukuk Trustee for the relevant Tranche.

Under the terms of the Covered Sukuk Guarantee, JKSB agrees that its obligations under the Covered Sukuk Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the trust deed or the Structured Covered Sukuk Murabahah.

Following the occurrence of a Programme Event of Default and after the outstanding Structured Covered Sukuk Murabahah have been declared due and payable by the Sukuk Trustee in accordance with the provisions of the trust deed or upon occurrence of the Programme Events of Default, the Sukuk Trustee will serve a Notice to Pay on JKSB and JKSB shall be required to make payments of guaranteed amounts when the same shall become due for payment in accordance with the terms of that Tranche of Structured Covered Sukuk Murabahah to which the Notice to Pay relates.

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**SALIENT TERMS OF THE MBSB COVERED SUKUK (Cont'd)**


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Covered Sukuk Guarantee (Cont'd) : But when a SPV Event of Default occurs, all the guaranteed amounts for the relevant Tranche will become due and payable on a date specified in the SPV Acceleration Notice served in relation to that particular Tranche.

For the avoidance of doubt, JKSB has no obligation to pay the guaranteed amounts under the Covered Sukuk Guarantee until the occurrence of a Programme Event of Default, service by the Sukuk Trustee on the issuer of an Issuer Acceleration Notice and/ or on JKSB of a Notice to Pay or, if earlier, following the occurrence of a SPV Event of Default, service by the Sukuk Trustee of a SPV Acceleration Notice. Hence, until a Notice to Pay or SPV Acceleration Notice is served on JKSB, the Structured Covered Sukuk Murabahah will be the obligations of the issuer only. The issuer is liable to make payments when the Structured Covered Sukuk Murabahah are declared due and payable, whether or not it has received any corresponding payment from JKSB.

The securities backing the Covered Sukuk Guarantee are the Tranche Security and a master security.

Asset Coverage Test : JKSB shall ensure that the Asset Coverage Ratio (as defined below) for each Tranche of at least equal to an agreed ratio with the Rating Agency (to be determined prior to the issuance of the Tranche) which shall be maintained at all times throughout the tenure of the Tranche. The test on the Asset Coverage Ratio ("**Asset Coverage Test**") shall be performed on a quarterly basis.

The Asset Coverage Ratio is calculated based on the following formula:

Aggregate Receivable Amount / Total nominal value of that relevant Tranche of the Structured Covered Sukuk Murabahah outstanding

where: Aggregate Receivable Amount = L + D

L = outstanding principal balance of that Tranche Cover Assets less any defaulted receivables

D = monies standing to the credit of that Designated Accounts

If on any calculation date, the Asset Coverage Test is breached, then JKSB (or the Calculation Agent on its behalf) will notify the Sukuk Trustee, rating agency and the issuer and (subject to the Sukuk Trustee having actual knowledge or express notice of such breach) the Sukuk Trustee will serve an Asset Coverage Test Breach Notice on JKSB. The issuer will use all reasonable endeavours to sell sufficient further Financing Receivables or subscribe for the SPV Sukuk Murabahah to ensure that the Asset Coverage Test is met by the second calculation date (which will fall at the end of sixth month from the date of the breach of the test). For the avoidance of doubt, it will be the issuer's option, instead of obligation, to remedy the test by selling sufficient further Financing Receivables and/ or subscribing for the SPV Sukuk Murabahah and/ or making advances to JKSB. For avoidance of doubt, such advances will be subordinated to the Structured Covered Sukuk Murabahah.

An Asset Coverage Test Breach Notice will be revoked if, on any calculation date falling on or prior to the second calculation date (which will fall at the end of the sixth month from the date of the initial breach of the test) following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an Issuer Acceleration Notice has been served.

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**SALIENT TERMS OF THE MBSB COVERED SUKUK (Cont'd)**


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Asset Coverage Test (Cont'd) : If an Asset Coverage Test Breach Notice has been served and not revoked on or before the second calculation date after service of such Asset Coverage Test Breach Notice, then a Programme Event of Default shall occur and the Sukuk Trustee shall serve a notice to pay on JKSB and is entitled to serve an Issuer Acceleration Notice.

Provisions on buy-back and early redemption of sukuk : Redemption on maturity  
 Unless previously redeemed or purchased and cancelled, each Tranche of the Structured Covered Sukuk Murabahah will be redeemed by the issuer at 100% of their nominal value on their respective maturity dates.

Early Redemption on Occurrence of an Event of Mandatory Repurchase of Portfolio Pool

The issuer shall redeem all outstanding series of all Tranches, in whole and not in part, on their respective profit payment dates falling after the date on which issuer repurchases the Tranche Cover Assets of all outstanding Tranches at any time from time to time ("**Portfolio Pool**") on the occurrence of an event of mandatory repurchase of Portfolio Pool. Such redemption shall be at par value, on a pro-rata basis.

Early redemption

Subject to the consent of the MBSB Sukukholders of the relevant Tranche of the Structured Covered Sukuk Murabahah by an extraordinary resolution in accordance with the terms of the trust deed, the issuer and/ or JKSB may redeem any series of any Tranche of the Structured Covered Sukuk Murabahah prior to their maturity by giving the requisite notice period set out in the trust deed at a redemption price to be mutually agreed between the Issuer and the Sukukholders for that Tranche by an extraordinary resolution.

Ibra' (rebate)

The Sukukholders may have the discretionary to give an *ibra'* (rebate) to the issuer and/ or JKSB, where applicable, for such early redemption based on a formula which is mutually agreed by the both parties.

