AFFIN ISLAMIC
AFFIN ISLAMIC BANK BERHAD (709506-V)

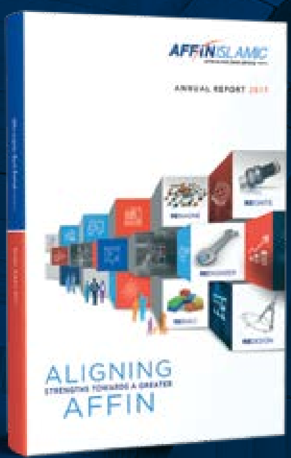
ANNUAL REPORT 2017

ALIGNING STRENGTHS TOWARDS A GREATER AFFIN

12th Annual General Meeting

The Board Room, 19th Floor, Menara Affin
80, Jalan Raja Chulan, 50200 Kuala Lumpur

Monday, 14 May 2018 at 10.00 a.m.



COVER RATIONALE

In 2017, AFFIN ISLAMIC continued to make good progress towards realising a greater AFFIN. Our growth continued to be propelled by the Group's Priority Islamic Policy, and by AFFINBANK's strategic AFFINITY thrusts. The building blocks reflect the synergised values and culture that are integrating strengths within the Group towards enhanced performance.

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OUR VISION

A premier partner for Financial Growth and Innovative Services.

OUR MISSION

To provide innovative financial solutions and services to target customers in order to generate profits and create value for our shareholders and other stakeholders.

By doing so, we provide opportunities for employees to contribute and excel; and be competitive in providing our solutions and services to our valued customers.

We shall conduct our business with integrity and professionalism in compliance with good corporate governance, principles and practices.

CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Encik Mohd Suffian Bin Haji Haron
(Non-Independent Non-Executive Director)

DIRECTORS

Yang Berbahagia Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
(Non-Independent Non-Executive Director)

Associate Professor Dr Said Bouheraoua
(Independent Non-Executive Director)

Yang Berbahagia Dato' Bakarudin Bin Ishak
Independent Non-Executive Director
(Appointed w.e.f. 2 January 2018)

CHIEF EXECUTIVE OFFICER

Encik Nazlee Bin Khalifah

SECRETARY

Nimma Safira Binti Khalid
LS0009015

Tel : 603 2055 9019
Email : nimma@affinbank.com.my

REGISTERED OFFICE

17th Floor, Menara AFFIN
80, Jalan Raja Chulan
50200 Kuala Lumpur.
Malaysia

AUDITORS

PricewaterhouseCoopers PLT
LLP0014401-LCA & AF1146
Level 10, 1 Sentral
Jalan Rakyat
Kuala Lumpur Sentral
50470 Kuala Lumpur
Malaysia

HEAD OFFICE

Menara AFFIN
80, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

Tel : 603 2055 9000
Fax : 603 2026 1415

WEBSITE

www.affinislamic.com.my

CORPORATE STRUCTURE
as at 22 March 2018

LEMBAGA TABUNG ANGKATAN TENTERA
Lembaga Tabung Angkatan Tentera

61.37%

Boustead Holdings Berhad
Boustead Holdings Berhad
20.69%

BEA 東亞銀行
The Bank of East Asia, Limited
23.52%

OTHERS
20.37%

35.42%

AFFINBANK
AFFIN Bank Berhad

- **100%** AFFINISLAMIC — AFFIN Islamic Bank Berhad
  - **50%** AFFIN-i Nadayu Sdn Bhd
  - **30%** KL South Development Sdn Bhd
  - **16.7%** Raeed Holdings Sdn Bhd
- **100%** AFFIN HWANG CAPITAL — AFFIN Hwang Investment Bank Berhad
  - **100%** AFFIN Hwang Nominees (Tempatan) Sdn Bhd
  - **100%** AFFIN Hwang Nominees (Asing) Sdn Bhd
  - **100%** AFFIN Hwang Trustee Berhad *
  - **100%** AHC Associates Sdn Bhd
  - **100%** AHC Global Sdn Bhd
  - **70%** AFFIN HWANG CAPITAL Asset Management — AFFIN Hwang Asset Management Berhad
    - **100%** aiiman — AIIMAN Asset Management Sdn Bhd
    - **100%** AFFIN Capital Services Berhad
    - **51%** Accelvantage Academy Sdn Bhd
    - **99%** AFFIN Hwang AIIMAN Global Sukuk Fund
    - **62%** TradePlus Shariah Gold Tracker
- **100%** AFFIN Moneybrokers Sdn Bhd
- **100%** PAB Properties Sdn Bhd
- **100%** ABB Nominee (Tempatan) Sdn Bhd
- **51%** AXA AFFIN Life Insurance Berhad
- **49.95%** AXA AFFIN General Insurance Berhad
- **100%** AFFIN Holdings Berhad

Notes:
- The companies reflected above are AFFIN Bank operating subsidiaries, associates and joint ventures.

* Held by the following companies with direct shareholdings of 20% each
  i. AFFIN Hwang Investment Bank Berhad
  ii. AFFIN Hwang Nominees (Tempatan) Sdn Bhd
  iii. AFFIN Hwang Nominees (Asing) Sdn Bhd
  iv. AHC Associates Sdn Bhd
  v. AHC Global Sdn Bhd

BOARD OF DIRECTORS

YBHG. LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)

EN. MOHD SUFFIAN BIN HAJI HARON

ASSOC. PROF. DR. SAID BOUHERAOUA

DATO' BAKARUDIN BIN ISHAK

PROFILE OF DIRECTORS

ENCIK MOHD SUFFIAN BIN HAJI HARON

Chairman/Non-Independent Non-Executive Director

Nationality/Age/ Gender	Malaysian/72 years old/Male
Date of Appointment	1 July 2006 and appointed as Chairman on 1 June 2017
Academic/ Professional Qualification(s)	• Bachelor of Economics, University of Malaya • Master of Business Administration, University of Oregon, USA
Past Working Experience	• Managing Director of an Insurance Broking Company • Director of Far East Computers (India) • Director of Affin Discount Berhad • Director of Fraser's Hill Development Corporation • Director of the State Development Corporations of Perak, Pahang and Terengganu • Director of Bank Pembangunan Malaysia Berhad • Director of Kompleks Kewangan Malaysia Berhad • Director of HICOM • Council Member of Majlis Amanah Rakyat (MARA) • Diplomatic and Administrative Officer, attached to the Prime Minister's Department and the Ministry of Public Enterprises • Assistant to the Special Economic Adviser to the Government • Vast experience in general trading, power generation and transmission, aircraft maintenance as well as the oil and gas services sectors
Directorship of Other Public Companies	• Director of Affin Bank Berhad • Director of Pharmaniaga Berhad • Director of Lonpac Insurance Berhad
Membership of Board Committees in AFFINBANK	• Member of Board Nomination and Remuneration Committee • Member of Group Board Credit Review and Recovery Committee • Member of Board Oversight Transformation Committee
Attendance for the financial year ended 31 December 2017	All the 11 scheduled monthly Board Meetings and 4 Special Board Meetings

* Encik Mohd Suffian is a nominee of Lembaga Tabung Angkatan Tentera, a major shareholder of AFFINBANK, the parent Company of AFFIN ISLAMIC.

YBHG. LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)

Non-Independent Non-Executive Director

Nationality/Age/ Gender	Malaysian/73 years old/Male
Date of Appointment	1 July 2006
Academic/ Professional Qualification(s)	• Graduate of Brittania Royal Naval College Dartmouth, United Kingdom • Graduate of Indonesia Naval Staff College • Graduate of the United States Naval War College and Naval Post-Graduate School Monterey • Master's Degree in Public Administration from the Harvard University, United States of America
Past Working Experience	• Chief of Royal Malaysian Navy in 1999. Served Royal Malaysian Navy for 35 years
Directorship of Other Public Companies	• Executive Deputy Chairman/Managing Director of Boustead Heavy Industries Corporation Berhad • Director of Favelle Favco Berhad
Membership of Board Committees in AFFINBANK	• Member of Group Board Credit Review and Recovery Committee • Member of Group Board Risk Management and Compliance Committee
Attendance for the financial year ended 31 December 2017	All the 11 scheduled monthly Board Meetings and 4 Special Board Meetings

PROFILE OF DIRECTORS

ASSOC. PROF. DR. SAID BOUHERAOUA

Independent Non-Executive Director

Nationality/Age/ Gender	Algerian/50 years old /Male
Date of Appointment	19 June 2014
Academic/ Professional Qualification(s)	Ph.D in Fiqh/UsulFiqh (Shariah) from International Islamic University Malaysia
Past Working Experience	• Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, International Islamic University Malaysia • Director of Research at the International Shariah Research Academy for Islamic Finance (ISRA) • Editor-in-chief of ISRA International Journal of Islamic Finance
Directorship of Other Public Companies	-nil-
Membership of Board Committees in AFFINBANK	• Chairman of Shariah Committee • Member of Board Nomination and Remuneration Committee • Member of Group Board Audit Committee
Attendance for the financial year ended 31 December 2017	All the 11 scheduled monthly Board Meetings and 4 Special Board Meetings

YBHG. DATO' BAKARUDIN BIN ISHAK

Independent Non-Executive Director

Nationality/Age/ Gender	Malaysian/57 years old /Male
Date of Appointment	2 January 2018
Academic/ Professional Qualification(s)	Bachelor of Economics (Honours) University of Malaya
Past Working Experience	• Assistant Governor of Bank Negara Malaysia (BNM) and has retired from BNM on 20 January 2017 • Director of Foreign Exchange Administration Department, BNM • Director of the Islamic Banking and Takaful Department, BNM • Chief Executive Officer of Malaysian Electronic Clearing Corporation Sdn. Bhd. (MyClear) • Member of BNM Financial Sector Stability Committee • Member of the International Centre for Education in Islamic Finance (INCEIF) EXCO and Governing Council • Member of Investment Panel of the Employees Provident Fund
Directorship of Other Public Companies	-nil-
Membership of Board Committees in AFFINBANK	• Chairman of Board Nomination and Remuneration Committee • Member of Board Oversight Transformation Committee • Member of Group Board Risk Management and Compliance Committee
Attendance for the financial year ended 31 December 2017	-n/a-

MANAGEMENT TEAM

EN MOHD FIZAR
BIN MOHIDIN

EN HAZLAN
BIN HASAN

EN NAZLEE
BIN KHALIFAH

EN FERDAUS TOH
BIN ABDULLAH

EN MOHD FAIZ
BIN RAHIM

PN RADZIAH
BINTI AHMAD

PN JOZAIMAH
BINTI JOHAN ALI

EN MOHD RUSLEE
BIN OMAR

PN ZURINA AYU
BINTI SAMSUDIN

CIK NORAZLINDA
BINTI MOHD FADZIL

SHARIAH COMMITTEE PROFILE

Nationality
Algerian
Age
50

ASSOCIATE PROFESSOR DR. SAID BOUHERAOUA

Associate Professor Dr. Said Bouheraoua was appointed as a Director of AFFIN ISLAMIC on 19 June 2014. Dr. Said, an Algerian, obtained his Ph.D in Fiqh/Usul Fiqh (Shariah) from the International Islamic University Malaysia (IIUM) in 2002.

He was also an Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM. He is currently the Director of Research Affairs Department at the International Shariah Research Academy for Islamic Finance (ISRA), and the editor-in-chief of ISRA International Journal of Islamic Finance. Dr. Said has throughout his career as Lecturer/Researcher published four books, five chapters in books and several articles in international referred journals. He has also presented several papers in international conferences and conducted several training sessions in Islamic finance in Malaysia and abroad.

Nationality
Malaysian
Age
48

ASSOCIATE PROFESSOR DR. AHMAD AZAM OTHMAN

Dr. Ahmad Azam Othman is currently an Associate Professor at Islamic Law Department, Ahmad Ibrahim Kulliyyah of Laws (AIKOL), International Islamic University Malaysia (IIUM). He was the Director of Harun M. Hashim Law Centre, AIKOL, IIUM and the Head of Islamic Law Department, AIKOL, IIUM. His specialised areas are Islamic Law of Property, Obligations, Transactions, Personal Bankruptcy, Banking and Takaful as well as comparative laws.

He has vast experience in teaching for postgraduate as well as undergraduate courses. He is also an internal examiner and supervisor to a number of PhD Theses and Master Dissertation in various areas including Islamic Banking, Islamic Microfinance, Islamic Capital Market, Takaful and Waqf. Dr. Ahmad Azam Othman holds a PhD from University of Wales, UK. In addition, he holds a Master of Comparative Laws from IIUM where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

Nationality
Malaysian

Age
40

ASSOCIATE PROFESSOR DR. ZULKIFLI HASAN

Dr. Zulkifli Hasan is an Associate Professor at Faculty of Shari'ah and Law, Universiti Sains Islam Malaysia (USIM). He is now the Dean of Faculty of Shariah and Laws, USIM and holds various other academic positions such as panel of expert on muamalat, JAKIM, ISRA Council of Scholars, guest speaker for Judicial and Legal Training Institute, Prime Minister's Department and The Centre for Islamic Banking, Finance and Management (CIBFM), Brunei Darussalam. Besides these appointments, he is involved as editor and reviewer for various academic journals. His industry experience was as an in-house advocate and solicitor for Bank Muamalat Malaysia Berhad, member of Rules and Regulations Working Committee for Association of Islamic Banking Institutions Malaysia and member of corporate governance working committee for Awqaf South Africa.

He also underwent internship at Hawkamah, the Institute for Corporate Governance, Dubai International Financial Centre whereby he was involved in developing corporate governance guidelines for Islamic Financial Institutions in the Middle East and North Africa (MENA) as well as in the Task Force on Environmental, Social and Governance (ESG) which led towards development of the S&P Hawkamah Pan Arab ESG Index. He has been selected as a recipient of a 2014 grant to conduct scholarly research at Fordham University, New York, United States of America by the J. William Fulbright Foreign Scholarship Board through the Fulbright US-ASEAN Visiting Scholars Initiative. His articles have been numerously published in various academic journals and he has presented many papers in various conferences both local and abroad.

His research includes corporate and Shariah governance and regulation in Islamic finance. His book entitled 'Shari'ah Governance in Islamic Banks: Edinburgh Guides to Islamic Finance' published by the Edinburgh University Press, UK won the MAPIM Best Publication in the category of social science in 2013.

Dr. Zulkifli Hasan holds a PhD in Islamic Finance from Durham University, UK. Besides this, he holds a Master of Comparative Laws from International Islamic University of Malaysia where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

SHARIAH COMMITTEE PROFILE

Nationality
Indonesian

Age
34

DR. MOHAMMAD MAHBUBI ALI

Dr. Mohammad Mahbubi Ali is Head of Economics, Finance, Awqaf and Zakat unit cum research fellow at the International Institute of Advanced Islamic Studies (IAIS) Malaysia. Previously, he was a researcher at the International Shari'ah Research Academy for Islamic Finance (ISRA). During his stint at ISRA, he had contributed to numerous ISRA's research publications, mainly involving in the drafting of BNM Shari'ah Standards. He also served as Shariah consultant for various advisory and consultancy services including ZICO Shariah Advisory Bhd and Roosdiono & Partners, Jakarta. He was a lecturer at the University of Kuala Lumpur and UNITAR International University.

In his young age, he has managed to contribute extensively to Islamic finance through his regular writings featured in the Islamic Finance News (IFN), Business Islamica, The General Council for Islamic Banks and Financial Institutions (CIBAFI), New Straits Times and many others. He has published numerous articles in international and local referred academic journals, written several book chapters and presented a number of papers in various international conferences. His paper entitled: "A Framework of Income Purification for Islamic Financial Institutions," co-authored with Dato' Dr. Asyraf Wajdi Dusuki and Lokmanulhakim Hussain, was conferred best paper presentation in Sharia Economics Conference, University of Hannover, Germany, 2013.

He received a PhD in Islamic Banking and Finance from the Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia (IIUM). He holds a Bachelor's degree in Shari'ah Business and Financial Management from the Islamic Business School, Tazkia Indonesia and Chartered Islamic Finance Professional (CIFP) from INCEIF, The Global University in Islamic Finance, Malaysia.

Nationality
Malaysian

Age
31

DR. NOR FAHIMAH MOHD RAZIF

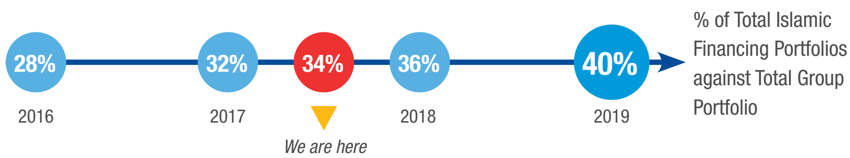
Dr. Nor Fahimah Mohd Razif is currently a lecturer at Department of Fiqh and Usul, University of Malaya (UM). She was previously attached to the International Shari'ah Research Academy for Islamic Finance (ISRA) as a Research Assistant to conduct research on hedging mechanism through option product in Islamic finance.

She also has written numbers of articles in the field of Islamic economics, Islamic finance, sukuk and debt from the Islamic perspective, presented papers in conference at international and local level, and has published articles regarding Islamic banking and finance in proceedings, books and journals. Her specialized area are transactional law (Fiqh al-Muamalat), Islamic Capital Market as well as Islamic Finance.

Dr. Nor Fahimah holds a Bachelor's Degree in Fiqh and Usul from University of Malaya. She also has completed her PhD (Fiqh al-Muamalat) from the same university which her thesis is related to Islamic hedging and derivatives instruments.

MANAGEMENT DISCUSSION & ANALYSIS

The continued focus on the Priority Islamic Policy (PIP) ensured that Affin Islamic Bank Berhad (AFFIN ISLAMIC) garnered group-wide support in 2017 to further tap into the faster growing segment of the banking industry. AFFIN ISLAMIC financing and deposit portfolio grew by 29.4% and 35.2% respectively as at 31 December 2017, as a result of collaborations with Affin Bank Berhad (AFFINBANK). As part of the group restructuring during the year, AFFIN ISLAMIC also aligned its processes to meet heightened compliance, liquidity requirements and kept the spotlight on increasing asset quality while building greater brand visibility.



An artist impression of the RM4.5 million Kompleks At-Tijarah AFFIN-UiTM which was funded by AFFIN BANK Group's zakat fund. It is expected to be completed and launched in the second half of 2018

NET FINANCING, ADVANCES & OTHER FINANCING

+29.4%

2017: 15.4 BILLION
2016: 11.9 BILLION

DEPOSITS FROM CUSTOMERS

+35.2%

2017: 14.2 BILLION
2016: 10.5 BILLION

2017 ECONOMIC ENVIRONMENT

Malaysia's economic growth surpassed expectations in 2017. Real gross domestic product (GDP) grew at a stronger rate of 5.9% in 2017, as compared to 4.2% in 2016, boosted by strong domestic demand and higher exports on the back of strong external demand. The recovery of commodity prices from the slump in 2016 also contributed to strong exports. Global growth picked up pace in 2017 with advanced economies recording decent growth.

Malaysia's banking sector saw encouraging growth due to the stronger than expected GDP and positive growth rate in financing approvals after prolonged contraction in 2016. However, cautious regulations continued to put pressure on liquidity, asset quality and profitability, thus there was continued competition for deposits and tighter margins.

AFFIN ISLAMIC provides Senior Financing Credit Facilities of up to RM339.0 million for Large Scale Solar Photovoltaic Plant of 50MWac to TNB Sepang Solar Sdn Bhd

The progress of the Islamic banking industry continues to outpace the conventional. Islamic finance accounted for 34.2% or RM578.4 billion of total bank financing in 2017, reflecting sustained demand for shariah-compliant financial solutions, which continues on a double-digit year-on-year upward trend. The growing importance of Islamic finance by 2020 in the Malaysian economy is further underlined by the fact that it accounted for RM460.7 billion of financing outstanding in the banking section November 2017, of which 58.8% was directed towards the household consumer sector.

The Malaysian Islamic banking industry accounted for a 28.8% market share of the total banking system in 2017. Total assets of Islamic banks and Development Financial Institutions (DFIs) offering Islamic banking products reached RM783 billion in August 2017, which is a 9.5 per cent year-on-year increase.

A Priority Islamic Policy (PIP) was implemented by both AFFIN ISLAMIC and AFFINBANK on June 2016 as a strategic move to align with Bank Negara Malaysia's 10-year Financial Sector Blueprint in which we aim to enhance our Islamic financing portfolio to 40% from the Group portfolio by the year 2019. Under this new business approach and on best effort basis, all accounts and facility application are encouraged to be booked under Islamic banking.

It is a system that supports the society and nation as a whole and can be seen through the Social Finance and Corporate Social Responsibility programme organised by AFFIN ISLAMIC. Following the implementation of the policy, the Bank has strengthened its Islamic financing portfolio and as at December 2017, we reached 34% and surpassed our 2017 target.

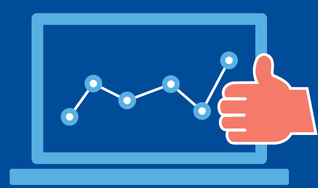
2017 FINANCIAL REVIEW

On the back of 29.0% gross financing and 35.2% deposit growth respectively, AFFIN ISLAMIC ended the year with total assets of RM20.0 billion, an expansion by RM4.7 billion from RM15.3 billion the previous financial year.

AFFIN ISLAMIC total income grew by 23.1% to record RM339.1 million compared to RM275.4 million in 2016. The Bank registered RM121.0 million in Profit before zakat and taxation for year ended 2017.

The Bank's good asset quality was reflected by gross impaired financing ratio of 1.1% and net impaired financing ratio of 0.8%, which are within the industry average.

On the operations front, focus continued to be directed on low cost deposits current account-i and saving account-i (CASA-i) to further strengthen the Bank's liquidity and funding profile.



The Malaysian Islamic banking industry accounted for a 28.8% market share of the total banking system in 2017.

Source: Bank Negara Malaysia

OPERATIONS REVIEW

During the year, AFFINBANK Group (the Group) continued realizing the next phase of its AFFINITY Programme (AFFINITY) to harness greater synergy in optimising earnings and enhancing operating efficiencies. On the operations front, focus continued to be directed on low cost deposits current account-i and saving account-i (CASA-i) to further strengthen the Bank's liquidity and funding profile.

AFFIN ISLAMIC continued its growth trajectory with the AFFINITY Programme and leveraged on the Group's synergy and infrastructure to focus on the following:

- Strengthen existing offerings on both retail and business banking segments especially in the Small and Medium Enterprises (SME) as well as transactional banking.
- Accelerate the development of digital banking capabilities with enhanced analytics for better customer engagement.
- Improve innovativeness to meet customers' requirement and emphasize the customer experience.
- Ensure brand visibility, compliance requirement, asset quality and liquidity management.
- Participate in social finance through zakat/waqf, sadaqah, corporate social responsibility and donation.

AFFIN ISLAMIC's contributions and alignment in operations supported AFFINBANK's achievements for the year included receiving the Asian Banker's Liquidity Risk Technology Implementation of the Year award for AFFINBANK's Group Risk Management Division. A promising development in developing digital banking capabilities was also achieved with the signing of a Memorandum of Understanding with Fullrich Malaysia Sdn Bhd, a local financial technology solutions provider which has launched its e-wallet called TaPay.

AFFIN ISLAMIC contributed zakat to Malaysian Armed Forces

OFFERING GREATER SUPPORT TO SMEs

As one of the shareholder banks of the Investment Account Platform (IAP), AFFIN ISLAMIC made good progress in 2017 in offering attractive investment propositions that benefit entrepreneurs and SMEs that require financing but do not qualify for financing from traditional Islamic financial institutions (IFIs). Through the IAP, investors are offered a platform to invest directly into business ventures and enjoy higher potential returns, with income tax exemption for profits earned for three consecutive years after the first profit is made for each investment. This exemption applies to investments on IAP made from year 2016 to year 2018.

On 19 December, AFFIN ISLAMIC listed a sponsored venture with Segi Seri Sdn Bhd on the IAP. Segi Seri has established itself in providing centralised meal trays, packed meals and therapeutic diets to both government and private healthcare institutions. Drawn by their good reputation, AFFIN ISLAMIC participated in this collaboration to raise RM3.3 million to part-finance Segi Seri's recently awarded contract to prepare and serve dietetic food to an established government hospital in Malaysia for a duration of three years.

In reaching out to other SMEs for future ventures, AFFIN ISLAMIC participated in the Breakfast with Bankers: IAP event which featured a seminar on financing facilities available via IAP. As a participating bank, AFFIN ISLAMIC set up a booth for consultation purposes to engage with enquiries from about 100 participants representing 50 SMEs who attended the event.

Item	2017 vs 2016	Growth (%)
Profit before Zakat and Taxation	RM121.0 million vs RM146.3 million	▼ 17.3%
Total Income	RM339.1 million vs RM275.4 million	▲ 23.1%
Non Financing Income	RM53.8 million vs RM46.3 million	▲ 16.2%
Gross Financing	RM15.5 billion vs RM12.0 billion	▲ 29.2%
Customer Deposits	RM14.2 billion vs RM10.5 billion	▲ 35.2%

INNOVATING GREATER CUSTOMER EXPERIENCE

In light of intense competition for deposits during the year, AFFIN ISLAMIC launched more innovative campaigns in order to enhance customer experience.

The "O.M.G Returns! Bigger than Ever" campaign which was launched in December 2016 ended in June 2017. AFFINBANK and AFFIN ISLAMIC customers of various products such as deposits, financing, bancatakaful were eligible to participate in this campaign. Sixteen lucky winners walked away with cars, cash and electrical vouchers. Besides that, the Bank also gave out 420 monthly prizes which consisted of cash vouchers of RM1,000 each.

In June 2017, the AFFIN ISLAMIC Visa Debit Card was launched to replace the existing MyDebit card. This leverages on the latest payment technology with the provision of easy and secured access to customer's deposit accounts for the purpose of withdrawing cash at ATM or carrying out transactions at participating retail and services outlets via VISA or MEPS network. The Bank also introduced its first point-based loyalty programme, AFFIN Rewards in which customers earned three points for every RM10 purchased with their AFFINBANK or AFFIN ISLAMIC Debit Card. Through the points collected, customers could redeem various attractive items online from the AFFIN ISLAMIC's website.

MANAGEMENT DISCUSSION & ANALYSIS

Later in September 2017, the "SHOP, DINE & WIN" Campaign was introduced to encourage AFFIN ISLAMIC Debit Card members to perform retail transactions of any amount within the programme period to qualify for a prize worth more than RM73,000 and 3 million in AFFIN Rewards points.

These campaigns directly and indirectly focused on attracting low cost deposits current account-i and saving account-i (CASA-i) to further strengthen the Bank's liquidity and funding profile.

Agile to the digital evolution, the Bank have been proactively building its digital solutions to meet customer expectations.

LAUNCHING GREATER PRODUCTS

The introduction of AFFIN Education Financing-i, a Shariah compliant financing product is another initiative by AFFIN ISLAMIC to cater to the fast changing needs in the market, especially in the education segment. It caters funding requirements of students pursuing higher education, in both universities and colleges. Based on the concept of Ijarah, this financing is open to all Diploma, Degree and Postgraduate programme offered at universities or colleges in Malaysia such as Management & Science University (MSU), Open University Malaysia, University of Science & Technology (MUST) to name a few.

The financing of up to RM150,000 is offered to full, part time both new and existing students with up to 15 years financing tenure.

Tazkirah Malam Jumaat were dedicated to creating awareness of AFFIN ISLAMIC's Shariah based financial products and services

ACTIVATING GREATER BRANDING

AFFIN ISLAMIC continued to focus on SMEs and Millenials through active involvement in social media platforms to promote our campaign, products and services. During the year, campaigns were launched on social media and Youtube channels. AFFIN Home Invest-i, AFFIN Barakah Charity Account-i, Restricted Investment Account-i and AFFIN ISLAMIC Credit Card-i were some of the product commercials promoted via Youtube, Facebook and Instagram during the year.

During the year, the Group also collaborated with The New Straits Times Press (Malaysia) Berhad as the main sponsor for Harian Metro Mountain Bike Grand Prix 2017 in an effort to create brand awareness among sports oriented youth and promote a healthy lifestyle. The event comprised a series of road and off road cycling competitions from Bukit Merah Laketown Resort on 29 July followed by Terengganu on 7 October and Sungai Buaya Selangor on 2 December 2017. It received huge media coverage and overwhelming participation from over 3,200 cycling enthusiasts including 43 participants from the AFFINBANK Group.

ASTRO Oasis was also one of our channels to reach our customers. Through this channel, 3.1 million Malaysian Muslims audience have been engaged in promoting Priority Islamic branding and showing the Group's support of Islamic teachings and awareness. The coverage received included television commercials within sponsored programme, opening and closing credits, 30 seconds of AFFIN ISLAMIC/AFFINBANK branded promo and related YouTube videos.

ASTRO Oasis is known as the progressive Muslim lifestyle channel which contains Islamic based educational, entertainment and documentary styled programme. By associating our brand with ASTRO Oasis we intend to increase our brand value as a progressive bank, in line with ASTRO Oasis' brand values.

The Bank strategically targeted ASTRO Oasis' 13 episodes of Haramain Backpackers travelogue documentary series during Ramadhan and 12 episodes of Tazkirah Malam Jumaat (TMJ) – an Islamic talk show. The talk show is hosted by a moderator, featuring Islamic figures who discuss different topics such as da'wah, economic, belief and faith each episode. These focused on the sharing of Islamic teachings and knowledge which serve as reminders to the Muslim community. The 12 TMJ episodes were dedicated to creating awareness of AFFIN ISLAMIC's Shariah-based financial products and services. The programme included Islamic religious talks in 12 locations which enabled AFFIN ISLAMIC to build brand awareness at ground level as well.

With our participation in these programmes, a strong branding and presence in the Muslim and non-Muslim market can be built, as we make ourselves known as a banking partner, and at the same time deliver on our PIP.

AFFINBANK and AFFIN ISLAMIC launched its very own Visa Debit Card, a multifunctional card which combines the features and benefits of ATM and a debit card

ENHANCING GREATER AFFINITY WITH THE INDUSTRY

AFFIN ISLAMIC also continued to actively participate and sponsor high profile industry events to contribute to the development of a dynamic industry as well as build our branding and positioning.

The AFFINBANK Group began the year with participation in Bank Negara Malaysia's (BNM) Karnival Kewangan 2017 at PWTC. Themed "Prioritize Your Financial Needs" the carnival aimed to educate people on financial matters including existing services that can help manage your finances more effectively. It provided a one-stop opportunity for the public to get information on financial products and services, conduct financial transactions, find out new initiatives and opportunities in business and finance management and make inquiries or get advice. Over 50 financial services providers, associations and agencies were involved in offering a wide range of financial services and products for different needs.

In April, AFFIN ISLAMIC contributed RM20,000 towards the sponsorship of the 2nd Islamic Finance, Banking & Business Ethics Global Conference 2017 at Sasana Kijang, BNM. The two day event was organised by International Centre for Education in Islamic Finance (INCEIF) in collaboration with Suleman Dawood School of Business, Lahore University of Management University (LUMS) to address the challenges arising from financial sector and explores mechanisms for sustainable economic growth.

In May, AFFIN ISLAMIC was the Sponsor of the Finance, Investment and Accounting Colloquium Series 2.0 at Management & Science University (MSU). The event saw participation by 350 delegates from MSU and other higher education institutions.

AFFIN ISLAMIC also participated in the Kuala Lumpur Islamic Finance Forum (KLIFF 2017) which was held at Istana Hotel in October 2017. KLIFF 2017 is a 3-day event that promotes Islamic Financial system dialogue among speakers and delegates to foster the development of innovative Islamic finance in a rapidly changing global environment. AFFIN ISLAMIC's Chief Executive Officer En Nazlee Khalifah was one of the moderators during the event which was also graced by Guest of Honour His Royal Highness Sultan Nazrin Muizzuddin Shah.

The introduction of AFFIN Education Financing-i, a Shariah compliant financing product is another initiative by AFFIN ISLAMIC to cater to the fast changing needs in the market.

AFFIN ISLAMIC participated in Kuala Lumpur Islamic Finance Forum (KLIFF 2017)

In November, AFFIN ISLAMIC was part of the Shariah Investing Fair 2017 held at the KL Convention Centre organised by Bursa Malaysia. The 2-day event saw renowned Islamic financial institutions, Islamic fund management companies, Takaful operators and other DFIs engaging with over 10,000 visitors. AFFIN ISLAMIC's Shariah Committee Chairman, Associate Professor Dr Said Bouheraoua presented a talk entitled 'Iktinaz, Iddikhar & Istithmar in Islam' which captured investment enthusiasts' interest during the Pocket Talk session.

The year ended with AFFIN ISLAMIC's participation in the 3rd Annual Symposium in Islamic Finance, organised by INCEIF at Sasana Kijang BNM. The event gathered industry movers and shakers to engage and affirm a shared vision towards realising the potential of Islamic finance in supporting the Sustainable Development Goals that form the new global development blueprint. It was officiated by Deputy Finance Minister 1, YB Dato' Wira Othman Aziz with Keynote Address by Deputy Governor Bank Negara Malaysia, Mr Abdul Rasheed Ghaffour.

GREATER PARTICIPATION IN SOCIAL FINANCE

In keeping with the future direction set for Islamic Finance entities to deliver greater value back to society, AFFIN ISLAMIC intensified its participation in social finance in 2017 through zakat, waqf, sponsorship, volunteerism and donation.

A milestone achievement was initiated in September 2017, when AFFIN ISLAMIC together with Bank Islam, Bank Muamalat, Bank Rakyat, Maybank Islamic and RHB Islamic came together to sign a Waqf Fund Strategic Collaboration Agreement. The six Islamic banks joined forces to generate positive and sustainable impact to the economy, community and environment, by supporting the efforts of State Islamic Religious Council as the sole trustee of waqf. They will jointly identify high-impact projects to develop and offer the use of their banking channels for customers to participate by contributing funds to develop the identified waqf projects. This will enable the public to play a greater role in economic empowerment, education, health and investment.

MANAGEMENT DISCUSSION & ANALYSIS

The Bank also heightened zakat contribution for the year by 22.0% from RM3.2 million in 2016 to RM3.9 million. From this sum, we contributed RM1.4 million to all 14 states zakat centres and allocated RM1.0 million to deserving individuals and charity organisations. The Bank collaborated with The New Straits Times Press (Malaysia) Berhad as the main sponsor for its "Harian Metro Kotak Rezeki" programme which distributes 10,000 boxes of food baskets containing dates, food and beverages to orphans, single mothers, poor families, homeless, and security forces all over Malaysia. An additional 1,000 boxes with daily necessities such as cooking oil, flour, rice, milk and sugar were distributed to the poor and welfare homes. Zakat contribution for Kotak Rezeki amounted to RM144,000 and were presented to 36 orphanages in 12 states.

A total of RM696,095 was channelled towards For the Cause of Allah (Fisabilillah) which included activities for Multiracial Reverted Muslims, Interactive Da'wah Training Centre and educational aid to students pursuing tertiary education at Management and Science University (MSU), Universiti Pertahanan Nasional Malaysia and Universiti Utara Malaysia. Our Muallaf contributions included RM44,800 to assist new Muslims through organisations such as Perkim Ehsan, Yayasan Belia Malaysia, Rumah Ehsan Warga Emas etc.

In tribute to the Group's main shareholder Lembaga Tabung Angkatan Tentera, RM700,000 in zakat was directed to Tabung Zakat Angkatan Tentera Malaysia, which allocates the funds to deserving members of the armed forces.

Beyond zakat contributions, AFFIN ISLAMIC continued to aid worthy causes such as 'Kempen Seorang Sekampit Beras' in collaboration with Angkatan Belia Islam Malaysia (ABIM) and Association of Islamic Banking Institutions Malaysia (AIBIM). This initiative distributed basic necessities such as rice, cooking oil and flour to deserving recipients.

In collaboration with Food Aid Foundation, AFFIN ISLAMIC organised a community outreach programme in MyWelfare Rohingya Community Centre, Selayang and Kg Sungai Buaya Community, Penang. AFFIN ISLAMIC volunteers from various departments and various branches participated in these community events to ease the burden of refugees from Rohingya and low income families. Food boxes and goodie bags were also distributed to 100 families each in each community visited.

The "Harian Metro Kotak Rezeki" was distributed to underprivileged community during Ramadan season

The Bank has also initiated community development programme with Islamic Relief Malaysia (IRM) which has identified several communities in Malaysia that can be classified as less developed, isolated and in need of assistance. In 2017, the community identified was Kampung Sungai Kecil, an outskirt village that is located at Seberang Perai Selatan, Penang. Together with IRM, AFFIN ISLAMIC supported the community with on the ground Taaruf and Gotong-royong programme; sponsored health and education campaigns by certified medical practitioners and educators who volunteer with IRM; provided Ramadhan relief through food packs containing basic items such as rice, flour, noodle, cooking oil, canned foods; and helped the low-lying area alleviate the risk of flooding by inviting the Fire and Rescue Department to hold knowledge and awareness talks on this issue.

In addition, AFFIN ISLAMIC collaborated with Malaysia Life Line for Syria and several other humanitarian organisations, and contributed RM40,000 to the Unity Convoy Ambulances for Syria project (Asian region). A global initiative, the project aims to give a lifeline to various hospitals in Syria in need of medical care and facing major shortages of essential drugs and equipment. Unity Convoy started their journey to send 100 ambulances to Syria in April 2017, with 100 vehicles acquired in the UK and driven by volunteers across several countries in Europe to reach Syria. The ambulances will then be handed over to hospitals and medical facilities & services in Syria.

Asnaf category	Amount (RM)
Fakir Miskin (Poor, needy and OKU)	1,054,852
Fisabilillah	696,095
Gharimin (Settling of debts for eligible recipients)	12,000
Riqab	50,000
Muallaf	44,800
Amil	1,284
Others*	2,020,000
Total	**3,879,031**

* *State Zakat departments, Tabung Zakat ATM and Universities*

MANAGEMENT DISCUSSION & ANALYSIS

OUTLOOK FOR 2018

Malaysia's GDP in 2018 is forecasted to grow from 5.0% to 5.5%, driven by resilient domestic demand amid a favorable external sector. Growth in public and private investments will be driven by the rollout of existing and new major infrastructure and investment projects. BNM's Overnight Policy Rate (OPR) is expected to increase between 25 to 50 basis points aimed at supporting domestic demand. The banking sector is expected to be generally stable in 2018 with gross financing growth for the industry is expected to remain between 5%-6%.

Though this sets a stable outlook for continued growth opportunities for the Malaysian banking sector, we are mindful that the sector has evolved to become more complex, with new risks emerging. There is a need for tighter scrutiny and regulatory environment for effective risk management aligned to Regulatory and Accounting Standard requirements such as Basel III requirement on Net stable funding ratio (NSFR) and credit provisions from the implementation of the MFRS9 effective January 2018.

KEY STRATEGIC THRUSTS

PRODUCTS: NEW / EXISTING
CUSTOMER: EXISTING / NEW

1 Resource Optimization (Existing products, existing customer)
- Shared Services
- Process Improvement & Productivity Optimization
- Increase Market Share & Wallet – "Cross Selling & Up Selling" through various channels

2 New Customer Segment (Existing products, new customer)
- Promote Priority Islamic Policy to Consumer and SME segment
- Collaborations with SME and Consumer delivery channels for targeted segments

3 Innovative Products & Services (New products, existing customer)
- Optimum Product Offerings and timely implementation
- Unique Customer Experience

4 Smart Partnership Business (New products, new customer)
- Business Partnership adopting Musharakah and Mudarabah concept
- Investment Banking Business

AFFIN ISLAMIC together with Bank Islam, Bank Muamalat, Bank Rakyat, Maybank Islamic and RHB Islamic came together to sign a Waqf Fund Strategic Collaboration Agreement on September 2017

AFFIN ISLAMIC collaborated with Malaysia Life Line for Syria for the Unity Convoy Ambulances for Syria project

Moving forward, Affin Islamic Bank's priorities in 2018 will continue to be in line with the Group initiatives on AFFINITY programme which is to focus on profitable growth and operating efficiencies. The Bank is aiming to enhance its Group's Islamic financing portfolio to 40% by the year 2020 as per the BNM's 10-year Financial Sector Blueprint.

Our target segment remains on SMEs & Commercial and Corporate & Public Sector. The Bank will continue to develop innovative product suites and strategic solutions in order to build stronger client relationship with these segments. While for Consumer business, our strategic initiatives will be towards enhancing customer experience and building infrastructure capability through digital banking platform.

CORPORATE DIARY

13 ➡ 15 JANUARY 2017

KARNIVAL KEWANGAN AT PWTC

AFFIN ISLAMIC participated in Karnival Kewangan organised by Bank Negara Malaysia to inculcate awareness on financial services amongst public. The team also invited orphans from Pertubuhan Nur Kasih Bestari to participate in the children's activities.

14 FEBRUARY 2017

AFFIN EDUCATION FINANCING-i

AFFIN ISLAMIC Education Financing-i soft launch was held on 14 February 2017 at Management & Science University (MSU). During the launching, AFFIN ISLAMIC presented zakat contribution to assist deserving MSU students.

15 APRIL 2017

COMMUNITY OUTREACH PROGRAM WITH MYWELFARE ROHINGYA COMMUNITY CENTRE

AFFIN ISLAMIC organised a community outreach program with MyWelfare Rohingya Community Centre, Selayang. The program was intended to ease the burden of refugees from Rohingya.

27 APRIL 2017

MAJLIS JUNJUNGAN KASIH PERKUM

AFFIN ISLAMIC participated in a fund raising event organised by Pertubuhan Amal Pembangunan Usahawan OKU Penglihatan Malaysia (PERKUM).

24 MAY 2017

KOTAK REZEKI PRESS CONFERENCE

AFFIN ISLAMIC CEO, En Nazlee Khalifah launched Harian Metro Kotak Rezeki held at NSTP office. The project consists of cash and basic necessities amounting to RM4,000 per home, which was distributed to orphans and the less fortunate in 36 orphanage homes within 12 states.

6 JUNE 2017

KOTAK REZEKI FLAG OFF

Kotak Rezeki flag off event was held at Balai Berita Shah Alam, attended by Deputy CEO AFFIN ISLAMIC En. Ferdaus Toh Abdullah and AFFINBANK Group Chief Human Resource Officer Pn. Nor Rozita Nordin. Kotak Rezeki boxes were distributed to 36 organisations in various regions in Malaysia.

CORPORATE DIARY

10 JUNE 2017

ZAKAT CONTRIBUTION TO MAJLIS AGAMA ISLAM & ADAT MELAYU PERAK

AFFINBANK Group CEO, En Kamarul Ariffin presented zakat contribution to Sultan Perak, DYMM Sultan Nazrin Muizzuddin Shah who received it on behalf of Majlis Agama Islam & Adat Melayu Perak.

16 JUNE 2017

ZAKAT CONTRIBUTION & 'BUNGKUSAN RAYA' TO MINDEF

AFFINBANK Group contributed zakat to Tabung Zakat ATM and 'Bungkusan Hari Raya' to Tabung Kebajikan Angkatan Tentera recently. Minister of Defence, YB Datuk Seri Hishamuddin Tun Hussein, received mock cheques from AFFINBANK Group CEO, En. Kamarul Ariffin Mohd Jamil for zakat contributions and CEO AFFIN ISLAMIC, En. Nazlee Khalifah for 'Bungkusan Hari Raya'.

17 JUNE 2017

ZAKAT FOR PARLIMEN PEKAN

Zakat contribution to recipients in the vicinity of Parlimen Pekan was presented by AFFIN ISLAMIC Deputy CEO, En Ferdaus Toh Abdullah to Prime Minister, YAB Dato' Sri Mohd Najib Tun Abdul Razak.

20 & 21 JUNE 2017

KEMPEN SEKAMPIT BERAS AIBIM

AFFIN ISLAMIC collaborated with Association of Islamic Banking Institutions Malaysia (AIBIM) to organise 'Kempen Seorang Sekampit Beras.' AFFIN ISLAMIC CEO, En Nazlee Khalifah presented basic necessities inclusive of 150 packs of rice, cooking oil and flour to deserving recipients.

20 JULY 2017

TAZKIRAH MALAM JUMAAT AT MENARA AFFIN

AFFINBANK Group is the main sponsor of Tazkirah Malam Jumaat (TMJ) TV programme in ASTRO Oasis. TMJ is an Islamic forum/ talk show programme hosted by a Moderator, accompanied by two speakers who will discuss different topic for each episode. The shooting of two (2) episodes was held at Menara AFFIN auditorium.

22 JULY 2017

KG SUNGAI KECHIL COMMUNITY

AFFIN ISLAMIC collaborated with Islamic Relief Malaysia to assist the community of Kg Sungai Kechil Penang. Various projects are planned throughout the year such as community development programme, entrepreneurship, disaster recovery and education programme.

CORPORATE DIARY

29 JULY 2017

FOOD AID FOUNDATION PENANG

15 volunteers from AFFINBANK GROUP prepared meals and distributed goodie bags to 100 families during a Community Outreach Program in Kg Sungai Buaya, Penang.