For the avoidance of doubt, the *ibra'* (rebate) is also applicable for calculation of the Deferred Sale Price when the Programme Events of Default for the Structured Covered Sukuk Murabahah is declared before its maturity date.

SPV Events of Default : In the circumstances where any of the SPV Events of Default occurs, and subject to any remedy period, where applicable, the Sukuk Trustee may at its discretion and shall, if instructed by MBSB Sukukholders of the relevant Tranche, issue a SPV Acceleration Notice to JKSB, declare a SPV Event of Default has occurred for that Tranche whereupon:

- (i) all amount payable by JKSB under the Covered Sukuk Guarantee for that Tranche shall thereupon immediately become due and payable and all accrued profits thereon and any other amounts payable under the Covered Sukuk Guarantee in relation to these shall become due and payable; and
- (ii) the Sukuk Trustee shall be entitled to immediately enforce the security, without further notice to JKSB. For the avoidance of doubt, the enforcement of any of the Master Security will be subject to the request of the MBSB Sukukholders of all Tranche of Structured Covered Sukuk Murabahah by their respective extraordinary resolution.



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**SALIENT TERMS OF THE MBSB COVERED SUKUK (Cont'd)**


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**Limited Recourse, No Petition** : Any MBSB Sukukholder of a particular Tranche of the Structured Covered Sukuk Murabahah will have only the benefit of the specifically identified Tranche Cover Assets for that Tranche and the collections from or proceeds of realisation thereof including amounts standing to the credit of the corresponding Designated Accounts, and the proceeds from enforcement of any security created pursuant to the Security Documents, and all rights of the issuer under the Transaction Documents to which it is a party, to satisfy their right to receive profit payments and redemption.

Once the security has been exhausted and there is any shortfall, all outstanding obligations of JKSB shall be extinguished and the issuer, the Servicer, the SPV administrator, the Share Trustee and the directors of the issuer shall agree and the MBSB Sukukholders of that Tranche of the Structured Covered Sukuk Murabahah shall be deemed to agree (by their subscription or purchase of that Tranche of Structured Covered Sukuk Murabahah or the holding of a beneficial interest therein) that they shall not have any legal rights as against JKSB and accordingly, they shall not be entitled to file a petition for or institute or join any other person in instituting proceedings for the reorganisation, liquidation, winding-up or receivership of JKSB or other similar proceedings under any applicable laws.

For the avoidance of doubt, this "Limited Recourse, No Petition" clause will not be applicable to the issuer.

**Governing Law and Jurisdiction** : Laws of Malaysia. The issuer shall unconditionally and irrevocably submit to the exclusive jurisdiction of the courts of Malaysia.

**SPV Sukuk Murabahah** : JKSB will issue the SPV Sukuk Murabahah from time to time. The proceeds shall be utilised to (1) purchase the Financing Receivables from MBSB; (2) prefund the Liquidity Reserve Account; and (3) fund the trustees' reimbursement account in relation to the SPV Sukuk Murabahah Programme.

The principal payment of the SPV Sukuk Murabahah during the tenor of the relevant Tranche shall mirror the amount due under each series under the corresponding Tranche of Structured Covered Sukuk Murabahah. The said principal payment will be made two (2) days before the maturity date of that relevant series. However, the issuer will not be relying on payments by JKSB in respect of the SPV Sukuk Murabahah in order to pay profit or repay principal under the Structured Covered Sukuk Murabahah.

The obligations shall constitute direct and unsecured obligations of JKSB and shall at all times be subordinated to the Structured Covered Sukuk Murabahah and any obligations arising from the Structured Covered Sukuk Murabahah Programme.

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**FURTHER INFORMATION**


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**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular/ Explanatory Statement has been seen and approved by your Board and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm that after making all reasonable enquiries, and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein false or misleading.

All information relating to the Vendors and AFB as set out in Appendices I and II of this Circular/ Explanatory Statement, respectively, have been obtained from publicly available documents, the Vendors and/ or AFB (as the case may be). The sole responsibility of your Board has been to ensure that the said information have been reproduced accurately.

**2. CONSENTS**

RHB Investment Bank and AmInvestment Bank, being the Joint Principal Advisers for the Proposed Merger and Joint Solicitation Agents for the Proposed Sukuk Exchange, have given and have not subsequently withdrawn their respective written consents to the inclusion in this Circular/ Explanatory Statement of their names and all references thereto in the form, manner and context in which they appear in this Circular/ Explanatory Statement.

**3. CONFLICT OF INTEREST****3.1 RHB Investment Bank**

EPF is a common shareholder of our Company and RHB Bank Berhad (being the holding company of RHB Investment Bank) ("**RHB Bank**"). Nevertheless, EPF is not involved in the day-to-day operations of RHB Bank and its subsidiaries ("**RHB Banking Group**").

As at LPD, the RHB Banking Group have extended various credit facilities amounting to approximately RM680.00 million (with an amount of approximately RM239.77 million outstanding) to our Group. Such credit facilities represent approximately 0.29% of the audited total assets of RHB Banking Group as at 31 December 2016 of RM236,679.83 million.