29 JULY 2017

HARIAN METRO MOUNTAIN BIKE PERAK

AFFIN ISLAMIC sponsored Harian Metro Mountain Bike Grand Prix for two (2) consecutive years. The first race kicked off in Bukit Merah Laketown Resort, Perak, attracting more than 1500 cycling enthusiast.

3 ➡ 5 OCTOBER 2017

KUALA LUMPUR ISLAMIC FINANCE FORUM (KLIFF 2017)

AFFIN ISLAMIC participated in the KL Islamic Finance Forum (KLIFF 2017) . The event was graced by Guest of Honour His Royal Highness Sultan Nazrin Muizzuddin Shah. KLIFF 2017 is intended to foster the development of innovative Islamic finance in a rapidly changing global environment.

7 OCTOBER 2017

HARIAN METRO MOUNTAIN BIKE TERENGGANU

The second venue of Harian Metro Mountain Bike Grand Prix 2017 is held in Kertih Terengganu, attracting over 1500 participants who pedaled as far as 38km for the challenge.

23 OCTOBER 2017

CONTRIBUTION TO MAJLIS AGAMA ISLAM MELAKA

Zakat contribution to Majlis Agama Islam Melaka was presented by AFFIN ISLAMIC CEO, En Nazlee Khalifah to Chief Minister of Melaka, YAB Datuk Seri Idris Haron witnessed by CEO Zakat Melaka, Datuk Ibrahim Fadil.

25 & 26 NOVEMBER 2017

SHARIAH INVESTING FAIR

AFFINBANK Group participated in Shariah Investing Fair 2017, organised by Bursa Malaysia. AFFIN ISLAMIC Chairman, Encik Suffian Haji Haron received a plaque from Datuk Seri Johari Abdul Ghani, Minister of Finance II in appreciation of AFFIN ISLAMIC participation. Meanwhile, Shariah Committee Chairman, Associate Professor Dr Said Bouheraoua also presented talk entitled ‘Iktinaz, Iddikhar & Istithmar in Islam’ during the Pocket Talk session.

CORPORATE DIARY

2 DECEMBER 2017

HARIAN METRO MOUNTAIN BIKE SELANGOR

The final lap of Harian Metro Mountain Bike Grand Prix 2017 was held at Sekolah Kebangsaan Bandar Sungai Buaya, Hulu Selangor, attracting over 1500 participants.

12 DECEMBER 2017

INCEIF SYMPOSIUM

AFFIN ISLAMIC participated in 3rd Annual Symposium in Islamic Finance organised by INCEIF. The event was officiated by Deputy Finance Minister 1, YB Dato' Wira Othman Aziz with Keynote Address by Deputy Governor Bank Negara Malaysia, Mr Abdul Rasheed Ghaffour.

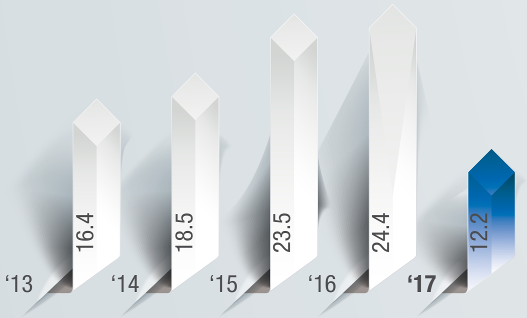
16 DECEMBER 2017

ZAKAT PRESENTATION AT KUIS & INDIAN MUSLIMS ASSOCIATION

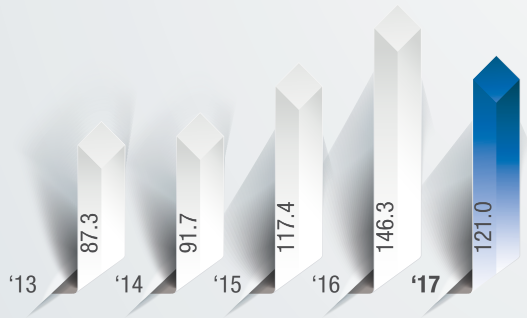
AFFIN ISLAMIC presented zakat contribution to Kolej Universiti Islam Antarabangsa Selangor (KUIS) to ease the studying cost of Asnaf students. Apart from KUIS, Angkatan Skuad Mubaligh Malaysia and Malaysian Indian Reverted Muslims also received the contribution to ease their operational costs in assisting new Muslims.

FINANCIAL HIGHLIGHTS

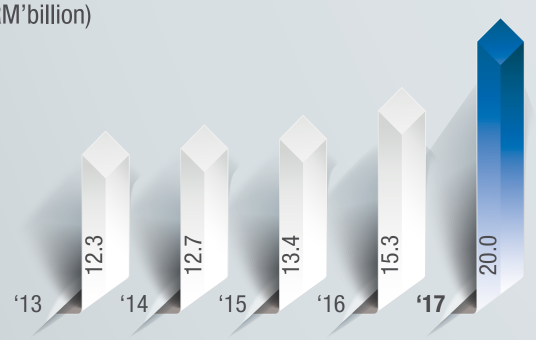
EARNINGS PER SHARE (EPS)
(Sen)



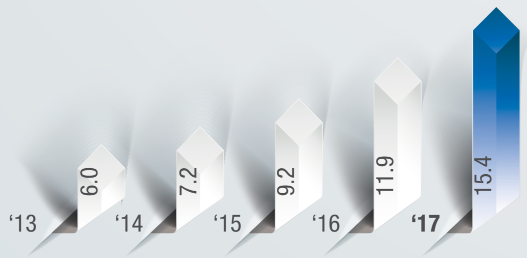
PROFIT BEFORE ZAKAT AND TAXATION
(RM’million)



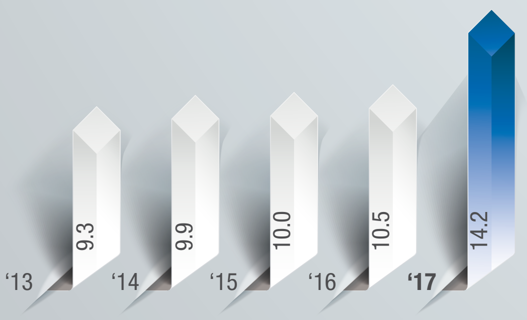
TOTAL ASSETS
(RM’billion)



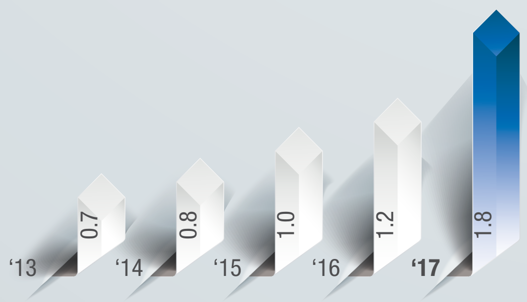
NET FINANCING, ADVANCES & OTHERS FINANCING
(RM’billion)



DEPOSITS FROM CUSTOMERS
(RM’billion)



SHAREHOLDERS’ EQUITY
(RM’billion)



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors ("Board") of Affin Islamic Bank Berhad ("Bank" or the "Company") is fully committed to integrity and fair dealing in all the Bank's activities, and always strive to uphold the highest standards of corporate governance which strengthens the Board and management accountability and helps build public trust in the Bank. The Bank adopts corporate governance practices that conform to the Bank Negara Malaysia ("BNM") Policy Document on Corporate Governance ("BNM CG") , Malaysian Code on Corporate Governance ("MCCG") and Shariah Governance Framework ("SGF").

CORPORATE GOVERNANCE FRAMEWORK

Affin Bank Berhad (ABB) (the parent Company) has established a set of Corporate Governance Framework to set out broad principles, minimum standards and requirements for sound corporate governance and practices to be adopted by Affin Bank Berhad (ABB) in ensuring its businesses are managed in a sound and prudent manner with due regard to the interests of all its shareholders and stakeholders as well as ensuring the long term viability of ABB. This Corporate Governance Framework is also applicable to Affin Islamic Bank Berhad.

The Bank's Corporate Governance as well as Shariah governance arrangements represent a fundamental component of the regulator's supervisory assessments. It is also a key factor in determining the process and structure used to direct and manage the business and affairs of the Bank, towards enhancing its business and corporate accountability, with the ultimate objective of realising long-term shareholders' value, whilst taking into account the interests of other stakeholders.

This Corporate Governance Overview Statement sets out the principal features of the Bank's 's corporate governance approach, summary of corporate governance practices during the financial year as well as key focus areas and future priorities in relation to corporate governance.

A summary of corporate governance practices are described as follows:-

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

1. Clear roles and responsibilities

The Board, led by the Chairman, establishes the vision and strategic objectives of the Bank and is entrusted with the responsibility in leading and directing the Bank towards achieving its strategic goals. The Board and Management hold an annual strategic meeting to set the Bank's strategies as well as to review the strategic direction of the Bank.

The Board is primarily responsible for overseeing the implementation of strategies and plans by the Management, overseeing the conduct of the Bank's businesses, monitoring the implementation of appropriate systems to manage principal risks, reviewing the adequacy and integrity of the Bank's system of internal controls, and ensuring effective communications with stakeholders.

In order to promote a culture of integrity and transparency throughout the Bank, all Directors are required to maintain prudent standards of transparency, integrity and honesty. This standard serves as the basis for the principles that govern Directors' conduct and their relationship with the Bank's stakeholders.

The Board has established a Board Charter which is available on the Bank's website at www.afffinislamic.com.my. The Board Charter sets out the demarcation of the mandate, roles and responsibilities, and procedures of the Board and Board Committees (both individually and collectively), in setting the direction, management and control of the Bank in accordance with the principles of good corporate governance set out in the policy documents and guidelines issued by BNM and relevant regulatory authorities. The Board Charter also charts the issues and decisions reserved for the Board.

The Board Charter will be reviewed by the Board from time to time in tandem with the Bank's Corporate Governance Framework as well as the changes to the BNM CG, MCCG, SGF and Companies Act 2016 to ensure its relevance and effectiveness in the light of the ever changing environment in which the Bank operates.

The Board in discharging their duties, has an obligation to exercise unfettered judgement, in good faith with due care and skills so as to ensure compliance with regulatory requirements and in the best interest of the Bank.

The key responsibilities of the Board are as follows:-

(i) Approving the Bank's risk appetite, annual business plan and other initiatives which would have material impact on the Bank's risk profile.

(ii) Overseeing the selection, performance, remuneration and succession plans of the Chief Executive Ofiicer (CEO), control function heads and other members of the Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Bank.

(iii) Overseeing the implementation of the Bank's governance framework and internal control framework, and periodically ascertaining whether they remain appropriate in light of material changes to the size, nature and complexity of the Bank's operations.

(iv) Promoting, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour.

(v) Promoting sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies.

(vi) Overseeing and approving the recovery and resolution as well as business continuity plans of the Bank to restore its financial strength and maintain or preserve critical operations and services when it comes under stress.

(vii) Promoting timely and effective communication between the Bank and BNM on matters affecting, or that may affect, the safety and soundness of the Bank.

(viii) Undertaking various functions and responsibilities as specified in the policy documents and directives issued by BNM and other relevant laws from time to time.

2. Separation of Positions of the Chairman and Chief Executive Officer

The roles of CEO and Chairman are strictly separated and distinct. The respective roles of the Chairman and the CEO are clearly defined, so as to promote accountability and facilitate division of responsibilities between them and to further ensure a balance of power and authority.

The Chairman, in leading the Board, is responsible for the effective overall functioning of the Board. The key role of the Non-Executive Chairman includes the following:-

(i) The smooth functioning of the Board, the governance structure and inculcating positive culture within the Board.

(ii) Guidelines and procedures are in place to govern the Board's operation and conduct.

(iii) All relevant issues are on agenda for Board meeting(s) and all Directors are able to participate fully in the Board's activities.

(iv) Board debates strategic and critical issues.

(v) Provides avenues for all Directors to participate openly in the discussion.

(vi) Provides leadership to the Board and responsible for the developmental needs of the Board.

On the other hand, the key role of CEO includes the following:

(i) Develop the strategic direction of the Bank.

(ii) Ensure that the Bank's strategies and corporate policies are effectively implemented.

(iii) Ensure that Board's decisions are implemented and Board's directions are responded to.

(iv) Provide directions in the implementation of short and long-term business plans.

(v) Provide strong leadership that effectively communicates sound and viable vision, management philosophy and business strategy to the employees.

(vi) Keep the Board fully informed of all important aspects of the Bank's operations and ensuring sufficient information is distributed to Board members.

(vii) Ensure the day-to-day business affairs of the Bank are effectively managed.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

3. Supported by Competent Company Secretary

The Board is supported by a suitably qualified and competent Company Secretary in discharging their functions. The Company Secretary plays an advisory role to the Board and is qualified under Section 235(2) of the Companies Act 2016, experienced and competent in performing her duties.

The Board has direct access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that all governance matters and Board procedures are followed and that applicable laws and regulations are complied with.

The Company Secretary attends Board and Board Committee meetings and is responsible for supporting the effective functioning of the Board. In discharging this role, the Company Secretary provides counsel to the Board on governance matters and facilitates the communication of key decisions and policies between the Board, Board Committees and Management. The Board is also regularly updated and kept informed of the latest developments in the legislation and regulatory framework affecting the Bank.

4. Code of Ethics/Conduct

The Bank has put in place a Code of Ethics and Code of Conduct. The Code of Ethics is to ensure that staff is to consistently adhere to a high standard of professionalism and ethics in the conduct of business and professional activities to serve the legitimate interest of Bank's customers and clients with the highest standards of professional and ethical behavior.

The Code of Conduct is to ensure that staff is fully committed to uphold, maintain and demonstrate a high level of integrity and professionalism at all times so as not to bring the Bank into dispute. The Bank prescribes certain values and principles which staff is expected to uphold and abide. The Code of Conduct specifies the minimum standards of conduct expected of the Bank's staff.

All Directors and employees of the Bank are expected to exercise caution and due care to safeguard confidential and price-sensitive information of the Bank and its business associates from being misused including for personal benefits, at all times. In managing the exposure of such misuse of price-sensitive information to trading of shares or other securities, the Directors and Senior Management are reminded periodically of the prohibition of insider trading and the dealings in securities of ABB during closed periods in accordance with the relevant provisions of the Bursa Malaysia Main Market Listing Requirements ("MMLR").

5. Whistle Blowing

The Whistleblowing Policy is developed to promote whistleblowing in a positive manner that provides an avenue to escalate concerns on improper conduct and to handle such concerns appropriately, in line with the fundamental objectives of Whistleblower Protection Act 2010. This includes the following:

(i) Safeguard the Bank's reputation by minimising unfavorable surprise events.

(ii) Encourage Whistleblower to divulge pertinent and unknown information on improper activity occurring within the Bank and subsequently to curtail the possible detrimental impact.

(iii) Exhibit better corporate governance on managing whistleblowing issue, which is to be managed in a transparent manner by creating awareness on the protection, confidentiality and enforceability.

The Whistleblowing Policy is available on the Bank's website at www.afffinislamic.com.my.

II. Board Composition

1. Board Composition and Balance

The composition of the Board reflects a good measure of objectivity and impartiality in order to ensure that the interest of the stakeholders is not compromised.

The Board comprises four (4) Directors, two (2) of whom are Non Independent Non-Executive Directors and the remaining two (2) are Independent Non-Executive Directors. Board prospective candidates have been identified for appointment as additional Independent Directors as eventually the Board is expected to comprise of majority Independent Director.

The size and composition of the Board are reviewed from time to time in order to ensure that the Board comprises of strong and dynamic individuals with relevant skills and competencies necessary to drive the Bank towards achieving sustainability and viability. The existing size and composition of the Board is able to promote effective deliberation, encourages the active participation of all Directors and allows the work to be discharged without giving rise to an over-extension of Directors that are required to serve on multiple Board Committees. The broad range of experience, skills and knowledge of the Directors effectively facilitate the discharge of the Board's stewardship.

Board Independence

To ensure the independence of the Board as well as to encourage fresh views and ideas at the Board level, the Board had set the maximum tenure of an Independent Director which shall not exceed nine (9) years of service as Independent Director in the Affin Bank Group.

The Independent Director shall, upon reaching the maximum tenure and subject to the approval of BNM for his re-appointment as Director, remain as a Director but shall be re-designated as Non-Independent Non-Executive Director.

Represented on the Board are two (2) Independent Non-Executive Directors who bring their independent advice, views and judgement to bear on the decision-making process of the Bank to ensure that a balanced, robust and unbiased deliberation process is in place to safeguard the interests of other stakeholders.

Board Diversity

The Bank promotes diversity in Board as it recognises values the unique contribution from Directors with diversed individual background, skills, experiences and perspectives.

In promoting diversity, gender and opportunities, the Board in its appointments and composition pays due recognition and weightage to the skills, experience and business acumen of the Directors. The Board reviews the appropriate mix of skills, experience, age, gender, cultural background and knowledge required of its members, in the context of the needs of the Bank's businesses and strategies. The Board acknowledges the recommendation of the MCCG pertaining to the establishment of boardroom gender diversity policy.

The Board currently has no female Director. However, the Board/Board Nomination and Remuneration Committee (BNRC) is actively searching for suitable female candidate(s) for appointment as Director.

Appointments and Removals

<u>New Appointment of Directors</u>

All appointments of Directors are subject to the approval of BNM which will be for a specific term of appointment.

The BNRC is responsible for assessing the candidate(s)' qualifications and experiences and whether he/she fulfills the minimum requirements as set out in the BNMCG, BNM Fit & Proper Criteria and any other relevant laws. The BNRC thereafter submits its recommendation to the Board for decision on submission of application to BNM for the proposed new appointment as Director.

In identifying candidates for appointment of Directors, the BNRC has the right to utilize independent sources at the cost of the Company to identify suitably qualified candidates.

Besides the above, BNRC may also consider utilising the following sources:

- Director's registry (e.g. Institute of Corporate Directors Malaysia and NAM Institute for the Empowerment of Women);
- Industry and professional associations; or
- Independent search firm

The Bank shall not make an application to BNM to appoint a Director unless the Board is wholly satisfied, based on its objective assessment, that the candidate meets the minimum requirements of the BNM CG, understands the expectation of the roles and is able to meaningfully contribute to the Board.

Re-Appointment of Directors

The proposed re-appointment of a Director, upon expiry of his/her current term of appointment as approved by BNM, is subject to the approval of BNM.

The BNRC is responsible for assessing the performance of Directors whose current term of appointment as approved by BNM are due to expire, and submitting its recommendation to the Board for decision on the submission of application to BNM for the proposed re-appointment of the Directors concerned.

Removal of Directors

The BNRC will conduct an annual review to assess the Fit & Proper Criteria, performance and effectiveness of each Director. Corrective measures will be taken by BNRC if the Director is no longer Fit & Proper or non-performing as and when BNRC becomes aware of such circumstances.

2. Board Evaluation

The Board conducts annual Board's evaluation to objectively assess the performance and effectiveness of each Director and the Board as a whole, as well as its Board Committees.

BNRC reviews the criteria to be used in the evaluation process and the results will assist the BNRC to assess the required mix of skills and experience and other qualities, including core competencies which Directors should bring to the Board.

The purpose of the Board Evaluation is to assess the processes by which the Board fulfils its responsibilities. Regardless of whether all or some of these responsibilities have been delegated to Board committees, the responsibilities would form part of the Board Evaluation as the Board is ultimately accountable.

Assessing Individual Director's Contributions

The evaluation of individual Directors assists the Directors in maximising their contribution to the governance of the Bank through focused discussion, effective planning and achievement of professional performance and development objectives.

In considering a Director's contributions to the Board, the Directors and the BNRC consider the following key elements:

- Integrity, Commitment and Ethic
- Governance
- Strategic Perspective
- Business Acumen
- Judgment and Decision Making
- Teamwork
- Communication
- Leadership

Board Committee Assessment

In line with the assessment of Board effectiveness, an assessment of the Board Committees as a function of the Board is also carried out to evaluate the effectiveness of the Committees in meeting the objectives for which they are established. Committee members will assess their roles in assisting the Board to fulfill its responsibilities as delegated to the Committee by its terms of reference.

3. Delegation by the Board

The Board delegates certain functions to several committees, namely the Board Audit Committee (established at Group level), the Board Nomination and Remuneration Committee, Group, Board Credit Review and Recovery Committee (established at Group level), and Board Risk Management Committee (established at Group level) to support and assist in discharging its fiduciary duties and responsibilities. The Board also established the Board Oversight Transformation Committee (established at Group level) to oversee the progress of the AFFINITY Programme for Affin Bank Group. The respective Committees report to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

These Board Committees operate under the approved terms of reference or guidelines set by the Board which are in accordance with the BNM CG and consistent with the recommendations of the MCCG.

The deliberations and decisions at the Board Committees meetings are escalated to the Board via minutes which are tabled to the Board meeting and reports from the respective Chairman of the committees.

(a) Group Board Credit Review and Recovery Committee ("GBCRRC")

GBCRRC was established to assist the functions of the Board in respect of its inherent authority over approval on financing application/proposals which are considered by the Group Management Credit Committee ("GMCC").

The GBCRRC operates in accordance with the powers and authorities delegated under the terms of reference. Generally, the GBCRRC provides assistance to the Board as follows:

(i) To critically review financings/loans and other credit facilities upon recommendation by the Group Credit Management Division;

(ii) To provide an independent oversight of credits by ensuring that there are adequate financings/lendings policies, procedures and operating strategies are adhered to;

(iii) Generally to ensure that the GMCC has discharged its responsibilities in a proper manner; and

(iv) To monitor the progress of recovery efforts.

The GBCRRC is scheduled to meet on a fortnightly basis.

(b) Board Nomination and Remuneration Committee ("BNRC")

BNRC is chaired by an Independent Non-Executive Director, with the objective of providing a formal and transparent procedure in respect of the following:

(i) The selection and appointment of all new Directors and CEO as well as assessment of effectiveness of individual Directors, Board as a whole, Board Committees and performance of CEO and key Senior Management officers; and

(ii) Develop remuneration policy for Directors, CEO and key Senior Management officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategies.

The BNRC carries out its roles and responsibilities as stipulated in the terms of reference. The BNRC is not delegated with decision-making powers but reports its recommendations to the Board for decision.

The main activities of the BNRC in 2017 included the following:

- Assessment of fitness and propriety of Directors for re-appointment.
- Assessment of fitness and propriety of new candidates for proposed appointment as new Directors.
- Review mechanism and evaluation form for Annual assessment of effectiveness of the Board as a whole and annual assessment of effectiveness of each individual Director and Board Committees.
- Review mechanism for annual fit and proper assessment of Senior Management.
- Review the remuneration of Directors and Senior Management.
- Recommendation to the Board on promotion and appointment of key responsible persons.

The BNRC meets as and when required, and at least once a year.