Notwithstanding the aforesaid, RHB Investment Bank confirms that no conflict of interest situation exists or is likely to exist by virtue of RHB Investment Bank's appointment as the Joint Principal Adviser for the Proposed Merger and Joint Solicitation Agent for the Proposed Sukuk Exchange on the basis that:-

- (a) the above credit facilities are provided by RHB Banking Group on an arms' length basis and in the ordinary course of its business and are not conditional upon RHB Investment Bank being appointed as the Joint Principal Adviser for the Proposed Merger, Joint Solicitation Agent for the Proposed Sukuk Exchange or upon any other proposal(s) being undertaken by any entity(ies) within the RHB Banking Group;
- (b) the corporate finance and debt capital markets divisions of RHB Investment Bank are required under their investment banking licenses to comply with strict policies and guidelines issued by the SC, Bursa Securities and/ or BNM (as the case may be) governing their advisory operations. These guidelines require, among others, the establishment of Chinese wall policies, clear segregation between dealing and advisory activities and the formation of an independent committee to review its business operations. In any event, the teams-in-charge of the Proposed Merger and the Proposed Sukuk Exchange in RHB Investment Bank is independent from the team handling the facilities;
- (c) the appointment of RHB Investment Bank as Joint Principal Adviser for the Proposed Merger and Joint Solicitation Agent for the Proposed Sukuk Exchange are in the ordinary course of its business as a licensed investment bank;

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**FURTHER INFORMATION (Cont'd)**

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- (d) the conduct of RHB Banking Group in its banking business is strictly regulated by the Financial Services Act 2013, the CMSA and RHB Banking Group's own internal controls and checks; and
- (e) RHB Investment Bank does not receive or derive any financial interest or benefit from the Proposed Merger and the Proposed Sukuk Exchange, save for the professional fees as the Joint Principal Adviser for the Proposed Merger and Joint Solicitation Agent for the Proposed Sukuk Exchange.

Save as disclosed above, RHB Investment Bank confirms that it is not aware of any other circumstance which would or is likely to give rise to a possible conflict of interest situation in RHB Investment Bank's capacity as the Joint Principal Adviser in relation to the Proposed Merger and Joint Solicitation Agent for the Proposed Sukuk Exchange.

### 3.2 AmInvestment Bank

AMMB Holdings Berhad ("AMMB"), the holding company of AmInvestment Bank and our Company have a common substantial shareholder, namely EPF. Nevertheless, AmInvestment Bank is of the view that its role as the Joint Principal Adviser to our Company on the Proposed Merger and Joint Solicitation Agent for the Proposed Sukuk Exchange will not give rise to a conflict of interest situation as there are no representatives from EPF on the Board of Directors of AMMB or AmInvestment Bank.

AmInvestment Bank, its related and associated companies, as well as its holding company, AMMB Holdings Berhad and the subsidiaries and associated companies of its holding company ("AmBank Group") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and funds management and credit transaction service businesses. As at the LPD, the AmBank Group has extended various credit facilities amounting to approximately RM150.00 million to our Group. Our Group has not drawn any of the credit facilities and as such there is no amount outstanding as at 28 December 2017.

Notwithstanding the above, AmInvestment Bank is of the view that the aforementioned roles are not likely to result in a conflict of interest or potential conflict of interest situation for the following reasons:-

- (a) AmInvestment Bank's roles in the Proposed Merger and Proposed Sukuk Exchange, and AmBank Group's extension of credit facilities are undertaken in the ordinary course of business; and
- (b) AmInvestment Bank undertakes each of its roles on an arm's length basis and its conduct is regulated by BNM and the SC and governed under, inter alia, the Financial Services Act 2013, the CMSA, and AmBank Group's Chinese Wall policy and internal controls and checks.

Save as disclosed above, AmInvestment Bank confirms that it is not aware of any conflict of interest which exists or is likely to exist in its capacity as the Joint Principal Adviser in respect of the Proposed Merger and Joint Solicitation Agent for the Proposed Sukuk Exchange.

**FURTHER INFORMATION (Cont'd)****4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES****4.1 Material commitments**

Save as disclosed below, your Board is not aware of any material commitment incurred or known to be incurred by our Group which may have a substantial impact on the financial position of our Group as at LPD:-

		(RM'000)
(i)	<b><u>Operational commitments</u></b>	
	- Loan commitments not yet recognised in the financial statements:-	
	- Mortgage loans	56,526
	- Properties financing	156,401
	- Personal financing	1,329
	- Auto financing	15
	- Bridging, structured and terms loans and financing	6,091,396
	- Financial guarantees <sup>(i)</sup>	212,789
		6,518,456
	Approved and contracted for property development	421,528
	<b>6,939,984</b>	
(ii)	<b><u>Capital commitments</u></b>	
	- Property, plant and equipment:-	
	- Approved and contracted for	132,654
	- Approved but not contracted for	23,648
		<b>156,302</b>

*Note:-*

<sup>(i)</sup> *The financial guarantees are secured by way of fixed charge over the borrowers' development project land or debenture created over the fixed and floating charge over the specific or entire assets of the borrowers.*

**4.2 Contingent liabilities**

Your Board is not aware of any contingent liability incurred or known to be incurred by our Group as at LPD which, upon becoming enforceable, may have a material impact on the financial position of our Group.