(c) Shariah Committee (SC)

The key responsibilities of the Shariah Committee are to advise the Board on Shariah matters pertaining to the Islamic operations and to deliberate and endorse Shariah related matters. The Shariah Committee is supported by the Shariah compliance and research functions.

(d) Board Oversight Transformation Committee ("BOTC")

BOTC is established in view of the Transformation Blueprint and Implementation Masterplan – AFFINITY Program.

Its main purpose is to oversee the transformation plan (AFFINITY Program), secure the consistency of strategic decision and ensure that the transformation plan is implemented effectively in a timely manner.

The delegation of authority to the BOTC is intended to be sufficiently broad so that the issues which remain with the Board or which would be referred by Management Committee to the Board would generally be as follows:-

(i) High level strategic, budgetary and stewardship policy issues or matters of significant risk to Affin Bank Group;

(ii) Any matter involving alteration(s) to the mandate, terms of reference, membership or structure of the BOTC;

(iii) Matters which the BOTC considers to be of major strategic significance with long term impact on Affin Bank Group;

(iv) Matters which, in the opinion of the Chairman of BOTC, have seen a strong division of opinion within the BOTC; and

(v) Issues in which there is lack of clarity as to the responsibility and authority of the BOTC.

The BOTC meets on bi-monthly basis.

(e) Management Committees Established at ABB

The following Management Committees were established at ABB to assist in overseeing the daily operation of the Bank:-

(i) Management Committee

(ii) Group Management Credit Committee

(iii) Credit Resolution Committee

(iv) Group Operational Risk Management Committee

(v) Group Asset Liability Management Committee

(vi) Planning and Technology Steering Committee

(vii) Group Early Alert Committee

4. Supply of Information to Board

The Board has full and timely access to information on Board matters via materials distributed in advance at least five (5) business days from the date of meetings to enable the Directors to obtain further explanation, where necessary, in order to be properly briefed prior to the meetings. All Board members are required to devote sufficient time to prepare for and attend Board meetings.

The Bank ensures that attendance at a board meeting, by way other than physical presence, remains the exception rather than the norm, and is subject to appropriate safeguards to preserve the confidentiality of deliberations. Circular Resolution is not a perfect substitute for board meetings since it does not offer the opportunity for board members to actively debate the issues circulated and to raise immediate questions or resolutions, which may lead to inappropriate decisions being made.

5. Access to Third Party Experts

In discharging Directors' duties, each Director is entitled to obtain independent professional advice from third party experts at the cost of the Bank.

Independent professional advice shall include legal, accounting or other professional financial advice. Independent professional advice shall exclude any advice concerning the personal interests of the Directors (such as with respect to their contracts or disputes with the Bank), unless these are matters affecting the Board as a whole and have the unanimous agreement of the Board.

6. Time Commitment

A Director shall notify the Chairman of the Board of his acceptance of any new directorship in public listed companies.

The notification shall include an assurance of his continued time commitment to serve the existing Board and that his other appointments shall not be in conflict or compete with the existing appointment with the Bank.

The Board is satisfied that each Director has committed sufficient time to the Bank as evident from the Directors' record of attendance at Board meetings held in the financial year ended 31 December 2017.

The details of Board and Board Committee meetings attended are as follows:-

Directors/Board and Board Committee	Board	BNRC	BCRRC*	BAC*	BOTC*
Encik Mohd Suffian bin Haji Haron	15/15	11/11	14/14		6/6
YBhg Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)	15/15	11/11	14/14		
Assoc. Prof. Dr. Said Bouheraoua	15/15	11/11		12/12	5/6

Note:
* The Committees are established at Group level and the Directors attended the meetings as members representing the Bank.

7. Continuing Education and Development

The BNRC oversees the training needs of the Directors. The BNRC ensures that the Directors spend sufficient time to update their knowledge and enhance their skills through appropriate continuing education programmes and life-long learning in order to keep the Directors abreast with the dynamic and complex business environment as well as new statutory and regulatory requirements.

All new Directors are required to attend the Financial Institutions Directors' Education Programme (FIDE) organised by BNM within one (1) year from the date of appointment.

Besides, Directors Orientation Programme is organised to familiarise themselves with the Bank's organisation structure, business and the financial industry. The relevant Heads of Departments/Divisions will brief the new members of the Board on the functions and areas of responsibility of their respective department/divisions.

This serves to provide them with a platform in establishing effective channel of communication and interaction with Senior Management as well as to ensure that the Director understand:-

(i) their roles and responsibilities;

(ii) the nature of the Bank's business;

(iii) overview of risks on the Bank's business and the risk management strategy; and

(iv) legal requirements and compliance controls.

The Board will via BNRC, on a continuing basis, evaluate and determine the training needs of each Director, particularly on relevant new laws and regulations, and essential practices for effective corporate governance and risk management to enable the Directors to sustain their active participation in Board deliberations and effectively discharge their duties.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

During the financial year ended 31 December 2017, the Directors have attended the following courses/training programmes:

ENCIK MOHD SUFFIAN HAJI HARON		
Trainer/Organizer	**Course Title**	**Date**
MINDA/ICLIF	Breakfast Talk on CG Watch 2016 Entitled "Ecosystems Matter"	7 March 2017
Bursa Malaysia	Sustainability Engagement Series for Directors/Chief Executive Officers	13 March, 2017
Bank Negara Malaysia	Compliance Conference 2017	28 May 2017
Bank Negara Malaysia	Fide forum on Fintec: Opportunities for the Financial Services Industry in Malaysia	12 July 2017
Securities Commission	Boards in the Digital Economy	17 July 2017
FIDE	Cryptocurrency and Blockchain Technology	10 August 2017
Affin Holdings Berhad	Code of Corporate Governance & The Companies Act 2016	14 September 2017
Kuala Lumpur Islamic Finance Forum	14th Kuala Lumpur Islamic Finance Forum 2017 "Real Finance For Real Economy"	3 – 5 October 2017
Affin Hwang Capital	Conference Series 2017: "Opportunities Amidst Geopolitical Shift"	5 October 2017
Bursa Malaysia/MINDA	CG Breakfast Series with Directors: " Integrating an Innovation Mindset with Effective Governance"	7 October 2017
PricewaterhouseCoopers	Building a Cyber Resilient Organization and Strategic Impact of MFRS 9	28 November 2017
Affin Bank Berhad	AMLATFPUAA: Risk, Challenges & Vulnerabilities towards Regulatory Compliance	29 November 2017
Affin Bank Berhad	Risk Governance Framework for Islamic Banks	12 December 2017

YANG BERBAHAGIA LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)		
Trainer/Organizer	**Course Title**	**Date**
Affin Bank Berhad	The New Companies Act 2017 – Raising the Bar for Directors	29 March 2017
MIGHT	Honeywell CEO Roundtable	8 May 2017
UTM	3rd National Workshop on Ocean Energy	17 May 2017
Affin Bank Berhad	Latest updates on Directors' Remuneration in Compliance with the new Companies Act and the Upcoming Amendment to the listing requirements 2017	6 June 2017
RHB	Panel Speaker for RHB Regional Conference "One Belt, One Road, One Asia" – MIM	5 July 2017
Affin Holdings Berhad	Half Day Talk on: (i) Code of Corporate Governance 2016 (ii) The Companies Act 2016	14 September 2017
Boustead Holdings Berhad	BHB Fund Managers/Analysts' Briefing	26 September 2017
Khazanah	Khazanah Megatrends Forum 2017	2 October 2017
MIMA	6th MIMA South China Sea Conference (SCS) 2017	4 October 2017
Boustead Holdings Berhad	Half Day Talk on: (i) Companies Act 2016 (ii) Malaysian Code On Corporate Governance 2017	5 October 2017
PricewaterhouseCoopers	Building a Cyber Resilient Organization and Strategic Impact of MFRS 9	28 November 2017
Affin Bank Berhad	AFFIN AMLATFPUAA 2001: Risk, Challenges & Vulnerabilities Towards Regulatory Compliance Program	29 Nov 2017

ASSOCIATE PROF. DR. SAID BOUHERAOUA		
Trainer/Organizer	**Course Title**	**Date**
Malaysian Institute of Corporate Governance	Morning Session The New Malaysian Code on Corporate Governance - "How to Walk the Talk" Afternoon Session Related Party Transactions (RPT) - Their Implication to the Board of Directors, Audit Committee & Management	11 May 2017
Bank Negara Malaysia	Compliance Conference 2017	28 May 2017
University of Jordan, Amman	Workshop on Bursa Suq Al-Sila', "Bursa Suq al-Sila' – Experience Sharing from Fiqhi perspective	16 August 2017
University of Jordan, Amman	Islamic Capital Market Conference, "Islamic Financial Markets: Prospect and Challenges",	17 August 2017
The College of Banking & Financial Studies and Tawafuq Consultancy (Malaysia)	1st Salalah International Forum on Islamic Finance, "Islamic Fatwa in Islamic Finance – Appraisal of Approaches	20 August 2017
The College of Banking & Financial Studies and Tawafuq Consultancy (Malaysia)	Workshop on Sukuk: theory and practices 1st Salalah International Forum on Islamic Finance	22 August 2017
Ministry of Religious Affairs and Awqaf of Algeria	International Conference on Waqf, "Islamic Finance Contribution in the Development of Waqf Sector: Malaysia and Singapore as a case study"	27 – 28 September 2017
Kuala Lumpur Islamic Finance Forum	14th Kuala Lumpur Islamic Finance Forum 2017 "Real Finance For Real Economy"	3 – 5 October 2017
AAOIFI	AAOIFI Conference – World Bank 12th Annual Conference, "Global standardisation of Shari'ah reference for the Islamic Financial industry: Reality and proposed road map	5 -6 November 2017
Musiad, TKBB & TOBB	Earn and Make People Earn!A 700 year Old Success Story, "Islamic Finance Fundamentals, Strategic Proposition and Implementations	16 – 17 November 2017
PricewaterhouseCoopers	Building a Cyber Resilient Organization and Strategic Impact of MFRS 9	28 November 2017
International Centre of Islamic Foundation, LAREFA	5th International Conference of Entrepreneurial Finance CIFEMA 2017, "Islamic Capital Market and Islamic Social Finance: Fundamentals and Practices	4 – 5 December 2017
Shura Sharia Consultancy	Shura 7th Fiqhi Conference 2017on Sukuk between Market efficiency and Shariah Compliance, "Shariah Issues in Agreement to Sale	19 – 20 December 2017

DATO' BAKARUDIN BIN ISHAK
Dato' Bakarudin Bin Ishak, who was appointed with effect from 2 January 2018 has registered for FIDE Core Programme to be held in July 2018.

The Directors are also updated and apprised on a continuing basis by the Company Secretary on new and revised requirements to the Companies Act 2016, and the MCCG 2017 ("Continuing Updates").

III. REMUNERATION

1. Board Remuneration

The BNRC recommends specific remuneration packages for Directors, and is structured such that it is competitive and consistent with the Bank's culture, objectives and strategies as well as ensuring that it commensurates with the level of responsibilities undertaken and contributions made by the Directors to the effective functioning of the Board and drive the Bank's long-term objectives.

The remuneration package for the Directors of the Bank comprise the following in accordance with the Remuneration Policy:-

Directors' Fees	The Directors are entitled to annual Directors' fees.
Board Committees Allowances	Directors who sit on Board Committees are entitled to receive Board Committee allowances.
Meeting Allowances	Directors are also entitled to Meeting allowances when they attend any Board/Board Committee meetings.

The Directors' fees and benefit-in-kind payable to Directors are subject to shareholders' approval at the Annual General Meeting.

In determining the level of remuneration for Directors, the Board may commission a survey of the remuneration levels of Directors, to be carried out either by external consultants or senior management. The survey should cover the remuneration levels of Directors of an organisation in a similar industry, size and location. This report shall be tabled to the BNRC and the Board for deliberation.

During deliberations pertaining to the individual Directors' remuneration, the interested parties should excuse themselves from both the deliberations and voting.

The Board reviews the Remuneration Policy of Directors and Senior Management annually to ensure it continues to support the strategies and long-term vision of the Bank and yet at the same time, is able to attract talent, nurture and retain high caliber Directors, whilst taking into account the interest of other stakeholders, including shareholders and employees.

The details of the Directors' remuneration are set out in the Financial Statement in this Annual Report 2017.

2. Senior Management Appointments and Removals

Senior Management is responsible and accountable for the sound and prudent day-to-day management of the Bank, in accordance with the direction of the Board. They are appointed to key positions of the Bank to provide strategic leadership which influences the financial position and future direction of the Bank.

Persons in these key positions must have the necessary qualities, competencies and experience that will allow them to perform their duties and carry out the responsibilities required of their position in the most effective manner.

The Bank shall submit to the Board for the new appointment, re-appointment and removal of CEO and Senior Management.

Senior Management appointments and removal are governed by the standards in BNM CG which stipulates that member of Senior Management must fulfill the minimum requirements at the time of appointment and on a continuing basis.

3. Senior Management Remuneration

The Bank's Remuneration Policy considers the role of each staff. The objective of the Remuneration Policy is to ensure that the remuneration system in the Bank:-

(i) Rewards individuals for the achievement of the Bank's objectives and motivates high levels of performance;

(ii) Rewards exceptional performance by individual through the Performance Management System;

(iii) Allows the Bank to compete effectively in the labour market and to recruit and retain high calibre staff; and

(iv) Achieves fairness and equity in remuneration and reward.

The Bank's remuneration policy is developed based on the following guiding principles:-

(i) Support for Strategic Objectives: Remuneration and reward frameworks and decisions shall be developed in a manner that is consistent with, supports and reinforces the achievement of the Bank's vision and strategy.

(ii) Transparency: The process of remuneration management shall be transparent, conducted in good faith and in accordance with appropriate levels of confidentiality.

(iii) Internal Equity: The Bank shall remunerate all staff fairly in terms of their roles within the organisation.

(iv) Market-Related Remuneration: The Bank shall measure its remuneration practices against both the local and national market through the use of remuneration surveys and through benchmarking with other similar institutions.

(v) Flexibility: Remuneration and reward offerings shall be sufficiently flexible to meet both the needs of individuals and those of the institution whilst complying with relevant tax and other legislation.

(vi) Performance-Driven Remuneration: The Bank shall entrench a culture of performance driven remuneration through the implementation of the Performance Management System.

(vii) Affordability and Sustainability: The Bank shall ensure that remuneration is affordable on a sustainable basis.

The Remuneration Policy and practices will evolve over time, reflecting Bank's priorities but will always adhere to the BNM CG and at the same time promoting sound and effective risk management.

The Bank ensures that overall remuneration system for the Bank (as per the BNM CG) shall:-

(i) be subject to Board's active oversight to ensure that the system operates as intended;

(ii) be in line with the business and risk strategies, corporate values and long-term interests of the Bank;

(iii) promote prudent risk-taking behavior and encourage individuals to act in the interests of the Bank as a whole, taking into account the interests of its customers; and be designed and implemented with input from the control functions and the BRMC to ensure that risk exposures and risk outcomes are adequately considered.

The remuneration of Senior Management and Other Material Risk Taker (OMRT) must be approved by the Board and the Bank will maintain and regularly review the list of officers who fall within the definition of Senior Management and OMRT.

The Bank's remuneration comprised of fixed pay and variable pay rewards as follows:-

(i) Fixed pay consists of base salary and fixed allowances that are pegged to the market value of the job.

(ii) Variable pay rewards employees based on the performance of the Division, Department & Bank, and the employee's individual performance.

The Bank implemented the Deferred Discretionary Performance Bonus for the CEO, members of the Management Committee and Senior Management. The objective of the deferred bonus is to align short-term compensation payment with the time-based risk, and to encourage employees to deliver sustainable long-term performance.

The Deferred Discretionary Performance Bonus will be subject to claw back. Any unvested element under the deferred plan can be forfeited/adjusted or the delivered variable remuneration payout be recovered in certain circumstances.

PRINCIPLE B : EFFECTIVE AUDIT AND RISK MANAGEMENT

1. Board Audit Committee ("BAC")

The BAC is established at Group level. The Board recognises the value of an effective BAC in ensuring the integrity in financial reporting and effective internal control framework.

The Board Audit Committee possesses a wide range of necessary skills to discharge their duties effectively. The members are financially literate and are able to understand matters under the purview of the Board Audit Committee including the financial reporting standards. The members had attended relevant professional trainings during the year and will continue to keep themselves abreast of the relevant developments in accounting and auditing standards, practices and rules.

2. Board Risk Management Committee ("BRMC")

The BRMC is established at Group level. The BRMC is responsible for overseeing the risk management function of the Bank and ensure that management has in place risk management policies, processes, procedures and framework to adequately protect the Bank against risks.

3. Independence of External Auditors

The Bank's External Auditors play an essential role to the shareholders by enhancing the reliability of the Bank's financial statements and giving assurance of that reliability to users of these financial statements. The BAC manages the relationship with the External Auditors on behalf of the Board. The BAC reviews and considers the re-appointment, remuneration and terms of engagement of the External Auditor annually.

The BAC meets with the External Auditors at least twice a year to discuss their audit plans significant issues if any, new accounting standards, emerging risk and audit findings in relation to the financial statements. The private sessions between the BAC and the External Auditor were held without the presence of the CEO and the Management to discuss the audit findings and any other observations they may have had during the audit process.

The External Auditors have confirmed their independence and that there were no circumstances and relationship that create threats to their independence and that the ethical requirements have been complied with. The BAC has also reviewed the nature and extent of non-audit services rendered by the External Auditors and ascertained that there is no conflict of interest.

4. Risk Management and Internal Control Framework

The Bank recognises the importance of maintaining a sound system of internal controls and risk management practices. The Board affirms its overall responsibility for the effectiveness of the Bank's internal controls and risk management framework.

5. Internal Audit Function

The Bank has an Internal Audit function that is supported by an Internal Audit Department. The Bank's internal audit provides independent and objective assurance of the adequacy and effectiveness of the internal controls framework.

PRINCIPLE C : INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

1. Effective Communication With Stakeholders

The Bank is wholly-owned by ABB. The Board and Management recognised the importance of maintaining good relationship with both the stakeholders and will take the responsibility to always improve the communication with the the stakeholders.

The Bank continuously ensure that timely, complete, transparent and accurate disclosures are made to the stakeholders in accordance with the requirements of BNM CG.

2. Focus Areas on Corporate Governance

2017 brought forth key regulatory changes within the domestic corporate governance realm. The Board, against a challenging business backdrop, focused its attention on the foundational aspects of its roles as they relate to the creation of long-term value for stakeholders.

Against the aforementioned setting, during the year under review, the Board directed its focus on the core duties of the Board which is grounded on the creation of long-term value for stakeholders.

Corporate governance areas which gained heightened attention from the Board during the financial year ended 31 December 2017 are as follows:-

Board Composition

The Board is satisfied that the current composition of Directors provides the appropriate balance and size in the Board necessary to promote all shareholders' interests and to govern the Bank effectively. The Independent Directors fulfills a pivotal role in providing unbiased and independent views, advice and judgement, taking into account the interest not only of the Bank but also the employees, customers and communities in which the Bank conducts business.

The Board believes that having objectivity in the boardroom extends beyond quantitative measures such as number of Independent Directors. In order to harness the collective wisdom and benefit from the greater participation of Independent Directors, the Board has set a policy to limit the tenure of Independent Directors to 9 years, arrange private sessions between Independent Directors with the Management and key gatekeepers such as external and internal auditors and provide Independent Directors with the opportunity to candidly share concerns about the Bank and exchange views on potential improvements in governance. The Independent Directors who are of high caliber and vide experience ensure that there is robust discussions during the Board or committee meetings. They exercise strong independent judgement and do not shy away from asking hard and uncomfortable questions during deliberations and willing to challenge Management if answers provided are not satisfactory.

In accordance with the Section 91(a) of the Company's Articles of Association, at least one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), the number nearest to one-third (1/3), shall retire from office at each Annual General Meeting and they may offer themselves for re-election. Key Senior Management do not sit on the Board or Board Committees.

Code of Conduct

The Bank's Code of Conduct ("Code") has been adopted by the Board to support the Group's objectives, vision and values which reflects the Affin Bank Group's vision and core values of integrity, respects, trust and openness. The basic principles have been carried out by having appropriate regard to the interests of the Bank's customers, shareholder, business partners and the broader community in which the Group operates.

The Bank encourages its employees to provide feedback with any concerns regarding misconduct and/or wrong doing by the employees. Any non-compliance and failure to report non-compliance to the Code may lead to disciplinary action.

Sustainability Report

The Bank has yet to adopt integrated reporting as the Board acknowledge that integrated reporting goes beyond a mere combination of financial statements and sustainability report into a single document.

Nevertheless, there are coordination efforts among cross-functional departments in preparing the various statements and reports in the Annual Report.

The Board may consider adopting integrated reporting in future.

Review of Board Charter, Board Committees' Terms of Reference Policies and Procedures

During the year under review, the Board undertook a review and updated its Board Charter alongside the Terms of Reference for each of the Board Committees, Policies and Procedures. Changes were made to reflect the revised regulatory expectations as well as the expectations of stakeholders for Directors to exercise greater vigilance and scepticism in understanding and shaping the direction of the Group. These authoritative documents serve to guide the governance and conduct of the Board and Board Committees.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

CORPORATE GOVERNANCE PRIORITIES

Moving forward, the Bank will continue working towards achieving high quality outcomes in the realm of corporate governance. The Board has identified the following forward-looking action items that will help it to achieve its corporate governance objectives.

Board Diversity

The Board will escalate its efforts to establish a diverse Board which bears a variety in the dimensions of skills, experience, age, cultural background and gender. In the near future, the Board will undertake to formalise policies on gender diversity, along with specific targets and measures to meet the target.

In line with the national target of having 30% women on the board, the Board will seek to maintain a register of potential directors which include high-calibre female candidates.

Integrated Reporting

The Company has yet to adopt an integrated reporting. The Board acknowledges that integrated reporting goes beyond a mere combination of the reports in the Annual Report into a single document.

Nevertheless, there are coordination efforts among cross-functional departments in preparing the various statements and reports in the Annual Report. The Board may consider adopting integrated reporting in future.

Disclosure of Directors and Senior Management's Remuneration

The Board wishes to give assurance that the remuneration of Directors and Senior Management commensurate with their individual performance, taking into consideration of Bank's performance as it is benchmarked against the market. The remuneration packages of Senior Management are based on experience, expertise, skills and industry benchmark. Total remuneration of its employees are also set out in the Audited Financial Statements for financial year ended 31 December 2017 which allow shareholders to assess whether the remuneration of Directors and Senior Management commensurate with their performance taking into consideration, the Bank's performance.

The Board may consider disclosing the aggregate of the top 5 senior management's remuneration component including salary, bonus, benefits in-kinds and other emoluments.