**5. MATERIAL LITIGATION**

Save for the scheme of arrangement and as disclosed below, as at LPD, our Group is not engaged in any other material litigation, either as plaintiff or defendant, claims or arbitration and your Board is not aware of any other proceedings, pending or threatened against our Group or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of our Group:-

- (i) **Kuala Lumpur High Court Civil Suit No. S-22-692-2009: KCSB Konsortium Sdn Bhd ("KCSB") & Kausar Corporation Sdn Bhd ("Kausar Corp") v MBSB & MBSB Development Sdn Bhd ("MBSB Development")**

KCSB and Kausar Corp (collectively, the "Plaintiffs") had on 29 September 2009 instituted a civil suit against our Company and MBSB Development, a wholly-owned subsidiary of our Company, for an alleged breach of facility agreement.

Our Company and MBSB Development had filed our defence and counterclaim and the matter proceeded to full trial after the disposal of various interlocutory applications by parties.

**FURTHER INFORMATION (Cont'd)**

On 31 December 2014, the counterclaim filed by our Company was allowed by the High Court and the Plaintiff's claim was dismissed with costs. However, upon appeal by the Plaintiffs, the Court of Appeal had on 1 November 2016 ordered for the matter to be sent back to High Court for retrial as the judgment did not address the basis of the decision.

Both parties to the suit had respectively filed a striking out application at the High Court on the basis that the suit was time barred and both applications were allowed on 8 September 2017.

Both parties had filed their respective appeals at the Court of Appeal against the decision of the High Court. The appeals have been fixed for case management on 22 January 2018.

The solicitor handling the matter is of the view that our Company has a fair chance of success in the appeal to the Court of Appeal.

**(ii) Johor Bahru High Court Originating Summons No. 24M-154-04/2013: KCSB v MBSB & Pentadbir Tanah, Pejabat Tanah dan Galian Negeri Johor**

**In the Federal Court Civil Appeal No. 02(F)-13-02/2015(J): MBSB v KCSB**

On 25 April 2013, KCSB sought an order from the High Court to set aside the charge created in favour of our Company due to an error on the charge, and it was allowed at the High Court. Upon appeal by our Company, the Court of Appeal dismissed our appeal. On 14 February 2017, the Federal Court allowed our appeal and ordered the Land Administrator of the Johor Bahru Land Office to rectify the error on the charge.

In a separate event on 3 November 2016, the Johor Land Administrator informed our Company that a compulsory acquisition on the charged lands would take place and the total compensation sum of RM328,750,000.00 would be paid to the High Court, whereby all interested parties shall refer their respective claims to the High Court. Dissatisfied with the compensation amount and the decision of the Land Administrator in not awarding the compensation amount to us, our Company had filed its objection to the above. The matter has been fixed for case management on 10 January 2018.

The solicitor handling the matter is of the view that as the chargee over the charged lands, our Company will be entitled to a substantial amount of the compensation or any sums as will be decided by the High Court.

**(iii) Kuala Lumpur High Court Suit No. D7-22-1328-2002: MBSB v Manzer Medical Sdn Bhd & Anor**

Our Company had on 30 June 2002 initiated a civil suit against the borrower, Manzer Medical Sdn Bhd ("1st Defendant") and its guarantor ("2nd Defendant") for the amount of approximately RM11,808,367.59 together with interest at 9.75% per annum on the Term Loan Facility of RM6,143,804.42 and interest at 9.50% per annum on the Bridging Loan Facilities of RM5,043,127.52 from 1 July 2002 in relation to a land development project.

On 13 September 2005, the 1st Defendant was wound up, and the proof of debt was filed with its Official Receiver on 17 May 2006. The High Court allowed the 1st Defendant's counterclaim against our Company and our Company's claim against the 2nd Defendant in the sum of RM8,663,301.13.

Our Company had on 7 April 2011 filed an appeal to set aside the High Court decision granted in favour of the 1st Defendant in respect of the counterclaim, and it was allowed by the Court of Appeal on 12 May 2014.

The 1st Defendant filed a motion for leave to appeal to the Federal Court against the above decision and the matter was fixed for hearing on 31 May 2017.

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**FURTHER INFORMATION (Cont'd)**


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On 31 May 2017, the 1<sup>st</sup> Defendant withdrew the motion for leave to the Federal Court with no order as to cost. MBSB's claim as allowed by the Court of Appeal is affirmed. This matter is now closed.

**Foreclosure Proceedings – Kota Bahru High Court Suit No. D5-28-424-2005**

Our Company had also commenced foreclosure proceedings against the 2<sup>nd</sup> Defendant who was the 3<sup>rd</sup> party chargor. The auctions held on 28 March 2017 and 4 July 2017 drew no bidders. The matter has now been referred to the High Court. The hearing of the foreclosure was fixed for 26 September 2017 but it was opposed by the opponent. The hearing is now fixed for 26 February 2018.

The solicitor handling the matter is of the view that our Company has a good chance of succeeding in the foreclosure proceedings.

**(iv) Court of Appeal No. W-02(IM)(NCC)-1167-07/2015: Leica Residences Sdn Bhd & 2 Ors v MBSB**

Our Company filed a recovery action and obtained summary judgment on 11 June 2015 against the borrower, Leica Residences Sdn Bhd (“**Defendant**”) for the sum due and owing under the term loan of RM12 million. The amount owed as at 30 September 2014 is RM12,424,974.66 with interest thereon at the rate of 1.50% per annum.

Our Company subsequently commenced a separate action for an order for sale of the charged lands. On 24 February 2016, the Defendant agreed to enter into a consent judgement, allowing the charged lands to be disposed of via court auction in the event that it failed to settle the indebtedness by 31 March 2016. Upon Defendant's failure to comply with the consent judgment, our Company initiated winding-up and bankruptcy proceedings against the Defendant and the guarantors, Yap Wee Keat (“**Yap**”) and Rizuan bin AB Hamid (“**Rizuan**”), respectively.