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FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the financial year ended 31 December 2017

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and the provision of related financial services. There were no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	Economic Entity and The Bank RM'000
Profit before zakat and taxation	121,002
Zakat	(3,000)
Profit before taxation	118,002
Taxation	(28,255)
Net profit for the financial year	**89,747**

DIVIDENDS

No dividends have been paid by the Bank in respect of the financial year ended 31 December 2016.

The Directors do not recommend the payment of any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are shown in the financial statements and notes to the financial statements.

BAD AND DOUBTFUL FINANCING

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

(a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than those in the ordinary course of banking business or activities of the Bank.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

There is no significant event during the financial year.

SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

DIRECTORS

The Directors of the Bank who have held office since the date of the last report and at the date of this report are:

En. Mohd Suffian Bin Haji Haron
Chairman/Non-Independent Non-Executive Director
(Appointed as Chairman w.e.f. 1.6.2017)

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Non-Independent Non-Executive Director

Associate Professor Dr. Said Bouheraoua
Independent Non-Executive Director

Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
Non-Independent Non-Executive Director
(Completed his tenure of directorship w.e.f. 1.4.2017)

DIRECTORS' REPORT
for the financial year ended 31 December 2017

DIRECTORS

Tan Sri Dato' Seri Mohamed Jawhar
Non-Independent Non-Executive Director
(Completed his tenure of directorship w.e.f. 1.7.2017)

Dr. Rosnah Binti Omar
Independent Non-Executive Director
(Resigned w.e.f. 25.10.2017)

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
Non-Independent Non-Executive Director
(Completed his tenure of directorship w.e.f. 1.11.2017)

RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2017 and of the financial results and cash flows of the Bank for the financial year then ended.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Bank with reasonable accuracy.

The Directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Bank to be properly safeguarded for the prevention and detection of fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

The Statement by Directors pursuant to Section 251(2) of the Companies Act, 2016 is set out on page 147 of the financial statements.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interest of Directors in office at end of the financial year in shares of related companies is as follows:

	Number of ordinary shares			
	As at 1.1.2017	**Bought**	**Sold**	**As at 31.12.2017**
ABB Trustee Berhad				
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	20,000	-	20,000	-
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	20,000	-	20,000	-

Other than the above, the Directors in office at the end of the financial year did not have any other interest in the shares in the Bank or its related companies during the financial year.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangement to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 34 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

OTHER STATUTORY INFORMATION

Statutory information regarding the Bank

(a) As at the end of the financial year

Before the financial statements of the Bank were prepared, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.

(b) From the end of the financial year to the date of this report

(i) The Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent;
- which would render the values attributed to current assets in the financial statements of the Bank misleading;
- which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

(c) As at the date of this report:

(i) there are no charges on the assets of the Bank which have arisen since the end of the financial year which secures the liabilities of any other person;

(ii) there are no contingent liabilities in the Bank which have arisen since the end of the financial year.

(d) No contingent or other liability in the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Bank to meet the obligations when they fall due.

(e) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the respective financial statements misleading.

(f) In the opinion of the Directors:

(i) the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

DIRECTORS' REPORT
for the financial year ended 31 December 2017

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 AND FUTURE OUTLOOK

Malaysia economic growth has been excellently perform in 2017, this momentum was boosted by strong domestic demand and higher exports on the back of strong external demand. The recovery of commodity prices from the slump in 2016 had also contributed to strong exports.

Though 2017 was a challenging year for AFFIN Islamic Bank ("the Bank"), the Bank has recorded a profit before tax and zakat of RM121.0 million for financial year ended 31 December 2017, with the growth in total income by 5.2% . Gross financing and advances expanded by RM3.5 billion or 29.0%, closed at RM15.5 billion with total customer deposits increased by RM3.7 billion (34.9%) to RM14.2 billion. The Bank's Total Capital ratio and Common Equity Tier 1/Tier 1 ratios stood at 16.25% and 15.09 % respectively.

BUSINESS OUTLOOK FOR 2018

Malaysia's Gross Domestic Product ("GDP") in 2018 is forecasted to grow from 5.0% to 5.5%, driven by resilient domestic demand amid a favorable external sector. Growth in public and private investments will be driven by the rollout of existing and new major infrastructure and investment projects. The Bank Negara Malaysia ("BNM")'s Overnight Policy Rate ("OPR") is expected to increase between 25 to 50 basis points aimed at supporting domestic demand. The banking sector is expected to be generally stable in 2018 with gross financing growth expected to remain between 5%-6%.

Moving forward, the Bank's priorities will continue to be in line with the Group initiatives on Affinity Transformation Program ("ATP") which to focus on profitable growth and operating efficiencies. The Bank is aiming to enhance its Group's Islamic financing portfolio to 40% by the year 2020 as per the BNM's 10-year Financial Sector Blueprint.

With the evolving in customer behavior and increasing expectation to banking industry, our target segment remains on SME & Commercial and Corporate & Public Sector. The Bank will continue to develop innovative product suites and strategic solutions in order to build stronger client relationship with these segments. While for Consumer business, our strategic initiatives will be towards enhancing customer experience and building infrastructure capability through digital banking platform.

RATING BY EXTERNAL RATING AGENCIES

The Bank was not rated by any external rating agencies during the financial year.

ZAKAT OBLIGATIONS

The Bank did not pay zakat on behalf of its depositors.

HOLDING COMPANY, PENULTIMATE AND ULTIMATE HOLDING CORPORATE BODY

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

DIRECTORS' REMUNERATION

Details of Directors' remuneration and the total amount of indemnity given are set out in Note 34 to the financial statements

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 33 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146) conventional partnership was converted to a limited liability partnership.

This report was approved by the Board of Directors on 29 March 2018, signed on behalf of the Board of Directors.

Mohd Suffian Bin Haji Haron
Chairman

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Director

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

		Economic Entity		The Bank	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	2	**1,423,594**	1,057,844	**1,423,594**	1,057,844
Derivative financial assets	3	**2,623**	8,987	**2,623**	8,987
Financial investments available-for-sale	4	**2,377,724**	1,833,408	**2,377,724**	1,833,408
Financial investments held-to-maturity	5	**-**	72,122	**-**	72,122
Financing, advances and other financing	6	**15,369,747**	11,914,943	**15,369,747**	11,914,943
Other assets	8	**17,833**	7,901	**17,833**	7,901
Amount due from holding company	9	**406,523**	-	**406,523**	-
Amount due from joint ventures	10	**32,849**	46,725	**32,849**	46,725
Amount due from an associate	11	**500**	500	**500**	500
Deferred tax assets	12	**5,020**	8,056	**5,020**	8,056
Statutory deposits with Bank Negara Malaysia	13	**400,640**	332,000	**400,640**	332,000
Investment in joint ventures	14	**-**	-	**650**	650
Investment in an associate	15	**750**	750	**750**	750
Property and equipment	16	**2,411**	2,347	**2,411**	2,347
Intangible assets	17	**-**	-	**-**	-
TOTAL ASSETS		**20,040,214**	15,285,583	**20,040,864**	15,286,233
LIABILITIES AND EQUITY					
Deposits from customers	18	**14,199,332**	10,528,698	**14,199,332**	10,528,698
Investment accounts of customers	19	**449**	-	**449**	-
Deposits and placements of banks and other financial institutions	20	**1,261,400**	1,248,993	**1,261,400**	1,248,993
Investment accounts due to designated financial institutions	21	**2,749,016**	2,110,049	**2,749,016**	2,110,049
Derivative financial liabilities	22	**3,258**	1,412	**3,258**	1,412
Other liabilities	23	**67,456**	36,331	**67,456**	36,331
Amount due to holding company	24	**-**	196,828	**-**	196,828
Provision for taxation		**1,150**	6,015	**1,150**	6,015
TOTAL LIABILITIES		**18,282,061**	14,128,326	**18,282,061**	14,128,326
Share capital	25	**1,060,000**	560,000	**1,060,000**	560,000
Reserves	26	**698,153**	597,257	**698,803**	597,907
TOTAL EQUITY		**1,758,153**	1,157,257	**1,758,803**	1,157,907
TOTAL LIABILITIES AND EQUITY		**20,040,214**	15,285,583	**20,040,864**	15,286,233
COMMITMENTS AND CONTINGENCIES	38	**4,734,028**	3,317,468	**4,734,028**	3,317,468

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

INCOME STATEMENTS
for the financial year ended 31 December 2017

	Note	Economic Entity 2017 RM'000	Economic Entity 2016 RM'000	The Bank 2017 RM'000	The Bank 2016 RM'000
Income derived from investment of depositors' funds and others	27	**694,666**	563,363	**694,666**	563,363
Income derived from investment of investment accounts	28	**110,519**	99,644	**110,519**	99,644
Income derived from investment of shareholders' funds	29	**71,254**	51,286	**71,254**	51,286
(Allowances)/write-back for impairment losses on financing, advances and other financing	30	**(27,099)**	3,761	**(27,099)**	3,761
Allowance for impairment losses on other assets	31	**(18,329)**	-	**(18,329)**	-
Total distributable income		**831,011**	718,054	**831,011**	718,054
Income attributable to the depositors	32	**(537,379)**	(438,943)	**(537,379)**	(438,943)
Total net income		**293,632**	279,111	**293,632**	279,111
Other operating expenses	33	**(172,630)**	(132,822)	**(172,630)**	(132,822)
Profit before zakat and taxation		**121,002**	146,289	**121,002**	146,289
Zakat		**(3,000)**	(2,887)	**(3,000)**	(2,887)
Profit before taxation		**118,002**	143,402	**118,002**	143,402
Taxation	35	**(28,255)**	(30,804)	**(28,255)**	(30,804)
Net profit after zakat and taxation		**89,747**	112,598	**89,747**	112,598
Attributable to:					
Equity holder of the Bank		**89,747**	112,598	**89,747**	112,598
Earnings per share (sen):					
- Basic	36	**12.2**	24.4	**12.2**	24.4

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

STATEMENTS OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2017

		Economic Entity		The Bank	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
Profit after zakat and taxation		**89,747**	112,598	**89,747**	112,598
Other comprehensive income:					
Items that may be reclassified subsequently to profit on loss:					
Net fair value change in financial investments available-for-sale		**14,670**	(13,363)	**14,670**	(13,363)
Deferred tax on financial investments available-for-sale	12	**(3,521)**	3,207	**(3,521)**	3,207
Other comprehensive income/(expense) for the financial year, net of tax		**11,149**	(10,156)	**11,149**	(10,156)
Total comprehensive income for the financial year		**100,896**	102,442	**100,896**	102,442
Attributable to equity holder of the Bank:					
- Total comprehensive income		**100,896**	102,442	**100,896**	102,442

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

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2017

		Attributable to Equity Holder of the Bank					
Economic Entity	**Note**	**Share capital RM'000**	**Statutory reserves RM'000**	**AFS revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2017		**560,000**	**305,016**	**(18,064)**	**73,178**	**237,127**	**1,157,257**
Net profit for the financial year		**-**	**-**	**-**	**-**	**89,747**	**89,747**
Other comprehensive income (net of tax)							
- Financial investments available-for-sale		**-**	**-**	**11,149**	**-**	**-**	**11,149**
Total comprehensive income		**-**	**-**	**11,149**	**-**	**89,747**	**100,896**
Issued during the financial year		**500,000**	**-**	**-**	**-**	**-**	**500,000**
Transfer from statutory reserves	26(c)	**-**	**(305,016)**	**-**	**-**	**305,016**	**-**
Transfer to regulatory reserves	26(d)	**-**	**-**	**-**	**21,688**	**(21,688)**	**-**
At 31 December 2017		**1,060,000**	**-**	**(6,915)**	**94,866**	**610,202**	**1,758,153**
Economic Entity							
At 1 January 2016		460,000	248,717	(7,908)	58,400	195,606	954,815
Net profit for the financial year		-	-	-	-	112,598	112,598
Other comprehensive income (net of tax)							
- Financial investments available-for-sale		-	-	(10,156)	-	-	(10,156)
Total comprehensive income		-	-	(10,156)	-	112,598	102,442
Issued during the financial year		100,000	-	-	-	-	100,000
Transfer to statutory reserves	26(c)	-	56,299	-	-	(56,299)	-
Transfer to regulatory reserves	26(d)	-	-	-	14,778	(14,778)	-
At 31 December 2016		560,000	305,016	(18,064)	73,178	237,127	1,157,257

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

STATEMENTS OF CHANGES IN EQUITY
for the financial year ended 31 December 2017

			Non-Distributable			Distributable	
The Bank	**Note**	**Share capital RM'000**	**Statutory reserves RM'000**	**AFS revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2017		**560,000**	**305,016**	**(18,064)**	**73,178**	**237,777**	**1,157,907**
Net profit for the financial year		**-**	**-**	**-**	**-**	**89,747**	**89,747**
Other comprehensive income (net of tax)							
- Financial investments available-for-sale		**-**	**-**	**11,149**	**-**	**-**	**11,149**
Total comprehensive income		**-**	**-**	**11,149**	**-**	**89,747**	**100,896**
Issued during the financial year		**500,000**	**-**	**-**	**-**	**-**	**500,000**
Transfer from statutory reserves	26(c)	**-**	**(305,016)**	**-**	**-**	**305,016**	**-**
Transfer to regulatory reserves	26(d)	**-**	**-**	**-**	**21,688**	**(21,688)**	**-**
At 31 December 2017		**1,060,000**	**-**	**(6,915)**	**94,866**	**610,852**	**1,758,803**
The Bank							
At 1 January 2016		460,000	248,717	(7,908)	58,400	196,256	955,465
Net profit for the financial year		-	-	-	-	112,598	112,598
Other comprehensive income (net of tax)							
- Financial investments available-for-sale		-	-	(10,156)	-	-	(10,156)
Total comprehensive income		-	-	(10,156)	-	112,598	102,442
Issued during the financial year		100,000	-	-	-	-	100,000
Transfer to statutory reserves	26(c)	-	56,299	-	-	(56,299)	-
Transfer to regulatory reserves	26(d)	-		-	14,778	(14,778)	-
At 31 December 2016		560,000	305,016	(18,064)	73,178	237,777	1,157,907

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

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2017

	Note	Economic Entity		The Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**118,002**	143,402	**118,002**	143,402
Adjustments for items not involving the movement of cash and cash equivalents:					
Finance income and hibah from:					
- financial investments available-for-sale		**(78,896)**	(56,923)	**(78,896)**	(56,923)
- financial investments held-to-maturity		**(4,495)**	(5,172)	**(4,495)**	(5,172)
Accretion of discount less amortisation of premium					
- financial investments available-for-sale		**(5,101)**	(5,083)	**(5,101)**	(5,083)
Gain on sale/redemption:					
- financial investments available-for-sale		**(4,333)**	(9,372)	**(4,333)**	(9,372)
Loss/(gain) on unrealised foreign exchange		**8,209**	(8,480)	**8,209**	(8,480)
Depreciation of property and equipment		**839**	983	**839**	983
Property and equipment written-off		**6**	3	**6**	3
Amortisation of intangible assets		**-**	426	**-**	426
Net individual impairment		**8,308**	(16,523)	**8,308**	(16,523)
Net collective impairment		**20,595**	13,897	**20,595**	13,897
Bad debt on financing written-off		**1**	21	**1**	21
Allowance for impairment losses on other assets		**18,329**	-	**18,329**	-
Zakat		**3,000**	2,887	**3,000**	2,887
Operating profit before changes in working capital		**84,464**	60,066	**84,464**	60,066
Decrease/(increase) in operating assets:					
Deposits and placements with banks and other financial institutions		**-**	35,034	**-**	35,034
Financing, advances and other financing		**(3,483,708)**	(2,710,429)	**(3,483,708)**	(2,710,429)
Other assets		**(10,009)**	(4,311)	**(10,009)**	(4,311)
Statutory deposits with Bank Negara Malaysia		**(68,640)**	(72,400)	**(68,640)**	(72,400)
Amount due from holding company		**(406,523)**	367,172	**(406,523)**	367,172
Amount due from joint ventures		**(4,453)**	(6,789)	**(4,453)**	(6,789)
Derivative financial instruments		**8,210**	(8,477)	**8,210**	(8,477)
Increase/(decrease) in operating liabilities:					
Deposits from customers		**3,670,634**	527,003	**3,670,634**	527,003
Investment accounts of customers		**449**	-	**449**	-
Deposits and placements of banks and other financial institutions		**12,407**	207,601	**12,407**	207,601
Investment accounts due to designated financial institutions		**638,967**	778,731	**638,967**	778,731
Amount due to holding company		**(196,828)**	196,828	**(196,828)**	196,828
Other liabilities		**31,711**	(7,811)	**31,711**	(7,811)
Cash generated from/(used in) operations		**276,681**	(637,782)	**276,681**	(637,782)
Zakat paid		**(3,587)**	(2,862)	**(3,587)**	(2,862)
Tax paid		**(33,604)**	(36,071)	**(33,604)**	(36,071)
Net cash generated from/(used in) operating activities		**239,490**	(676,715)	**239,490**	(676,715)

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

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2017

		Economic Entity		The Bank	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income and hibah received from:					
- financial investments available-for-sale		**83,997**	62,006	**83,997**	62,006
- financial investments held-to-maturity		**4,495**	5,172	**4,495**	5,172
Redemption of financial investments held-to-maturity		**72,122**	4,161	**72,122**	4,161
Net purchase of financial investment available-for-sale		**(525,313)**	(363,276)	**(525,313)**	(363,276)
Purchase of property and equipment		**(832)**	(554)	**(832)**	(554)
Net cash used in investing activities		**(365,531)**	(292,491)	**(365,531)**	(292,491)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issuance of new shares		**500,000**	100,000	**500,000**	100,000
Net cash generated from financing activities		**500,000**	100,000	**500,000**	100,000
Net increase/(decrease) in cash and cash equivalents		**373,959**	(869,206)	**373,959**	(869,206)
Net (decrease)/increase in foreign exchange		**(8,209)**	8,480	**(8,209)**	(8,480)
Cash and cash equivalents at beginning of the financial year		**1,057,844**	1,918,570	**1,057,844**	1,918,570
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR		**1,423,594**	1,057,844	**1,423,594**	1,057,844
CASH AND CASH EQUIVALENTS COMPRISE:					
Cash and short-term funds	2	**1,423,594**	1,057,844	**1,423,594**	1,057,844

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2017

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

(A) BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with Malaysian Fnancial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements of the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 44.

Standards, amendments to published standards and interpretations that are effective

The Bank has applied the following amendments for the first time for the financial year beginning on 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 12 'Disclosures of Interests in Other Entities'

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

A number of new standards and amendments to standards and interpretations are effective for financial year beginning on or after 1 January 2016. None of these is expected to have a significant effect on the financial statements of the Bank, except the following:

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  Classification and measurements

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

  - For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.

  - When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective profit rate, should be recognised immediately in profit or loss.

  The combined application of the entity's business model and the cash flow characteristics of the financial assets do not result in the significant change in the classification of financial asset when compared to the existing classification of financial assets in the statement of financial position as at 31 December 2017. However, the Bank has identified certain instruments currently held at financial investments available-for-sales of which that fail the solely for the payment of principal and interest ("SPPI") test will be reclassified as fair value through profit or loss ("FVTPL") with certain equity instruments elected at inception to be fair valued in OCI accordingly on 1 January 2018.

  The Bank does not expect a significant impact arising from the changes in classification and measurement of the financial assets.

  There will be no changes to the Bank's accounting for financial liabilities. All the financial liabilities, except for derivatives financial liabilities which is at FVTPL, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

  Impairment of financial assets

  MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

  The new impairment model requires the recognition of impairment allowances based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, financing commitments, financial guarantee contracts and other financing commitments.

  Under MFRS 9, impairment will be measured on each reporting date according to a three-stage expected credit loss impairment model:

  - Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).

  - Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the asset (Lifetime ECL).

  - Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

  As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired financing for which there is objective evidence of impairment in accordance with MFRS 139, the total allowance for credit losses is expected to increase under MFRS 9 relative to the allowance for credit losses under MFRS 139.

  In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (Lifetime ECL) and the application of forward looking information, will be recorded in profit or loss, allowance for credit losses will be more volatile under MFRS 9.

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

Disclosures

The new standard requires more extensive disclosures especially in the areas of ECL. The Bank expects the changes in the extent of disclosures in the financial statements for the financial year ending 31 December 2018.

Based on the preliminary assessments performed, the Bank expects a significant increase in the impairment on financing and other losses arising from the new impairment requirements, which will result in a reduction in the Bank's opening retained profits and overall capital position as of 1 January 2018.

The Bank is now progressing to the finalisation of the implementation of the identified changes and will complete this process prior to the releasing of the interim results for the financial period ending 31 March 2018.

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:

  - Identify contracts with customers;
  - Identify the separate performance obligations;
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:

  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate element.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standard, there are also increased disclosures.

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2017

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

Disclosures (continued)

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with financing expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

  IC Interpretation 23 will be applied retrospectively.

The Bank will apply these standards when effective. The adoption of the above standards, amendments to published standards and interpretations to existing standards are not expected to have any significant impact on the financial statements of the Bank except for MFRS 16.

Guidelines and Regulatory requirement that are effective

- **Significant changes in regulatory requirements**

  Bank Negara Malaysia ('BNM') has issued the policy document on Capital Funds which came into effect on 3 May 2017. The policy document has been updated to remove the requirement for a banking institution to maintain a reserve fund.

  BNM expects banking institutions to exercise prudence before submitting an application to distribute the reserves as dividends. BNM in considering the dividend application, shall consider, among others, the banking institution's ability to comply with the fully phased-in capital conservation buffer requirement and any other buffers that the BNM may specify.

- **Companies Act, 2016**

  The Companies Act, 2016 ('New Act') was enacted to replace the Companies Act, 1965 with the objectives to create a legal and regulatory structure that will facilitate business, and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation while section 241 and Division 8 of Part III of the New Act come into operation on 31 January 2017.

  Amongst the key changes introduced in the New Act which will affect the financial statements of the Bank upon the commencement of the New Act on 31 January 2017 are:

  (i) removal of the authorised share capital;

  (ii) shares of the Bank will cease to have par or nominal value; and

  (iii) the Bank's share premium account will become part of the Bank's share capital.

  Notwithstanding this provision, the Bank may within 24 months from the commencement of the New Act, use the amount standing to the credit of its share premium account for purposes as set out in Section 618 (3) of the New Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

  The adoption of the New Act does not have any financial impact on the Bank for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption is mainly on the disclosures to the annual report and financial statements for the financial year ended 31 December 2017.