The bankruptcy petition against Yap has been fixed for case management on 24 January 2018, whereas the bankruptcy proceeding against Rizuan was withdrawn. On 26 July 2017, the Defendant was voluntarily wound up by way of creditors' resolution and a liquidator was appointed.

The court had on 6 October 2017 ordered for the sale of charged lands by way of public auction fixed on 20 November 2017. The said public auction was aborted as there were no bidders. The liquidator of the Defendant filed an appeal against the court's decision dated 6 October 2017 and had subsequently withdrawn the said appeal. On 14 December 2017, our Company applied to the court for a fresh order for sale and the application is fixed for hearing on 15 January 2018.

**(v) Kuala Lumpur High Court Suit No. 22NCC-409-12/2016: MBSB v FAM Development Sdn Bhd & 2 Ors**

Our Company filed an application for summary judgement at the High Court against the borrower, FAM Development Sdn Bhd (“**FAMD**”) and its two guarantors for the sum of approximately 4.8 million owing under a term loan, and approximately RM13 million owing under two bridging loans. The High Court allowed the application by our Company on 8 June 2017.

In the meantime, two separate bankruptcy proceedings had since been filed against the two guarantors based on the order on 8 June 2017. Both guarantors applied to set aside the bankruptcy notice, respectively. One of the bankruptcy proceedings has been fixed for hearing on 6 February 2018, whereas another bankruptcy proceeding has been fixed for case management on 4 January 2018.

The solicitor handling the matter is of the view that our Company has a good chance of succeeding in the claim.

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**FURTHER INFORMATION (Cont'd)**

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**(vi) Kuala Lumpur High Court Suit No. 22NCC-339-10/2015: MBSB v Shining Crest Sdn Bhd & Ors**

Our Company had filed a recovery action against the borrower, Shining Crest Sdn Bhd (“SCSB”) and the guarantors for the amount of RM28,016,440.61 under a facility.

A consent judgment was entered between our Company and SCSB for an initial repayment of RM2 million by 28 April 2016 but SCSB failed to comply with the consent judgment. Our Company initiated separate bankruptcy and winding-up proceedings against the individual guarantors and a corporate guarantor.

SCSB had on 17 November 2017 filed an appeal against the striking out of the application by SCSB to set aside the consent judgment and the appeal is fixed for case management on 27 February 2018. On 10 March 2017, a winding-up order was granted against the corporate guarantor, KCT Enterprise. KCT Enterprise appealed against the winding-up order and the matter has been fixed for hearing on 26 February 2018. The bankruptcy proceedings against two of the three guarantors have been fixed for hearing of creditors’ petition on 5 December 2017 and 16 January 2018 respectively, and one other guarantor applied to set aside the Adjudication Order and Receiving Order, which was dismissed by the High Court on 18 May 2017.

In a separate suit, SCSB and the individual guarantors applied to challenge the validity of appointment of the Receiver and Manager by our Company to recover the judgment sum owed by SCSB. The High Court dismissed SCSB’s application and the matter has been fixed for hearing of appeal by SCSB on 18 January 2018. On 14 December 2017, the guarantors have obtained an ex-parte injunction order which would lapse on 4 January 2018, to restrain our Company from proceeding with any bankruptcy and foreclosure proceedings, and the court has fixed for an inter-parte hearing on 3 January 2018.

The solicitor handling the matter is of the view that our Company has a good chance of succeeding in the claim and setting aside the ex-parte injunction order.

**(vii) Sabah High Court Suit No. BKI-22NCvC-7/1-2017: MBSB v Sagajuta (Sabah) Sdn Bhd & 2 Ors**

Our Company had on 12 January 2017 initiated a recovery action against the borrower, Sagajuta (Sabah) Sdn Bhd and its guarantors for the amount of RM24,750,254.20 under a term loan as at 21 December 2016.

Our Company had filed a summary judgment at the High Court and upon hearing of the matter, the Court allowed the summary judgment against the guarantors on 15 August 2017. Both guarantors filed an appeal against the summary judgment, the appeals are pending a hearing date.

Upon application by the guarantors, the execution of the summary judgment against the 2<sup>nd</sup> guarantor is stayed pending disposal of the appeal, and the stay application filed by the 1<sup>st</sup> guarantor was heard and dismissed pursuant to the court order dated 6 December 2017. On 11 December 2017, the 2<sup>nd</sup> guarantor filed a notice of motion for its appeal to be consolidated and heard together with the 1<sup>st</sup> guarantor’s appeal, and this application was consented by our Company. The court has not fixed any new date for the matter.

The solicitors are of the view that based on the High Court decision on 15 August 2017, our Company has a good chance of succeeding in the appeals by the guarantors.

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**FURTHER INFORMATION (Cont'd)**


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**6. MATERIAL CONTRACTS**

Save for the SPA and as disclosed below, there are no other material contracts, being contracts not in the ordinary course of business, which have been entered into by our Group within two (2) years preceding the LPD:-

- (a) Supplemental Agreement dated 19 April 2017 to the Sale and Purchase Agreement dated 12 December 2012 (“**Agreement**”) entered into between MBSB Tower Sdn Bhd (*formerly known as Ambang Hartamas Sdn Bhd*) (as purchaser), a wholly-owned subsidiary of our Company (“**MBSB Tower**”) and PJ Sentral Development Sdn Bhd (as vendor) involving an acquisition by MBSB Tower of a proposed office building known as “Tower 3” having a total nett lettable area of 281,455 square feet excluding all the vehicle parking bays located below building or on any part of the land but including the external wall and rooftop with vacant possession, developed and constructed on a portion of a leasehold land held under Lot No. 12, Seksyen 26, No. Hakmilik 71105, Bandar Petaling Jaya, Daerah Petaling Jaya, Selangor for an aggregate sale and purchase consideration of RM239, 236,750.

The Supplemental Agreement dated 19 April 2017 was entered into for the extension of the completion period of the Agreement from 5 October 2016 to 5 January 2018 subject to the terms and conditions of the Agreement.

- (b) On 9 June 2016, our Company had entered into the Managing and Underwriting Agreement with AmInvestment Bank and RHB Investment Bank, collectively as the Joint Managing Underwriters, and AmInvestment Bank, RHB Investment Bank, Maybank Investment Bank Berhad, Affin Hwang Investment Bank Berhad and MIDF Amanah Investment Bank Berhad, collectively as the Joint Underwriters, to underwrite 1,051,491,355 rights shares (“**Underwritten Shares**”) representing approximately 36.3% of the rights shares, being the portion of rights shares which is not covered by the EPF undertaking.

The Underwritten Shares are underwritten at a managing underwriting commission of 0.50% of the value of total Underwritten Shares, and at an underwriting commission of 1.35% of the value of the total Underwritten Shares.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available at the registered office of our Company at 11<sup>th</sup> Floor, Wisma MBSB, 48, Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur, Malaysia during normal business hours from Monday to Friday (except public holidays) from the date of this Circular/ Explanatory Statement up to and including the date of the EGM and CCM:-

- (i) the SPA;
- (ii) the memorandum and articles of association of our Company and AFB, respectively;
- (iii) audited consolidated financial statements of our Group for the past two (2) FYEs 31 December 2015 to 2016 and the latest unaudited consolidated financial statements for the nine (9) months FPE 30 September 2017;
- (iv) audited consolidated financial statements of AFB for the past two (2) FYEs 31 December 2015 to 2016 and the unaudited financial statements for the six (6) month FPE 30 June 2017;
- (v) the letters of consent referred to in Section 2 of Appendix VI;
- (vi) the material contracts referred to in Section 6 of Appendix VI; and
- (vii) the relevant cause papers in respect of the material litigation referred to in Section 5 of Appendix II and Section 5 of Appendix VI.





**MALAYSIA BUILDING SOCIETY BERHAD**

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

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting of Malaysia Building Society Berhad (“**MBSB**” or the “**Company**”) 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 with or without any modification the following resolution:-

**ORDINARY RESOLUTION**

**PROPOSED MERGER OF MBSB AND ASIAN FINANCE BANK BERHAD (“AFB”) WHICH ENTAILS THE FOLLOWING:-**

- (I) PROPOSED ACQUISITION BY MBSB OF 532,530,020 ORDINARY SHARES IN AFB (“AFB SHARES”) FROM QATAR ISLAMIC BANK, FINANCIAL ASSETS BAHRAIN W.L.L, RUSD INVESTMENT BANK INC AND TADHAMON INTERNATIONAL ISLAMIC BANK (COLLECTIVELY REFERRED TO AS THE “VENDORS”) FOR AN AGGREGATE PURCHASE CONSIDERATION OF RM644,952,807.66 (“PURCHASE CONSIDERATION”) WHICH WILL BE SATISFIED BY WAY OF CASH AMOUNTING TO RM396,894,036.26 AND THE ISSUANCE OF 225,507,974 ORDINARY SHARES IN MBSB (“CONSIDERATION SHARES”) AT AN ISSUE PRICE OF RM1.10 PER CONSIDERATION SHARE (“PROPOSED ACQUISITION”); AND**
- (II) PROPOSED TRANSFER OF IDENTIFIED SHARIAH-COMPLIANT ASSETS AND LIABILITIES OF MBSB (“IDENTIFIED A&L”) TO AFB VIA A MEMBERS’ SCHEME OF ARRANGEMENT 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 (“PROPOSED TRANSFER OF IDENTIFIED A&L”)**

**(COLLECTIVELY REFERRED TO AS THE “PROPOSED MERGER”)**

**“THAT**, subject to all approvals and consents being obtained from all relevant authorities and/ or parties (where applicable), approval be and is hereby given to MBSB to acquire AFB from the Vendors for the Purchase Consideration upon the terms and conditions as set out in the conditional sale and purchase agreement dated 6 November 2017 entered into between MBSB and the Vendors (“**SPA**”);

**THAT**, approval be and is hereby given for the directors of the Company to issue and allot 225,507,974 Consideration Shares subject to and in accordance with the terms of the SPA as set out in Section 2.1.9 of the main letter of the circular and explanatory statement to shareholders of MBSB dated 31 December 2017;

**THAT**, 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 shares in MBSB, 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 the Company must be registered in order to participate in the relevant distribution is on or subsequent to the date of completion of the SPA in accordance with its terms;

**THAT**, subject to the sanction of the High Court of Malaya and approval of the shareholders for the Proposed Transfer of Identified A&L as set out in the Notice of Court Convened Meeting for shareholders dated 31 December 2017, the approval of Bursa Malaysia Securities Berhad and approval of all other relevant authorities (if any) being obtained, approval be and is hereby given to the Board of Directors of the Company (“**Board**”) to transfer the 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 via the issuance of new AFB Shares to MBSB at an issue price to be determined at a later date;

**THAT**, the Board be and is hereby authorised to do or to procure to be done all acts, deed and things and to execute, sign and deliver on behalf of the Company, all such documents as it may deem necessary, expedient and/ or appropriate to implement, give full effect and to complete the Proposed Merger, with full power to assent to any condition, modification, variation and/ or amendment thereto as the Board may deem fit in connection with the Proposed Merger;

**AND THAT**, any and all previous actions taken by the Board for the purpose of or in connection with the Proposed Merger be and are hereby adopted, approved, ratified and confirmed.”