(B) JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Group with one or more parties, where decisions about the relevant activities relating to the joint arrangement require unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the Economic Entity statement of financial position. Under the equity method, the investment in a joint venture is initially recognised at cost, and adjusted thereafter to recognise the Economic Entity's share of the post-acquisition profits or losses of the joint venture in profit or loss, and the Economic Entity's share of movements in other comprehensive income of the joint venture in other comprehensive income. Dividends received or receivable from a joint venture are recognised as a reduction in the carrying amount of the investment. When the Economic Entity's share of losses in a joint venture equals or exceeds its interests in the joint venture, including any long-term interests that, in substance, form part of the Economic Entity's net investment in the joint venture, the Economic Entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The Economic Entity determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. An impairment loss is recognised for the amount by which the carrying amount of the joint venture exceeds its recoverable amount. Unrealised gains on transactions between the Economic Entity and its joint ventures are eliminated to the extent of the Economic Entity's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

When the Economic Entity ceases to equity account its joint venture because of a loss of joint control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Economic Entity had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

(C) ASSOCIATES

Associates are all entities over which the Economic Entity has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is initially recognised at cost, and adjusted thereafter to recognise the Economic Entity's share of the post-acquisition profits or losses of the associate in profit or loss, and the Economic Entity's share of movements in other comprehensive income of the associate in other comprehensive income. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment. When the Economic Entity's share of losses in an associate equals or exceeds its interests in the associate, including any long-term interests that, in substance, form part of the Economic Entity's net investment in the associate, the Economic Entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Economic Entity's investment in associates includes goodwill identified on acquisition.

The Economic Entity determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. An impairment loss is recognised for the amount by which the carrying amount of the associate exceeds its recoverable amount.

Profits and losses resulting from upstream and downstream transactions between the Economic Entity and its associate are recognised in the Economic Entity's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

(C) ASSOCIATES

When the Economic Entity ceases to equity account its associate because of a loss of significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Economic Entity had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Dilution gains or losses arising in investments in associates are recognised in the profit or loss.

(D) INTANGIBLE ASSETS

Computer Software

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

(i) it is technically feasible to complete the software product so that it will be available for use;

(ii) management intends to complete the software product and use or sell it;

(iii) there is an ability to use or sell the software product;

(iv) it can be demonstrated how the software product will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

(vi) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised from the point at which the asset is ready for use over their estimated useful lives of five years.

(E) IMPAIRMENT ON NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

(F) RECOGNITION OF FINANCING INCOME AND EXPENSE

Financing income and expense for all profit-bearing financial instruments are recognised within 'income derived from investment from depositors' funds', 'income derived from investment from shareholders' funds' and 'income attributable to depositors' respectively, in the income statement 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 financing income or 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 or income 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.

When a financing receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired financing and receivables are recognised using the original effective profit rate.

<u>Al-Bai' Bithaman Ajil</u>

A contract of sale of an asset where the payment of price is deferred either be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amount.

<u>Ijarah Muntahiah bil Tamleek/Al-Ijarah Thumma Al-Bai'</u>

A contract of lease ending with transfer of ownership from the lessor to the lessee either in the form of gift or sale transaction based on agreed terms and conditions. Two contracts are involved in this arrangement with the first contract is Ijarah where the lessee enjoys the usufruct of the assets at an agreed rental during an agreed period while the ownership remains with the lessor. The second contract is to transfer the ownership of the assets which may takes place at the end of the Ijarah tenure or at any point of time during the tenure subject to the terms and conditions that are agreed between the contracting parties. Income is recognised on effective Ijarah profit rate basis over the lease term.

<u>Murabahah</u>

A contract of sale where the assets cost and profit margin shall be made transparent and agreed upon between buyer and seller. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amounts.

<u>Musyarakah Mutanaqisah</u>

A contract of partnership with a declining ownership (diminishing partnership), which one of the partners promises (wa'd) to buy the equity share of the other partner gradually until the ownership of the asset is completely transferred to him. It is a hybrid of three contracts known as shirkah (partnerhsip), ijarah (lease) and bay' (sale).

<u>Tawarruq</u>

An arrangement that involves a purchase of an asset based on musawamah or murabahah contract on deferred term and a subsequent sale of the same asset to a third party in order to obtain cash. Income is recognised on effective profit rate basis over the expected life of the contract based on the outstanding financing amount.

<u>Istisna'</u>

An arrangement where contract of construction or manufacturing or request to build or renovation (refurbishment), and bridging or project financing.

Financing income is recognised using effective profit rate through the expected life of the financing based on the principal amount outstanding.

(G) RECOGNITION OF FEES AND OTHER INCOME

Fees and commissions are recognised as income when all conditions precedent are fulfilled.

Guarantee fees which are material are recognised as income based on a time apportionment method.

Dividends are recognised when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Net profit from financial assets held at fair value through profit or loss and financial instruments available-for-sale are recognised upon disposal of the assets, as the difference between net disposal proceeds and the carrying amount of the assets.

(H) FINANCIAL ASSETS

Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and in the case of assets classified as held-to-maturity, reevaluate this designation at the end of each reporting period.

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

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges (Note N).

The Bank has not elected to designate any financial assets at fair value through profit or loss.

(ii) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financing and receivables consist of murabahah, ijarah and musharakah contracts. These contracts are initially recognised at fair value, including direct and inceremental transactions costs, and subsequently measured at amortised cost using the effective yield method.

(iii) Financial investments available-for-sale

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

(iv) Financial investments held-to-maturity

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

Recognition and initial measurement

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

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(H) FINANCIAL ASSETS

Subsequent measurement – gains and losses

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

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in income statement in the period in which the changes arise.

Changes in the fair value financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (Note I) and foreign exchange gains and losses on monetary assets (Note N).

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

De-recognition

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

Financing and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as fundings.

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

Reclassification of financial assets

The Bank may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than financings and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of financings and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective profit rates for financial assets reclassified to financing and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the effective profit rates prospectively.

(I) IMPAIRMENT OF FINANCIAL ASSETS

Assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include among others:

- past due contractual payments;
- significant financial difficulties of the customer;
- probability of bankruptcy or other financial re-organisation;
- default of related customer;
- measurable decrease in estimated future cashflow than was originally envisaged; and
- significant deterioration in issuer's credit rating.

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

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

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

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

(i) Individual impairment allowance

Financing, advances and other financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Financing that are individually assessed for impairment and for which no impairment loss is required (over-collateralised financing) are collectively assessed as a separate segment.

The amount of the loss is measured as the difference between the financing's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financing's original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statements. If a financing has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financing reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(I) IMPAIRMENT OF FINANCIAL ASSETS

Assets carried at amortised cost

(ii) Collective impairment allowance

For the purposes of a collective evaluation of impairment, financing, advances and other financing are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such financing, advances and other financing by being indicative of the customers' ability to pay all amounts due according to the contractual terms of the financing being evaluated.

Future cash flows in a group of financing that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the financing in the Bank and historical loss experience for financing with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of financings should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Based on the Guideline on Classification and Impairment Provisions for Financing, banking institutions are required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing (excluding financing, advances and other financing with an explicit guarantee from the Federal Government of Malaysia), net of individual impairment provisions. Banking institutions are required to comply with the requirement by 31 December 2015.

As at reporting date, the Bank has maintained the collective impairment provisions and regulatory reserves of no less than 1.2% in the books.

Assets classified as available-for-sale

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Bank assesses at each date of the statement of financial position whether there is any objective evidence that a financial investment or group of financial investments is impaired. The criteria the Bank uses to determine whether there is objective evidence of impairment include non-payment of coupon or principal redemption, significant financial difficulty of issuer or obligor and significant drop in rating.

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

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed through income statement in subsequent periods.

(J) FINANCIAL LIABILITIES

All financial liabilities which include derivative financial instruments have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank's holding in financial liabilities are in financial liabilities at fair value through profit or loss (including financial liabilities held-for-trading and those that designated at fair value) and financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss.

Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition. The Bank does not have any non-derivative financial liabilities designated at fair value through profit or loss.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments.

Financial liabilities classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in profit or loss. Gains and losses arising from changes in fair value of financial liabilities classified held-for-trading are included in the income statement.

Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost.

De-recognition

Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished.

(K) OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(L) PROPERTY AND EQUIPMENT

Property and equipment are initially stated at cost, net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property and equipment.

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also include funding costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the placed part is de-recognised. All the repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

(L) PROPERTY AND EQUIPMENT

Property and equipment are depreciated on the straight-line basis to allocate the cost, to their residual values over their estimated useful lives summarised as follows:

Renovation	5 years or the period of the lease whichever is greater
Office equipment and furniture	10 years
Computer equipment and software	5 years
Motor vehicles	5 years

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

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

At the end of the reporting period, the Bank assesses whether there is any indication of impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. (Note E)

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognised within other operating income in the income statement.

(M) OPERATING LEASES

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight-line basis over the lease period.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in income statement when incurred.

(N) FOREIGN CURRENCY TRANSLATIONS

Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year- end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. However, exchange differences are deferred in other comprehensive income when they arose from qualifying cash flow or net investment hedge or are attributable to items that form part of the net investment in a foreign operation.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2017

(O) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values at the end of each reporting period. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e the fair value of the consideration given or received) unless fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

As at reporting date, the Bank has not designated any derivative as hedging instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(P) CURRENT AND DEFERRED INCOME TAXES

Current tax

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and jointly controlled entity operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also 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 assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

Deferred tax liability is recognised for all temporary differences associated with investment in joint venture where the timing of the reversal of the temporary difference can be controlled by the Economic Entity and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the joint venturer is unable to control the reversal of the temporary difference for joint ventures. Only where there is an agreement in place that gives the joint venturer the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investment in joint arrangements only to the extent that it is probable the temporary difference will reverse in future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on net basis.

(Q) ZAKAT

The Bank pays zakat based on 2.5775% of the prior year's asset growth method, to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank does not pay zakat on behalf of the depositors.

(R) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, bank balances and deposits and placements maturing within one month which are held for the purpose of meeting short term commitments and are readily convertible to known amount of cash without significant risk of changes in value.

(S) FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of their carrying amount and fair value less cost to sell.

(T) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise contingent assets and liabilities other than those arising from business combination, but disclose its existence in the financial statements. A contingent liability is possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(U) BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable, which are financial liabilities, represent the Bank's own bills and acceptances rediscounted and outstanding in the market (Note J).

(V) PROVISIONS

Provisions are recognised by the Bank when all of the following conditions have been met:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources to settle the obligation will be required; and
- a reliable estimate of the amount of obligation can be made.

Where the Bank expects a provision to be reimbursed (for example, under an insurance/takaful 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 management's best estimate 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.

(W) EMPLOYEE BENEFITS

Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution plan

The defined contribution plan is a pension plan under which the Bank pays fixed contributions to the National Pension Scheme, the Employees' Provident Fund ('EPF') and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Bank's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without any possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(X) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 'Provisions, contingent liabilities and contingent assets' and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to payables of subsidiaries are provided by the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

(Y) RESTRICTED INVESTMENT ACCOUNTS ('RIA')

These deposits are used to fund specific financing. The RIA is a contract based on Shariah concept of Mudarabah between two parties, i.e. investor and entrepreneur to finance a business venture where the investor provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudarib (manager or manager of funds), and losses shall be borne solely by capital provider.

(Z) SHARE CAPITAL

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.

Share issue costs

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

Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Bank, on or before the end of the reporting period but not distributed at the end of the reporting period.

Distributions to holders of an equity instrument are recognised directly in equity.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Bank, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017

1 GENERAL INFORMATION

The Bank, a wholly-owned subsidiary of AFFIN Bank Berhad, was incorporated on 13 September 2005 and commenced operations on 1 April 2006. The net assets of AFFIN Bank's Islamic Division was transferred to AFFIN Islamic Bank on 1 April 2006.

The Bank is principally engaged in all aspects of Islamic banking and finance business and in the provision of related financial services in accordance with the Shariah principles.

There have been no significant changes in the nature of these activities during the financial year.

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

2 CASH AND SHORT-TERM FUNDS

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Cash and bank balances with banks and other financial institutions	**1,331**	6,807
Money at call and interbank placements with remaining maturity not exceeding one month	**1,422,263**	1,051,037
	1,423,594	1,057,844

3 DERIVATIVE FINANCIAL ASSETS

	Economic Entity and The Bank			
	2017		2016	
	Contract/ notional amount RM'000	Assets RM'000	Contract/ notional amount RM'000	Assets RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**360,254**	**2,623**	939,223	8,987
	360,254	**2,623**	939,223	8,987

4 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
At fair value		
Malaysian Government treasury bills	**12,517**	-
Malaysian Government investment issues	**820,816**	628,785
Sukuk Perumahan Kerajaan	**90,231**	129,431
Khazanah Sukuk	**156,249**	173,287
Cagamas bond	**5,227**	5,263
	1,085,040	936,766
Unquoted securities:		
Corporate bonds/Sukuk in Malaysia	**1,292,684**	896,642
	2,377,724	1,833,408
Allowance for impairment losses	**-**	-
	2,377,724	1,833,408
Movement in allowance for impairment losses		
At beginning of the financial year	**-**	550
Writeback of allowance for impairment loss	**-**	(550)
At end of the financial year	**-**	-

5 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
At amortised cost		
Unquoted securities:		
Corporate bonds/Sukuk in Malaysia	**-**	72,122
	-	72,122

6 FINANCING, ADVANCES AND OTHER FINANCING

	Economic Entity and The Bank 2017 RM'000	Economic Entity and The Bank 2016 RM'000
(i) By type		
Cash line	**312,995**	278,880
Term financing		
- House financing	**4,399,777**	2,857,530
- Hire purchase receivables	**3,864,507**	3,181,358
- Syndicated financing	**1,065,164**	582,739
- Business term financing	**4,300,524**	3,541,779
Bills receivables	**8,228**	21,376
Trust receipts	**14,717**	6 ,938
Claims on customers under acceptance credits	**250,246**	174,623
Staff financing (of which RM Nil to Directors)	**28,931**	13,109
Credit/charge cards	**12**	-
Revolving credit	**1,205,946**	1,319,609
Gross financing, advances and other financing	**15,451,047**	11,977,941
Less:		
Allowance for impairment losses		
- Individual	**(24,039)**	(18,003)
- Collective	**(57,261)**	(44,995)
Total net financing, advances and other financing	**15,369,747**	11,914,943

Included in business term financing as at reporting date is RM53.7 million (2016: RM53.7 million) and RM51.1 million (2016: RM78.0 million) of term financing disbursed by the Bank to joint ventures with AFFIN-i Nadayu Sdn Bhd and KL South Development Sdn Bhd respectively.

(ii) By maturity structure

	Economic Entity and The Bank 2017 RM'000	Economic Entity and The Bank 2016 RM'000
Maturing within one year	**1,945,574**	2,038,888
One year to three years	**823,365**	1,009,718
Three years to five years	**1,613,049**	1,375,861
Over five years	**11,069,059**	7,553,474
	15,451,047	11,977,941

6 FINANCING, ADVANCES AND OTHER FINANCING

(iii) By contract

Economic Entity and The Bank
2017
RM'000

	Al- Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Musyarakah	Istisna'	Others	Total
Cash line	-	-	-	257,161	-	-	55,834	312,995
Term financing								
House financing	844,197	-	-	14,115	3,541,465	-	-	4,399,777
Hire purchase receivables	-	-	3,864,507	-	-	-	-	3,864,507
Syndicated financing	-	303,351	-	761,813	-	-	-	1,065,164
Business term financing	168,226	1,067,632	-	1,890,373	516,047	652,139	6,107	4,300,524
Bills receivables	-	-	-	-	-	-	8,228	8,228
Trust receipts	-	-	-	14,717	-	-	-	14,717
Claims on customers under acceptance credits	-	-	-	250,246	-	-	-	250,246
Staff financing	5,993	-	-	18,862	4,076	-	-	28,931
Credit/charge cards	-	-	-	-	-	-	12	12
Revolving credit	-	-	-	1,205,946	-	-	-	1,205,946
Total Financing	1,018,416	1,370,983	3,864,507	4,413,233	4,061,588	652,139	70,181	15,451,047

6 FINANCING, ADVANCES AND OTHER FINANCING

(iii) By contract (continued)

Economic Entity and The Bank
2016
RM'000

	Al- Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Musyarakah	Istisna'	Others	Total
Cash line	-	-	-	192,691	-	-	86,189	278,880
Term financing								
House financing	921,629	-	-	1,612	1,934,289	-	-	2,857,530
Hire purchase receivables	-	-	3,181,358	-	-	-	-	3,181,358
Syndicated financing	-	144,898	-	341,769	-	-	96,072	582,739
Business term financing	419,098	789,192	-	1,382,270	258,827	686,279	6,113	3,541,779
Bills receivables	-	-	-	-	-	-	21,376	21,376
Trust receipts	-	-	-	6,938	-	-	-	6,938
Claims on customers under acceptance credits	-	-	-	174,623	-	-	-	174,623
Staff financing	7,546	-	-	5,289	274	-	-	13,109
Revolving credit	-	-	-	1,319,609	-	-	-	1,319,609
Total Financing	1,348,273	934,090	3,181,358	3,424,801	2,193,390	686,279	209,750	11,977,941

6 FINANCING, ADVANCES AND OTHER FINANCING

(iv) By type of customer

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Domestic non-banking institutions		
- Others	**176,557**	209,499
Domestic business enterprises		
- Small medium enterprises	**2,456,690**	1,774,697
- Others	**3,173,314**	2,517,012
Government and statutory bodies	**1,046,324**	1,381,918
Individuals	**8,188,648**	5,966,553
Other domestic entities	**9,029**	9,690
Foreign entities	**400,485**	118,572
	15,451,047	11,977,941

(v) By profit rate sensitivity

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Fixed rate		
- House financing	**43,942**	45,937
- Hire purchase receivables	**3,864,507**	3,181,357
- Other fixed rate financing	**1,393,439**	1,354,586
Variable rate		
- BFR plus	**7,736,389**	5,389,570
- Cost plus	**2,412,770**	2,006,491
	15,451,047	11,977,941

(vi) By economic sectors

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Primary agriculture	**333,688**	402,119
Mining and quarrying	**367,769**	11,348
Manufacturing	**414,541**	334,745
Electricity, gas and water supply	**112,394**	64,369
Construction	**859,226**	523,091
Real estate	**1,770,326**	1,455,409
Wholesale & retail trade and restaurants & hotels	**436,965**	407,649
Transport, storage and communication	**767,956**	284,216
Finance, takaful/insurance and business services	**587,765**	460,983
Education, health & others	**1,561,385**	2,031,720
Household	**8,238,798**	6,002,241
Others	**234**	51
	15,451,047	11,977,941

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2017

6 FINANCING, ADVANCES AND OTHER FINANCING

(vii) By economic purpose

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Purchase of securities	**282,565**	275,516
Purchase of transport vehicles	**3,934,879**	3,250,531
Purchase of landed property of which:		
- Residential	**4,527,444**	2,943,870
- Non-residential	**1,543,054**	1,112,190
Fixed assets other than land and building	**99,983**	72,421
Personal use	**41,200**	53,593
Credit/charge card	**12**	-
Consumer durable	**5**	-
Construction	**1,084,579**	895,685
Working capital	**3,544,790**	3,137,471
Others	**392,536**	236,664
	15,451,047	11,977,941

(viii) By geographical distribution

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Perlis	**202,748**	147,438
Kedah	**677,730**	661,893
Pulau Pinang	**555,878**	362,260
Perak	**605,837**	442,731
Selangor	**4,267,771**	3,460,892
Wilayah Persekutuan	**4,861,075**	4,234,116
Negeri Sembilan	**660,077**	448,601
Melaka	**247,677**	199,155
Johor	**1,682,220**	834,371
Pahang	**383,081**	302,330
Terengganu	**379,608**	395,910
Kelantan	**167,256**	153,175
Sarawak	**306,013**	132,131
Sabah	**315,865**	55,896
Labuan	**68,994**	63,974
Outside Malaysia	**69,217**	83,068
	15,451,047	11,977,941

7 IMPAIRED FINANCING

(i) Movements of impaired financing

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
At beginning of the financial year	**97,498**	141,708
Classified as impaired	**419,647**	164,338
Reclassified as non-impaired	**(337,769)**	(111,590)
Amount recovered	**(28,700)**	(87,213)
Amount written-off	**(8,366)**	(9,745)
At end of the financial year	**142,310**	97,498
Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing	**1.12%**	0.99%
Gross financing, advances and other financing	**15,451,047**	11,977,941
Restricted investment accounts	**(2,749,016)**	(2,110,049)
	12,702,031	9,867,892
Less:		
- Individual impairment allowance	**(24,039)**	(18,003)
- Collective impairment allowance on impaired financing	**(23,937)**	(16,454)
Total net financing, advances and other financing	**12,654,055**	9,833,435
Net impaired financing, advances and other financing as a percentage of net financing, advances and other financing	**0.75%**	0.64%

(ii) Movements in allowance for impairment on financing

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Individual impairment		
At beginning of the financial year	**18,003**	38,516
Allowance made during the financial year	**16,404**	19,340
Amount recovered	**(8,096)**	(35,863)
Amount written-off	**-**	(4,149)
Unwinding of income	**(881)**	(198)
Exchange differences	**(1,391)**	357
At end of the financial year	**24,039**	18,003
Collective impairment		
At beginning of the financial year	**44,995**	36,671
Net allowance made during the financial year	**20,595**	13,897
Amount written-off	**(8,329)**	(5,573)
At end of the financial year	**57,261**	44,995
As a percentage of gross financing, advances and other financing (excluding RIA financing) less individual assesment allowance	**0.45%**	0.46%

7 IMPAIRED FINANCING

(iii) Impaired financing by economic sectors

	Economic Entity and The Bank 2017 RM'000	Economic Entity and The Bank 2016 RM'000
Primary agriculture	**75**	43
Mining and quarrying	**63**	57
Manufacturing	**1,092**	1,028
Electricity, gas and water supply	**235**	111
Construction	**19,609**	5,081
Real estate	**30,279**	33,635
Wholesale & retail trade and restaurants & hotels	**4,974**	589
Transport, storage and communication	**180**	307
Finance, takaful/insurance and business services	**956**	492
Education, health & others	**125**	162
Household	**84,722**	55,993
	142,310	97,498

(iv) Impaired financing by economic purpose

	Economic Entity and The Bank 2017 RM'000	Economic Entity and The Bank 2016 RM'000
Purchase of transport vehicles	**21,928**	16,330
Purchase of landed property of which:		
- Residential	**70,355**	41,395
- Non-residential	**5,347**	6,153
Fixed assets other than land and building	**235**	227
Personal use	**805**	825
Construction	**7,975**	-
Working capital	**35,583**	32,568
Others	**82**	-
	142,310	97,498

7 IMPAIRED FINANCING

(v) Impaired financing by geographical distribution

	Economic Entity and The Bank	
	2017	**2016**
	RM'000	**RM'000**
Perlis	**2,122**	4,801
Kedah	**13,422**	3,016
Pulau Pinang	**1,612**	2,105
Perak	**5,771**	4,326
Selangor	**58,077**	30,969
Wilayah Persekutuan	**9,671**	2,670
Negeri Sembilan	**6,308**	4,849
Melaka	**2,077**	938
Johor	**3,824**	1,517
Pahang	**1,100**	1,694
Terengganu	**6,005**	5,016
Kelantan	**3,488**	3,643
Sarawak	**172**	198
Sabah	**396**	172
Outside Malaysia	**28,265**	31,584
	142,310	97,498

8 OTHER ASSETS

	Economic Entity and The Bank	
	2017	**2016**
	RM'000	**RM'000**
Other debtors	**6,477**	2,025
Deposits and prepayments	**779**	469
Cheque clearing accounts	**8,042**	2,962
Foreclosed properties (a)	**2,445**	2,445
Others	**90**	-
	17,833	7,901

(a) Foreclosed properties

	2017	2016
At beginning of the financial year	**2,445**	395
Purchased during the financial year	**-**	2,050
At end of the financial year	**2,445**	2,445

9 AMOUNT DUE FROM HOLDING COMPANY

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Intersystem balances due to holding company	**406,523**	-

The balance due from holding company are relating to intercompany transactions which are unsecured, bear no profit rate (2016: Nil) and payable on demand.