By Order of the Board

**MALAYSIA BUILDING SOCIETY BERHAD**

**Koh Ai Hoon** (MAICSA 7006997)

**Tong Lee Mee** (MAICSA 7053445)

Company Secretaries

Kuala Lumpur

31 December 2017

**Notes:-**

1. *For the purpose of determining a member who shall be entitled to attend this EGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 15 January 2018. Only a depositor whose name appears on the Record of Depositors as at 15 January 2018 shall be entitled to attend the said meeting or appoint proxies to attend and/ or vote on his/ her behalf.*
2. *A member shall be entitled to appoint another person as his proxy. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to attend, participate, speak and vote at the meeting.*
3. *In the case of a corporate body, the proxy appointed must be in accordance with its constitution, if any, and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney duly authorised.*
4. *Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.*
5. *Where a member of the company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“**omnibus account**”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 (“**SICDA**”) which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.*
6. *To be valid, the duly completed instrument appointing a proxy must be deposited at the 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 forty-eight (48) hours before the time appointed for holding the EGM or at any adjournment thereof.*



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

**Proxy Form**

No. of shares held	CDS Account No.

I/We \_\_\_\_\_ Company/NRIC No. \_\_\_\_\_

Tel No. \_\_\_\_\_ of \_\_\_\_\_

being a member/members of MALAYSIA BUILDING SOCIETY BERHAD hereby appoint \_\_\_\_\_

\_\_\_\_\_ NRIC No. \_\_\_\_\_

of \_\_\_\_\_

or failing him \_\_\_\_\_ NRIC No. \_\_\_\_\_

of \_\_\_\_\_

or failing him/ her, the Chairman of the Meeting, as my/ our proxy, to vote for me/ us, and on my/ our behalf at the Extraordinary General Meeting of the Company to 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 with or without modifications, the resolution to give effect to the Proposed Merger.

Please indicate with an "X" in the space provided below how you wish your votes to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/ her discretion.

ORDINARY RESOLUTION	FOR	AGAINST
PROPOSED MERGER		

Signed this..... day of .....2018

.....  
Signature / Common Seal

**Notes:-**

- For the purpose of determining a member who shall be entitled to attend this EGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 15 January 2018. Only a depositor whose name appears on the Record of Depositors as at 15 January 2018 shall be entitled to attend the said meeting or appoint proxies to attend and/ or vote on his/ her behalf.
- A member shall be entitled to appoint another person as his proxy. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to attend, participate, speak and vote at the meeting.
- In the case of a corporate body, the proxy appointed must be in accordance with its constitution, if any, and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney duly authorised.
- Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
- Where a member of the company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
- To be valid, the duly completed instrument appointing a proxy must be deposited at the 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 forty-eight (48) hours before the time appointed for holding the EGM or at any adjournment thereof.



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**The Share Registrar**  
**Tricor Investor & Issuing**  
**House Services Sdn Bhd (11324-H)**  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite  
Avenue3 Bangsar South  
No. 8 Jalan Kerinchi  
59200 Kuala Lumpur

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**MALAYSIA BUILDING SOCIETY BERHAD**

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

**NOTICE OF COURT CONVENED SHAREHOLDERS' MEETING**

**IN THE HIGH COURT OF MALAYA AT KUALA LUMPUR  
IN THE STATE OF WILAYAH PERSEKUTUAN, MALAYSIA  
(COMMERCIAL DIVISION)**

**ORIGINATING SUMMONS NO. WA-24NCC-526-11/2017**

In the matter of **Malaysia Building Society Berhad**  
(Company No.: 9417-K);

And

In the matter of the Proposed Scheme of Arrangement  
between **Malaysia Building Society Berhad (Company**  
**No.: 9417-K)** with its shareholders involving **Asian**  
**Finance Bank Berhad (Company No.: 716122-P)**;

And

In the matter of **Section 366** and other sections of the  
**Companies Act 2016**;

And

In the matter of **Order 88 of Rules of Court 2012**.

**Malaysia Building Society Berhad (Company No.: 9417-K)**

**... Applicant**

**NOTICE OF COURT CONVENED MEETING**

**NOTICE IS HEREBY GIVEN THAT** by an Order of the High Court of Malaya ("**High Court**") dated 13 December 2017 ("**Order**"), the High Court has directed that a court convened meeting of shareholders of Malaysia Building Society Berhad ("**MBSB**" or the "**Company**") be convened 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 the Extraordinary General Meeting of the Company 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 with or without any modification, a proposed scheme of arrangement between MBSB and its shareholders pursuant to Section 366 of the Companies Act, 2016 ("**Act**") ("**CCM**").

The following resolution is proposed to be voted upon and approved at the CCM:-

“**THAT**, subject to the sanction of the High Court, approval be and is hereby given for the implementation under Section 366 of the Act of a scheme of arrangement between MBSB with the shareholders of MBSB (“**Proposed Scheme of Arrangement**”) details of which are set out in Appendix IV of the circular and explanatory statement dated 31 December 2017 (“**Circular/ Explanatory Statement**”), which describes, amongst others, the proposed transfer of identified Shariah-compliant assets and liabilities of MBSB (“**Identified A&L**”) to Asian Finance Bank Berhad (“**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 via the issuance of new ordinary shares in AFB at an issue price to be determined at a later date (“**Proposed Transfer of Identified A&L**”);

**AND THAT** the Board of Directors of MBSB (“**Board**”) be and is hereby authorised to do or to procure to be done all acts, deed and things and to execute, sign and deliver on behalf of the Company, all such documents as it may deem necessary, expedient and/ or appropriate to implement, give full effect and to complete the Proposed Transfer of Identified A&L, with full power to assent to any condition, modification, variation and/ or amendment thereto as the Board may deem fit in connection with the Proposed Transfer of Identified A&L.”

A copy of the Circular/ Explanatory Statement detailing the Proposed Transfer of Identified A&L and containing the Proxy Form required to be furnished pursuant to Section 369 of the Act is enclosed herewith (“**Document**”). Additional copies of the Document can be obtained from the registered office of our Company at 11<sup>th</sup> Floor, Wisma MBSB, 48, Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur, Malaysia during normal business hours from Monday to Friday (except public holidays) from the date of the Document up to and including the date of the CCM.

The scheme will be subject to the subsequent sanction of the High Court.

By Order of the Board  
**MALAYSIA BUILDING SOCIETY BERHAD**

**Koh Ai Hoon** (MAICSA 7006997)  
**Tong Lee Mee** (MAICSA 7053445)

Company Secretaries

Kuala Lumpur  
31 December 2017

**Notes:-**

1. *For the purpose of determining a member who shall be entitled to attend this CCM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 15 January 2018. Only a depositor whose name appears on the Record of Depositors as at 15 January 2018 shall be entitled to attend the said meeting or appoint proxies to attend and/ or vote on his/ her behalf.*
2. *A member shall be entitled to appoint another person as his proxy. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to attend, participate, speak and vote at the meeting.*
3. *In the case of a corporate body, the proxy appointed must be in accordance with its constitution, if any, and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney duly authorised.*
4. *Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.*
5. *Where a member of the company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“**omnibus account**”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 (“**SICDA**”) which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.*
6. *To be valid, the duly completed instrument appointing a proxy must be deposited at the 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 forty-eight (48) hours before the time appointed for holding the CCM or at any adjournment thereof.*



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

No. of shares held	CDS Account No.

**FORM OF PROXY OF COURT CONVENED SHAREHOLDERS' MEETING**

**IN THE HIGH COURT OF MALAYA AT KUALA LUMPUR  
IN THE STATE OF WILAYAH PERSEKUTUAN, MALAYSIA  
(COMMERCIAL DIVISION)**

**ORIGINATING SUMMONS NO. WA-24NCC-526-11/2017**

In the matter of **Malaysia Building Society Berhad (Company No.: 9417-K)**;

And

In the matter of the Proposed Scheme of Arrangement between **Malaysia Building Society Berhad (Company No.: 9417-K)** with its shareholders involving **Asian Finance Bank Berhad (Company No.: 716122-P)**

And

In the matter of **Section 366** and other sections of the **Companies Act 2016**;

And

In the matter of **Order 88 of Rules of Court 2012.**

**Malaysia Building Society Berhad (Company No.: 9417-K)**

**Applicant**

I/We \_\_\_\_\_ Company/NRIC No. \_\_\_\_\_

Tel No. \_\_\_\_\_ of \_\_\_\_\_

being a member/members of MALAYSIA BUILDING SOCIETY BERHAD hereby appoint \_\_\_\_\_

\_\_\_\_\_ NRIC No. \_\_\_\_\_

of \_\_\_\_\_

or failing him \_\_\_\_\_ NRIC No. \_\_\_\_\_

of \_\_\_\_\_

or failing him/ her, the Chairman of the Meeting, as my/ our proxy, to vote for me/ us, and on my/ our behalf at the Court Convened Meeting ("CCM") for the shareholders of the Company to 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 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the Extraordinary General Meeting of the Company 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 with or without modifications, the resolution to give effect to the Proposed Transfer of Identified A&L.



Please indicate with an "X" in the space provided below how you wish your votes to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his/ her discretion.

ORDINARY RESOLUTION	FOR	AGAINST
PROPOSED TRANSFER OF IDENTIFIED A&L		

Signed this..... day of .....2018

.....  
Signature / Common Seal

**Notes:-**

1. *For the purpose of determining a member who shall be entitled to attend this CCM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 15 January 2018. Only a depositor whose name appears on the Record of Depositors as at 15 January 2018 shall be entitled to attend the said meeting or appoint proxies to attend and/ or vote on his/ her behalf.*
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6. *To be valid, the duly completed instrument appointing a proxy must be deposited at the 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 forty-eight (48) hours before the time appointed for holding the CCM or at any adjournment thereof.*



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**The Share Registrar**  
**Tricor Investor & Issuing**  
**House Services Sdn Bhd (11324-H)**  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite  
Avenue3 Bangsar South  
No. 8 Jalan Kerinchi  
59200 Kuala Lumpur

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