10 AMOUNT DUE FROM JOINT VENTURES

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Advances to joint ventures	**51,178**	46,725
Less: Allowance for impairment losses	**(18,329)**	-
	32,849	46,725
Movement of allowance for impairment losses		
At beginning of the financial year	**-**	-
Charge for the year	**18,329**	-
At end of the financial year	**18,329**	-

The advances to joint ventures are unsecured, bear no profit rate and payable on demand.

11 AMOUNT DUE FROM AN ASSOCIATE

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Advances to an associate	**500**	500

The advances to associate are unsecured, bear no profit rate and payable on demand.

12 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting, are shown in the statement of financial position:

	Economic Entity and The Bank 2017 RM'000	Economic Entity and The Bank 2016 RM'000
Deferred tax assets	**5,020**	8,056
Deferred tax assets:		
- settled more than 12 months	**-**	-
- settled within 12 months	**5,106**	8,308
Deferred tax liabilities:		
- settled more than 12 months	**(86)**	(20)
- settled within 12 months	**-**	(232)
Deferred tax assets	**5,020**	8,056
At beginning of the financial year	**8,056**	3,598
Credited to income statements (Note 35)	**485**	1,251
(Credited)/charged to equity	**(3,521)**	3,207
At end of the financial year	**5,020**	8,056

The movement in deferred tax assets and liabilities during the financial year are as follow:

Economic Entity and The Bank 2017	**Property and equipment**	**Intangible assets**	**Other liabilities**	**Financial investment AFS**	**Total**
At beginning of the financial year	**(252)**	**-**	**2,604**	**5,704**	**8,056**
Credited to income statements	**124**	**-**	**361**	**-**	**485**
Credited to equity	**-**	**-**	**-**	**(3,521)**	**(3,521)**
At end of the financial year	**(128)**	**-**	**2,965**	**2,183**	**5,020**

Economic Entity and The Bank 2016	Property and equipment	Intangible assets	Other liabilities	Financial investment AFS	Total
At beginning of the financial year	(267)	(102)	1,470	2,497	3,598
Credited to income statements	15	102	1,134	-	1,251
Credited to equity	-	-	-	3,207	3,207
At end of the financial year	(252)	-	2,604	5,704	8,056

13 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act 2016, the amounts of which are determined at set percentages of total eligible liabilities.

14 INVESTMENT IN JOINT VENTURES

	Economic Entity		The Bank	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Unquoted shares at cost	**650**	650	**650**	650
Economic Entity's share of post acquisition retained losses	**(650)**	(650)	**-**	-
	-	-	**650**	650

	2017 RM'000	**2016 RM'000**
The summarised financial information of joint ventures are as follows:		
Revenue	**52,336**	60,158
Loss after tax	**(10,822)**	(3,777)
Total assets	**240,988**	286,991
Total liabilities	**280,814**	297,038

	Affin-i Nadayu Sdn Bhd		KL South Development Sdn Bhd	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Net liabilities				
At beginning of the financial year	**(4,483)**	(4,155)	**(7,008)**	(3,559)
Loss for the financial year	**(109)**	(328)	**(10,713)**	(3,449)
At end of the financial year	**(4,592)**	(4,483)	**(17,721)**	(7,008)
Issued and paid up share capital	**1,000**	1,000	**500**	500
Investment in joint venture (%)	**50**	50	**30**	30
Share of loss in joint venture (RM'000)	**(2,296)**	(2,242)	**(5,316)**	(2,102)

Both the joint ventures' principal activities are property development.

As the Bank's share of cumulative losses of RM10.8 million (2016: RM3.7 million) as at 31 December 2017 has exceeded its investment in the joint ventures, the Bank does not recognise further losses in its Economic Entity financial statements.

15 INVESTMENT IN AN ASSOCIATE

Raeed Holdings Sdn Bhd

Raeed Holdings Sdn Bhd ('Raeed') is a consortium formed by six Islamic banking institutions in Malaysia namely Affin Islamic Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Maybank Islamic Berhad, Bank Kerjasama Rakyat Malaysia and Bank Simpanan Nasional. Raeed has set up a wholly-owned subsidiary, IAP Integrated Sdn Bhd to develop and operate a multi-bank platform known as the Investment Account Platform ('IAP').

IAP Integrated started its business in 2015 as an internet based multibank investment portal. The portal will facilitate efficient intermediation by the Sponsoring Banks to match financing requirement of ventures with investment from retail and institutional investors via Investment Account (IA). IAP Integrated aims to be the leading multibank platform for Shariah compliant capital mobilisation, supported by a conducive ecosystem.

	Economic Entity and The Bank	
	2017	**2016**
	RM'000	**RM'000**
Unquoted share at cost	**750**	750
The summarised financial information of associate is as follows:		
Revenue	**217**	-
Loss after tax	**(1,908)**	(1,754)
Total assets	**4,431**	5,641
Total liabilities	**4,147**	3,448
Net liabilities		
At beginning of the financial year	**(2,308)**	(544)
Loss for the financial year	**(1,908)**	(1,764)
At end of the financial year	**(4,216)**	(2,308)
Issued and paid up share capital	**4,500**	4,500
Investment in associate (%)	**17**	17
Share of loss in associate (RM'000)	**(748)**	(430)

As the Bank's share of cumulative losses of RM0.7 million as at 31 December 2017 is not material, the Bank does not recognise losses in its current financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2017

16 PROPERTY AND EQUIPMENT

Economic Entity and The Bank 2017	**Renovation RM'000**	**Office equipment and furniture RM'000**	**Computer equipment and software RM'000**	**Motor vehicles RM'000**	**Capital work-in progress RM'000**	**Total RM'000**
Cost						
At beginning of the financial year	**3,540**	**2,382**	**2,800**	**496**	**-**	**9,218**
Additions	**96**	**99**	**316**	**-**	**321**	**832**
Write-off	**(1)**	**(12)**	**(273)**	**-**	**-**	**(286)**
Reclassification from/(to) holding company	**-**	**1**	**126**	**(491)**	**7**	**(357)**
At end of the financial year	**3,635**	**2,470**	**2,969**	**5**	**328**	**9,407**
Accumulated depreciation						
At beginning of the financial year	**3,116**	**1,499**	**1,909**	**347**	**-**	**6,871**
Charge for the financial year	**195**	**236**	**316**	**92**	**-**	**839**
Write-off	**(1)**	**(6)**	**(273)**	**-**	**-**	**(280)**
Reclassification from/(to) holding company	**-**	**-**	**-**	**(434)**	**-**	**(434)**
At end of the financial year	**3,310**	**1,729**	**1,952**	**5**	**-**	**6,996**
Net book value at end of the financial year	**325**	**741**	**1,017**	**-**	**328**	**2,411**

Economic Entity and The Bank 2016	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Cost						
At beginning of the financial year	3,511	2,343	2,482	496	-	8,832
Additions	32	41	481	-	-	554
Write-off	(5)	(6)	-	-	-	(11)
Reclassification from/(to) holding company	2	4	(163)	-	-	(157)
At end of the financial year	3,540	2,382	2,800	496	-	9,218
Accumulated depreciation						
At beginning of the financial year	2,793	1,262	1,916	248	-	6,219
Charge for the financial year	328	234	322	99	-	983
Write-off	(5)	(4)	-	-	-	(9)
Reclassification from/(to) holding company	-	7	(329)	-	-	(322)
At end of the financial year	3,116	1,499	1,909	347	-	6,871
Net book value at end of the financial year	424	883	891	149	-	2,347

17 INTANGIBLE ASSETS

	Economic Entity and The Bank	
	2017	2016
	RM'000	RM'000
Cost		
At beginning/end of the financial year	**6,402**	6,402
Less: Accumulated amortisation		
At beginning of the financial year	**6,402**	5,976
Charge for the financial year	**-**	426
At end of the financial year	**6,402**	6,402
Net book value at end of the financial year	**-**	-

18 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity and The Bank	
	2017	2016
	RM'000	RM'000
Qard		
Demand deposits	**3,071,743**	2,572,559
Savings deposits	**539,826**	477,284
	3,611,569	3,049,843
Mudharabah		
General investment deposits	**76,332**	104,047
Tawarruq		
Murabahah term deposits	**9,925,402**	6,606,396
Commodity Murabahah	**586,029**	768,412
	10,511,431	7,374,808
	14,199,332	10,528,698

(ii) Maturity structure of Murabahah term deposits, general investment deposits and NIDC

	Economic Entity and The Bank	
	2017	2016
	RM'000	RM'000
Due within six months	**6,995,629**	4,729,087
Six months to one year	**2,529,053**	1,793,301
One year to three years	**215,241**	31,431
Three years to five years	**261,811**	156,624
	10,001,734	6,710,443

18 DEPOSITS FROM CUSTOMERS

(iii) By type of customer

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Government and statutory bodies	**5,237,179**	3,204,538
Business enterprises	**4,071,527**	4,318,973
Individuals	**1,580,143**	1,320,223
Domestic banking institutions	**4,452**	117
Domestic non-banking financial institutions	**2,995,415**	1,280,170
Foreign entities	**84,191**	73,693
Others entities	**226,425**	330,984
	14,199,332	10,528,698

19 INVESTMENT ACCOUNTS OF CUSTOMERS

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Movement in investment accounts		
At beginning of the financial year	**-**	-
New placement during the year	**870**	-
Redemption during the year	**(423)**	-
Finance expense on RIA	**35**	-
Profit distributed	**(33)**	-
At end of the financial year	**449**	-

Profit Sharing Ratio and Rate of Return	Economic Entity and The Bank 2017		2016	
	Average profit sharing ratio (PSR) %	Average rates of return (ROR) %	Average profit haring ratio (PSR) %	Average rate of return (ROR) %
Investment accounts:				
Due within:				
Six months to one year	**80.00**	**6.12**	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2017

20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Qard		
Licensed banks	**69,258**	84,392
	69,258	84,392
Tawarruq		
Licensed banks	**452,280**	801,436
Licensed investment banks	**101,330**	-
Bank Negara Malaysia	**112**	-
Other financial institutions	**638,420**	363,165
	1,192,142	1,164,601
	1,261,400	1,248,993
Maturity structure of deposits		
Due within six months	**1,261,400**	1,201,454
Six months to one year	**-**	47,539
	1,261,400	1,248,993

21 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Mudharabah		
Licensed banks	**2,749,016**	2,110,049
Movement in investment accounts		
At beginning of the financial year	**2,110,049**	1,331,318
New placement during the year	**1,841,284**	800,000
Redemption during the year	**(1,211,167)**	(10,606)
Finance expense on RIA	**108,040**	89,272
Profit distributed	**(99,190)**	(99,935)
At end of the financial year	**2,749,016**	2,110,049

21 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

Profit Sharing Ratio and Rate of Return	Economic Entity and The Bank			
	2017		2016	
	Average profit sharing ratio (PSR) %	Average rates of return (ROR) %	Average profit sharing ratio (PSR) %	Average rate of return (ROR) %
Investment accounts:				
Due within:				
One month	**95**	**4.40**	-	-
One to three months	**95**	**5.08**	-	-
Three to six months	**95**	**5.10**	-	-
Six months to one year	**80**	**6.12**	96	4.76
One year to three years	**97**	**5.09**	95	5.07
Three years to five years	**86**	**4.11**	-	-
Five years and above	**86**	**4.83**	95	5.02

The above table provides analysis of PSR & ROR as at reporting date into relevant maturity tenures based on remaining contractual maturities.

Inclusive of RIA placed by the holding company amounting to RM2,749.0 million. These investments are used to fund certain specific financing. The RIA is a contract based on the Mudharabah principle between two parties to finance a financing where the investor (i.e.'AFFIN Bank') solely provides capital and the business venture is managed solely by the enterpreneur (i.e. 'the Bank'). The profit of the business venture is shared between both parties based on pre-agreed ratio. Losses shall be borned by the investor.

22 DERIVATIVE FINANCIAL LIABILITIES

	Economic Entity and The Bank			
	2017		2016	
	Contract/ notional amount RM'000	Liabilities RM'000	Contract/ notional amount RM'000	Liabilities RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**442,334**	**3,258**	110,639	1,412
	442,334	**3,258**	110,639	1,412

23 OTHER LIABILITIES

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Margin and collateral deposits	**17,092**	8,413
Other creditors and accruals	**3,800**	3,449
Sundry creditors	**19,876**	14,926
Provision for zakat	**1,745**	2,332
Defined contribution plan (a)	**1,257**	1,057
Accrued employee benefits	**2,866**	2,261
Charity funds (b)	**63**	90
Unearned income	**20,757**	3,803
	67,456	36,331

(a) Defined contribution plan

The Bank contributes to the Employee Provident Fund ('EPF'), the national defined contribution plan. Once the contributions have been paid, the Bank has no further payment obligations.

(b) Charity funds

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Sources and uses of charity funds		
At beginning of the financial year	**90**	363
Uses of charity funds		
- Contribution to medical aid	**10**	55
- Contribution to non profit organisation	**13**	40
- Contribution to program/event	**4**	50
- Contribution to public usage	**-**	128
	27	273
At end of the financial year	**63**	90

The source of charity fund comes from purification of fees income earned from use of debit card at certain merchants as well as Shariah non-compliant events that involve mixed of Shariah compliant and non-Shariah compliant products and services. The charity fund was channeled to a number of charitable or public purposes for example centre of disabled children, association for less fortunate ex-government servants and module development for Islamic financial learning program.

The Bank does not charge gharamah for its financing facilities.

24 AMOUNT DUE TO HOLDING COMPANY

	Economic Entity and The Bank 2017 RM'000	Economic Entity and The Bank 2016 RM'000
Intersystem balances due to holding company	-	196,828
	-	196,828

The balance due to holding company are relating to intercompany transactions which are unsecured, bear no profit rate (2016: Nil) and payable on demand.

25 SHARE CAPITAL

	Economic Entity and The Bank			
	2017		2016	
	Number of ordinary shares	RM'000	Number of ordinary shares	RM'000
Authorised share capital*				
Ordinary shares of RM1.00 each	-	-	1,000,000	1,000,000
Ordinary share issued and fully paid:				
At beginning of the financial year	**560,000**	**560,000**	460,000	460,000
Issued during the financial year	**500,000**	**500,000**	100,000	100,000
At end of the financial year	**1,060,000**	**1,060,000**	560,000	560,000

* The new Companies Act, 2016 ("New Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

26 RESERVES

	Economic Entity		The Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Retained profits (a)	**610,202**	237,127	**610,852**	237,777
AFS revaluation reserves (b)	**(6,915)**	(18,064)	**(6,915)**	(18,064)
Statutory reserves (c)	-	305,016	-	305,016
Regulatory reserves (d)	**94,866**	73,178	**94,866**	73,178
	698,153	597,257	**698,803**	597,907

(a) As at 31 December 2017, the Bank has tax exempt account balance of RM38,018,355 (2016: RM34,165,467) under Section 12 of the Income Tax (Amendment) Act 1999, subject to agreement by the Inland Revenue Board.

(b) AFS revaluation reserves represent the unrealised gains or losses arising from the change in fair value of investments classified as financial investment available-for-sale. The gains or losses are transferred to the income statement upon disposal or when the securities become impaired. The depositors' portion of net unrealised gains or losses on 'Available-for-sale' at the end of financial year is net unrealised loss of RM9,512,705 (2016: net unrealised losses of RM28,835,478).

(c) The requirement to maintain a statutory reserve funds has been removed pursuant to BNM's Capital Fund Policy with effect from 3 May 2017. Consequently, the statutory reserve amount has been transferred to retained earnings.

(d) The Bank is required to maintain in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, advances and other financing, net of individual impairment allowances

27 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Income derived from investment of:		
- General investment deposits (a)	**401,451**	290,695
- Other deposits (b)	**293,215**	272,668
	694,666	563,363

(a) Income derived from investment of general investment deposits

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Finance income and hibah		
Financing, advances and other financing	**312,778**	221,444
Financial investments available-for-sale	**36,135**	23,166
Financial investments held-to-maturity	**2,058**	2,105
Money at call and deposits with financial institutions	**23,471**	23,064
	374,442	269,779
Accretion of discount less amortisation of premium	**2,336**	2,069
Total finance income and hibah	**376,778**	271,848
Other operating income		
Fee income:		
Commission	**1,186**	810
Service charges and fees	**8,178**	3,392
Guarantee fees	**1,925**	1,235
	11,289	5,437
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	**1,988**	3,814
	1,988	3,814
Other income:		
Foreign exchange profit/(loss)		
- realised	**10,586**	3,690
- unrealised	**(3,766)**	3,451
Other non-operating income	**4,576**	2,455
	11,396	9,596
Total income derived from investment of general investment deposits	**401,451**	290,695

27 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

(b) Income derived from investment of other deposits

	Economic Entity and The Bank	
	2017	2016
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other financing	**228,504**	207,711
Financial investments available-for-sale	**26,398**	21,729
Financial investments held-to-maturity	**1,504**	1,975
Money at call and deposits with financial institution	**17,147**	21,634
	273,553	253,049
Accretion of discount less amortisation of premium	**1,707**	1,940
Total finance income and hibah	**275,260**	254,989
Other operating income		
Fee income:		
Commission	**863**	759
Service charges and fees	**5,951**	3,182
Guarantee fees	**1,401**	1,159
	8,215	5,100
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	**1,447**	3,578
	1,447	3,578
Other income:		
Foreign exchange profit/(loss)		
- realised	**7,704**	3,461
- unrealised	**(2,741)**	3,237
Other non-operating income	**3,330**	2,303
	8,293	9,001
Total income derived from investment of other deposits	**293,215**	272,668

28 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNTS

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing, advances and other financing	**86,116**	75,906
Financial investments available-for-sale	**9,949**	7,941
Financial investments held-to-maturity	**567**	721
Money at call and deposits with other financial institutions	**6,462**	7,906
	103,094	92,474
Accretion of discount less amortisation of premium	**643**	709
Total finance income and hibah	**103,737**	93,183
Other operating income		
Fee income:		
Commission	**326**	278
Service charges and fees	**2,248**	1,163
Guarantee fees	**529**	423
	3,103	1,864
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	**546**	1,307
	546	1,307
Other income:		
Foreign exchange profit/(loss)		
- realised	**2,910**	1,265
- unrealised	**(1,035)**	1,183
Other non-operating income	**1,258**	842
	3,133	3,290
Total income derived from investment of investment accounts	**110,519**	99,644

29 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing, advances and other financing	**55,521**	39,069
Financial investments available-for-sale	**6,414**	4,087
Financial investments held-to-maturity	**366**	371
Money at call and deposits with financial institutions	**4,166**	4,069
	66,467	47,596
Accretion of discount less amortisation of premium	**415**	365
Total finance income and hibah	**66,882**	47,961
Other operating income		
Fee income:		
Commission	**210**	143
Service charges and fees	**1,449**	598
Guarantee fees	**341**	218
	2,000	959
Income from financial instruments:		
Gain on sale of financial investments available-for-sale	**352**	673
	352	673
Other income:		
Foreign exchange profit/(loss)		
- realised	**1,876**	651
- unrealised	**(667)**	609
Other non-operating income	**811**	433
	2,020	1,693
Total income derived from investment of shareholders' funds	**71,254**	51,286

30 ALLOWANCES/(WRITE-BACK) FOR IMPAIRMENT LOSSES ON FINANCING, ADVANCES AND OTHER FINANCING

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Individual impairment		
- made during the financial year	**16,404**	19,340
- written-back	**(8,096)**	(35,863)
Collective impairment		
- net allowance made during the financial year	**20,595**	13,897
Bad debts on financing:		
- recovered	**(1,805)**	(1,156)
- written-off	**1**	21
	27,099	(3,761)

31 ALLOWANCE FOR IMPAIRMENT LOSSES ON OTHER ASSETS

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Allowance for impairment for amount due from joint ventures	**18,329**	-

32 INCOME ATTRIBUTABLE TO THE DEPOSITORS

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Deposits from customers		
- mudharabah	**2,076**	3,032
- non-mudharabah	**363,809**	283,536
Deposits and placement of banks and other financial institutions		
- mudharabah	**63,418**	63,103
Profit distributed to Restricted Profit Sharing Investment Account ('RIA') account holders	**108,076**	89,272
	537,379	438,943

33 OTHER OPERATING EXPENSES

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Personnel costs (a)	**111,239**	81,301
Establishment costs (b)	**42,336**	35,639
Marketing expenses (c)	**6,080**	4,630
Administrative and general expenses (d)	**12,975**	11,252
	172,630	132,822

(a) Personnel costs

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Wages, salaries and bonuses	**83,573**	61,860
Defined contribution plan ('EPF')	**14,043**	10,391
Voluntary separation scheme	**2,247**	-
Other personnel costs	**11,376**	9,050
	111,239	81,301

33 OTHER OPERATING EXPENSES

(b) Establishment costs

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Rental of premises	**6,502**	5,214
Equipment rental	**99**	71
Repair and maintenance	**8,142**	7,020
Depreciation of property and equipment	**839**	983
Amortisation of intangible assets	**-**	426
IT consultancy fees	**11,339**	10,171
Dataline rental	**1,735**	1,141
Security services	**4,604**	3,797
Electricity, water and sewerage	**2,112**	1,774
Licence fees	**348**	350
Insurance/takaful and indemnities	**1,653**	783
Other establishment costs	**4,963**	3,909
	42,336	35,639

(c) Marketing expenses

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Business promotion and advertisement	**1,313**	788
Entertainment	**378**	319
Traveling and accommodation	**1,328**	827
Commissions expenses	**1,355**	1,047
Brokerage expenses	**1,037**	1,150
Other marketing expenses	**669**	499
	6,080	4,630

33 OTHER OPERATING EXPENSES

(d) Administration and general expenses

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Telecommunication expenses	**991**	958
Auditors' remuneration	**462**	415
Professional fees	**464**	1,179
Property and equipment written-off	**6**	3
Mail and courier charges	**726**	699
Stationery and consumables	**2,812**	2,534
Directors' fees and allowances	**1,786**	1,694
Donations	**225**	562
Settlement, clearing and bank charges	**571**	1,007
Stamp duties	**5**	-
Operational and litigation write-off expenses	**73**	261
GST Input tax-non recoverable	**4,752**	1,827
Other administration and general expenses	**102**	113
	12,975	11,252

The expenditure includes the following statutory disclosures:

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Directors' remuneration (Note 34)	**3,387**	2,654
Auditors' remuneration (a)		
- statutory audit fees	**327**	235
- over provision prior year	**(57)**	(13)
- regulatory related fees	**174**	153
Tax fees	**18**	40

(a) There was no indemnity given to or takaful/insurance effected for the Bank during the financial year.

34 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

The CEO and Directors of the Bank who have held office during the period since the date of the last report are:

CEO
Nazlee Bin Khalifah

Non-Executive Directors
En. Mohd Suffian Bin Haji Haron (Chairman) (appointed w.e.f. 1.6.2017)
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Associate Professor Dr. Said Bouheraoua
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) (Chairman) (completed his tenure of directorship w.e.f. 1.4.2017)
Tan Sri Dato' Seri Mohamed Jawhar (completed his tenure of directorship w.e.f. 1.7.2017)
Dr. Rosnah Binti Omar (resigned w.e.f. 25.10.2017)
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman (completed his tenure of directorship w.e.f. 1.11.2017)

The aggregate amount of remuneration for the CEOs, Directors and Shariah Committee members of the Bank for the financial year are as follows:

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
CEO		
Salaries	**519**	438
Bonuses	**712**	250
Defined contribution plan ('EPF')	**212**	125
Other employee benefits	**117**	117
Benefits-in-kind	**41**	30
	1,601	960
Non-executive Directors		
Fees	**1,432**	1,694
Benefits-in-kind	**9**	-
Other emoluments	**345**	-
	1,786	1,694
Directors' remuneration (Note 33)	**3,387**	2,654

34 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

A summary of the total remuneration of the CEO and Directors, distinguishing between Executive and Non-Executive Directors.

Economic Entity and The Bank 2017	**Salaries RM'000**	**Bonuses RM'000**	**Directors' Fees RM'000**	**Other emoluments RM'000**	**Benefits-in-kind RM'000**	**Shariah fees RM'000**	**Total RM'000**
CEO							
Nazlee Bin Khalifah	**519**	**712**	**-**	***329**	**41**	**-**	**1,601**
Total	**519**	**712**	**-**	**329**	**41**	**-**	**1,601**
Non-executive Directors							
En. Mohd Suffian Bin Haji Haron (Chairman)	**-**	**-**	**230**	**-**	**9**	**-**	**239**
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	**-**	**-**	**261**	**-**	**-**	**-**	**261**
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman	**-**	**-**	**269**	**-**	**-**	**-**	**269**
Associate Professor Dr. Said Bouheraoua	**-**	**-**	**297**	**-**	**-**	**83**	**380**
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	**-**	**-**	**55**	**165**	**-**	**-**	**220**
Tan Sri Dato' Seri Mohamed Jawhar	**-**	**-**	**103**	**165**	**-**	**-**	**268**
Dr. Rosnah Binti Omar	**-**	**-**	**134**	**15**	**-**	**-**	**149**
Total	**-**	**-**	**1,349**	**345**	**9**	**83**	**1,786**
Grand total	**519**	**712**	**1,349**	**674**	**50**	**83**	**3,387**

Economic Entity and The Bank 2016	Salaries RM'000	Bonuses RM'000	Directors' Fees RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Shariah fees RM'000	Total RM'000
CEO							
Nazlee Bin Khalifah	438	250	-	*242	30	-	960
Total	438	250	-	242	30	-	960
Non-executive Directors							
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	-	-	220	-	-	-	220
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	-	-	170	-	-	-	170
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	-	-	262	-	-	-	262
Tan Sri Dato' Seri Mohamed Jawhar	-	-	212	-	-	-	212
En. Mohd Suffian Bin Haji Haron	-	-	199	-	-	-	199
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman	-	-	309	-	-	-	309
Associate Professor Dr. Said Bouheraoua	-	-	231	-	-	80	311
Puan Rosnah Binti Omar	-	-	11	-	-	-	11
Total	-	-	1,614	-	-	80	1,694
Grand total	438	250	1,614	242	30	80	2,654

* Includes allowances and EPF

During the financial year, Directors and Officers of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of Bank subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the Bank was RM40 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance paid by the Company was RM57,913.

35 TAXATION

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Malaysian income tax		
Current tax	**28,650**	31,848
Under provision in prior year	**90**	207
Deferred tax (Note 12)	**(485)**	(1,251)
	28,255	30,804

Numerical reconciliation between the average effective tax rate and the Malaysian tax rate:

	%	%
Statutory tax rate in Malaysia	**24.00**	24.00
Tax effect in respect of:		
Non-allowable expenses	**0.64**	0.51
Tax savings arising from income exempt from tax for International Currency Business Unit (ICBU)	**(0.78)**	(3.17)
Under provision in prior years	**0.08**	0.14
Average effective tax rate	**23.94**	21.48

36 EARNINGS PER SHARE

The basic earnings per ordinary share for the Economic Entity and the Bank have been calculated based on the net profit attributable to ordinary equity holders of the Economic Entity and the Bank of RM89,746,864(2016: RM112,597,999). The weighted average number of shares in issue during the financial year of 737,534,249 (2016: 460,546,448) is used for the computation.

37 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties	Relationships
Lembaga Tabung Angkatan Tentera ('LTAT')	Ultimate holding corporate body, which is Government-Link Investment Company ('GLIC') of the Government of Malaysia
AFFIN Holdings Berhad ('AHB')	Penultimate holding company
AFFIN Bank Berhad ('ABB')	Holding company
Subsidiaries and associates of LTAT	Subsidiary and associate companies of the ultimate holding corporate body
Subsidiaries and associates of AHB as disclosed in its financial statements	Subsidiary and associate companies of the penultimate holding company
Subsidiaries of ABB as disclosed in its financial statements	Subsidiary companies of the holding company
Joint ventures as disclosed in Note 10	Joint ventures with AFFIN Islamic Bank Berhad
Associate as disclosed in Note 11	Associate of AFFIN Islamic Bank Berhad
Key management personnel	The key management personnel of the Bank consist of: - Directors - Chief Executive Officer - Member of Senior Management team
Related parties of key management personnel (deemed as related to the Bank)	- Close family members and dependents of key management personnel - Entities that are controlled, jointly controlled or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly.

The Bank do not have any individually or collectively significant transactions outside the ordinary course of business with the Government of Malaysia and government related entities. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

37 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances

Economic Entity and The Bank	Ultimate holding corporate body 2017 RM'000	Ultimate holding corporate body 2016 RM'000	Penultimate holding company 2017 RM'000	Penultimate holding company 2016 RM'000	Holding company 2017 RM'000	Holding company 2016 RM'000
Expenditure						
Profit paid on Commodity murabahah	**132**	231	**-**	-	**-**	-
Profit paid on deposits and placement of banks and other financial institutions	**-**	-	**-**	-	**3,214**	1,484
Profit paid on Restricted Invesment Account (RIA)	**-**	-	**-**	-	**106,516**	89,272
Other expenditure	**-**	-	**-**	-	**111,458**	87,365
	132	231	**-**	-	**221,188**	178,121

Economic Entity and The Bank	Other related companies 2017 RM'000	Other related companies 2016 RM'000	Companies in which certain Directors have substantial interest 2017 RM'000	Companies in which certain Directors have substantial interest 2016 RM'000	Key management personnel 2017 RM'000	Key management personnel 2016 RM'000
Income						
Income on financing, advances and other financing	**10,647**	9,104	**4,577**	5,564	**28**	24
	10,647	9,104	**4,577**	5,564	**28**	24
Expenditure						
Profit paid on Murabahah term deposit	**3,053**	4,496	**53**	53	**157**	157
Profit paid on general investment deposits	**7**	8	**-**	-	**-**	-
Profit paid on Commodity murabahah	**1,573**	1,727	**-**	-	**-**	-
Other expenditure	**114**	57	**-**	-	**-**	-
	4,747	6,288	**53**	53	**157**	157

37 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances (continued)

Economic Entity and The Bank	Ultimate holding corporate body 2017 RM'000	Ultimate holding corporate body 2016 RM'000	Penultimate holding company 2017 RM'000	Penultimate holding company 2016 RM'000	Holding company 2017 RM'000	Holding company 2016 RM'000
Amount due from						
Intercompany balances	**-**	-	**-**	-	**406,523**	-
	-	-	**-**	-	**406,523**	-
Amount due to						
Demand and saving deposits	**985**	4,496	**-**	-	**-**	-
Commodity Murabahah	**5,002**	7,507	**-**	-	**-**	-
Deposits and placement of banks and other financial institutions	**-**	-	**-**	-	**69,258**	285,026
Restricted Invesment Account (RIA)	**-**	-	**-**	-	**2,749,016**	2,110,049
Intercompany balances	**-**	-	**-**	-	**-**	196,828
	5,987	12,003	**-**	-	**2,818,274**	2,591,903
Commitments and contingencies	-	-	-	-	-	-

37 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances (continued)

Economic Entity and The Bank	Other related companies 2017 RM'000	Other related companies 2016 RM'000	Companies in which certain Directors have substantial interest 2017 RM'000	Companies in which certain Directors have substantial interest 2016 RM'000	Key management personnel 2017 RM'000	Key management personnel 2016 RM'000
Amount due from						
Financing, advances and other financing	**286,592**	599,601	**78,320**	99,624	**1,442**	630
Intercompany balances	**33,349**	47,225	**-**	-	**-**	-
	319,941	646,826	**78,320**	99,624	**1,442**	630
Amount due to						
Demand and saving deposits	**136,784**	379,875	**4,707**	3,011	**3,816**	3,171
Murabahah term deposit	**108,999**	147,813	**-**	-	**3,414**	2,385
General investment deposits	**276**	270	**-**	-	**-**	-
Commodity Murabahah	**4,215**	251,018	**-**	-	**-**	-
	250,274	778,976	**4,707**	3,011	**7,230**	5,556
Commitments and contingencies	**403,575**	164,067	**13**	-	**-**	-

No impairment allowances were made in 2017 and 2016 for financing, advances and other financing made to key management personnel.

37 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(b) Key management personnel compensation

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Directors' fees and allowances		
Fees	**1,349**	1,614
Benefits-in-kind	**9**	-
Shariah committee fees	**83**	80
Other emoluments	**345**	-
	1,786	1,694
Short-term employment benefits		
Salaries	**935**	798
Bonuses	**1,120**	410
Defined contribution plan ('EPF')	**356**	220
Other employee benefits	**207**	207
Benefits-in-kind	**67**	57
	2,685	1,692
	4,471	3,386

Included in the above table are CEO and directors' remuneration as disclosed in Note 34.

38 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are not secured over the assets of the Bank.

The commitments and contingencies consist of:

	Economic Entity and The Bank	
	Principal amount 2017 RM'000	Principal amount 2016 RM'000
Direct credit substitutes (*)	**92,241**	33,386
Transaction-related contingent items	**293,354**	282,867
Short-term self-liquidating trade related contingencies	**279,532**	312,550
Irrevocable commitments to extend credit:		
- maturity less than one year	**1,583,496**	1,129,279
- maturity more than one year	**1,656,826**	469,986
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	**25,654**	39,538
Unutilised credit card lines	**337**	-
Foreign exchange related contracts (#):		
- less than one year	**802,588**	1,049,862
	4,734,028	3,317,468

* Included in direct credit substitutes as above are financial guarantee contracts of RM92.2 million at the Bank (2016: RM33.4 million), of which fair value at the time of issuance is zero.

The fair value of these derivatives have been recognised as "derivative financial assets" and "derivative financial liabilities" in the statement of financial position and disclosed in Note 3 and Note 22 to the financial statements.

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk

Credit risk is the potential financial loss resulting from the failure of the customer to settle financial and contractual obligations through financing, hedging, trading and investing activities. It includes both pre-settlement and settlement risks of trading counterparties. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transaction with counterparties including interbank money market activities as well as derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by the Credit Risk Management Framework which is supported by a set of approved credit policies, guidelines and procedures. New and existing businesses are governed by Credit Plan which is developed as part of the annual business planning and budgeting process. The Credit Plan is reviewed at least annually to ensure the guidelines and criteria reflect portfolio strategy and market environment. Approval authorities are delegated to Senior Management and Group Management and Group Management Credit Committee ('GMCC') to implement the credit policies and ensure sound credit granting standards. Board Credit Review and Recovery Committee ('BCRRC') has review/veto power.

An independent Group Credit Management function is headed by Group Chief Credit Officer ('GCCO') with direct reporting line to Managing Director ('MD')/Chief Executive Officer ('CEO') to ensure sound credit appraisal and approval process. Group Risk Management ('GRM') with direct reporting line to Group Board Risk Management Committee ('GBRMC') has functional responsibilities for the management of credit risk, to ensure adherence to risk standards and discipline.

Credit risk measurement

Financing, advances and other financing

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate with the level of risk undertaken. Assessment and quantification of credit risk are supported by the use of internal rating models, scorecards and decision support tools.

The Bank adopts a credit risk grading methodology encompassing probability of default ('PD') driven scorecards for business financing, advances and other financing. Separate scorecards have been developed for two categories of business customers, Large Corporate ('LC') and Small Medium Enterprise ('SME').

For consumer mass market products, statistically developed application scorecards are used to assess the risks associated with the credit application as a decision support tool at financing, advances and other financing origination.

Stress Testing supplements the overall assessment of credit risk across the Bank.

Over-the-Counter ('OTC') Derivatives

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for rate of return and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenor to maturity).

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Risk limit control and mitigation policies

The Bank employs various policies and practices to control and mitigate credit risk.

Financing limits

The Bank establishes internal limits and related financing guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions.

The credit risk exposure for derivative and financing, advances and other financing books is managed as part of the overall financing limits with customers together with potential exposure from market movements.

Collateral

Credits are established against customer's capacity to pay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by the Bank are:-

- mortgage over residential properties;
- charges over commercial real estate or vehicles financed;
- charges over business assets such as business premises, inventory and accounts receivable; and
- charges over financial instruments such as marketable securities.

Documentary and commercial letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct financing.

Credit Related Commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, guarantees or letters of credit. In terms of credit risk, the Bank is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Credit risk monitoring

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year using updated financial and other relevant information. This is to ensure that the credit grades remain appropriate and any signs of weaknesses or deterioration in the credit quality are detected. Remedial action is taken where evidence of deterioration emanates.

Retail credits are actively monitored and managed on a portfolio basis by product type. A collection management system is in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

An Early Alert Process is adopted to pro-actively identify, report, and manage warning signs of potential credit deterioration. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile, identify, analyse and mitigate adverse trends or specific areas of risk concerns.

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Maximum exposure to credit risk

For financial assets recognised on the statement of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantee was to be called upon. For financing commitments and other credit related commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

All financial assets of the Bank are subject to credit risk except for cash in hand, equity securities held as financial assets held-for- trading or financial investments available-for-sale, as well as non-financial assets.

The exposure to credit risk of the Bank equals their carrying amount in the statement of financial position as at reporting date, except for the followings:

	Economic Entity and The Bank	
	2017 Maximum Credit Exposure RM'000	**2016 Maximum Credit Exposure RM'000**
Credit risk exposures of on-balance sheet assets:		
Other assets ^	**14,934**	5,302
Credit risk exposure of off-balance sheet items:		
Financial guarantees	**92,241**	33,386
Financing commitments and other credit related commitments	**3,839,199**	2,234,220
Total maximum credit risk exposure	**3,946,374**	2,272,908

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets, or in the case of off-balance sheet items, the amount guaranteed, committed or accepted, in most cases the likely exposure is far less due to collateral, credit enhancements and other actions taken to mitigate the credit exposure.

The financial effect of collateral held for financing, advances and other financing of the Bank is 79.2% (2016: 78.0%). The financial effects of collateral for the other financial assets are insignificant.

^ Excluded prepayment

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk concentration

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Bank, by industry concentration, are set out in the following tables:

Economic Entity and The Bank 2017	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivative financial assets RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing, advances and other financing RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	-	333,011	-	333,011	424,033
Mining and quarrying	-	-	-	-	-	367,694	-	367,694	5,003
Manufacturing	-	-	-	5,083	-	413,784	-	418,867	111,832
Electricity, gas and water supply	-	-	-	50,353	-	111,959	-	162,312	120,304
Construction	-	-	-	20,638	-	846,927	-	867,565	394,404
Real estate	-	-	-	93,425	-	1,754,881	-	1,848,306	302,024
Transport, storage and communication	-	-	-	30,417	-	766,937	-	797,354	59,343
Finance, takaful/insurance and business services	1,331	-	2,421	273,855	-	586,388	-	863,995	346,378
Government and government agencies	1,422,263	-	-	1,878,720	-	1,045,098	-	4,346,081	532,824
Wholesale & retail trade and restaurants & hotels	-	-	202	-	-	433,544	-	433,746	39,901
Others	-	-	-	25,233	-	8,709,524	454,806	9,189,563	1,595,394
Total assets	1,423,594	-	2,623	2,377,724	-	15,369,747	454,806	19,628,494	3,931,440

^ Others include amount due from associate, joint ventures, holding company and other assets.

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk concentration (continued)

Economic Entity and The Bank 2016	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivative financial assets RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing, advances and other financing RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	-	401,637	-	401,637	59,978
Mining and quarrying	-	-	-	-	-	11,295	-	11,295	12,288
Manufacturing	-	-	-	40,223	-	334,158	-	374,381	243,376
Electricity, gas and water supply	-	-	-	50,072	-	64,058	-	114,130	2,958
Construction	-	-	-	-	-	520,349	-	520,349	506,432
Real estate	-	-	-	-	-	1,435,603	-	1,435,603	133,749
Transport, storage and communication	-	-	-	30,102	-	283,062	-	313,164	90,879
Finance, takaful/insurance and business services	4,826	-	8,987	293,107	72,122	459,810	-	838,852	413,737
Government and government agencies	1,053,018	-	-	1,419,904	-	1,379,196	-	3,852,118	464,839
Wholesale & retail trade and restaurants & hotels	-	-	-	-	-	406,120	-	406,120	45,770
Others	-	-	-	-	-	6,619,655	^52,527	6,672,182	293,600
Total assets	1,057,844	-	8,987	1,833,408	72,122	11,914,943	52,527	14,939,831	2,267,606

^ Others include amount due from associate, joint ventures and other assets.

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Collaterals

The main collateral types accepted and given value by the Bank are:

- Mortgages over residential properties;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and account receivables; and
- Charges over financial instruments such as marketable securities

Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more.

Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

(i) the principal or profit or both is past due more than 90 days or 3 months from the first day of default;

(ii) where the account is in arrears for less than 90 days or 3 months, there is evidence of impairment to indicate that the borrower/customer is 'unlikely to pay' its credit obligations; or

(iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System (CCRIS).

Distribution of financing, advances and other financing by credit quality

	Economic Entity and The Bank	
	2017	**2016**
	RM'000	**RM'000**
Neither past due nor impaired (a)	**14,385,496**	11,234,317
Past due but not impaired (b)	**923,241**	646,126
Impaired (c)	**142,310**	97,498
Gross financing, advances and other financing	**15,451,047**	11,977,941
less: Allowance for impairment		
- Individual	**(24,039)**	(18,003)
- Collective	**(57,261)**	(44,995)
Net financing, advances and other financing	**15,369,747**	11,914,943

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Total financing, advances and other financing - credit quality (continued)

(a) Financing neither past due nor impaired

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

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Quality classification		
Satisfactory	**14,180,416**	10,956,340
Special mention	**205,080**	277,977
	14,385,496	11,234,317

Quality classification definitions

Satisfactory: Exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or levels of expected loss.

Special mention: Exposures require varying degrees of special attention and default risk is of greater concern which are under the monitoring of Group Early Alert Committee ('GEAC').

(b) Financing past due but not impaired

Certain financing, advances and other financing are past due but not impaired as the collateral values of these financing are in excess of the principal and profit outstanding. Allowances for these financing may have been set aside on a portfolio basis. The Bank's financing, advances and other financing which are past due but not impaired are as follows:

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Past due up to 30 days	**435,139**	192,501
Past due 31-60 days	**384,483**	365,009
Past due 61-90 days	**103,619**	88,616
	923,241	646,126

(c) Financing impaired

	Economic Entity and The Bank 2017 RM'000	2016 RM'000
Analysis of impaired assets:		
Gross impaired financing	**142,310**	97,498
Individually impaired financing	**65,212**	44,964

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Collateral and other credit enhancements obtained

The Bank obtained assets by taking possession of collateral held as security or calling upon other credit enhancements.

	Economic Entity and The Bank	
	2017 RM'000	2016 RM'000
Nature of assets		
Industrial and residential properties	**2,445**	2,445

Foreclosed properties are sold as soon as possible, with the proceeds used to reduce the outstanding indebtness. The carrying amount of the foreclosed properties held by the Bank at end of the financial year has been classified as Other assets as disclosed in Note 8.

Deposits and short-term funds, corporate bonds/sukuk, treasury bills and derivatives - credit quality

Corporate bonds/sukuk, treasury bills and other eligible bills included in financial assets held-for-trading and financial investments available-for-sale are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Bank mainly uses external credit ratings provided by RAM, MARC, Standard & Poor's or Moody's.

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

The table below presents the deposits and short-term funds, corporate bonds/sukuk, treasury bills and other eligible bills that neither past due nor impaired and impaired, analysed by rating:

Economic Entity and The Bank 2017	**Sovereign RM'000**	**AAA RM'000**	**AA- to AA+ RM'000**	**A- to A+ RM'000**	**Lower than A- RM'000**	**Unrated RM'000**	**Total RM'000**
Short-term funds	**1,422,263**	**-**	**525**	**697**	**109**	**-**	**1,423,594**
Derivative financial assets	**-**	**-**	**2,402**	**-**	**-**	**221**	**2,623**
Financial investments available-for-sale							
Malaysian Government treasury bills	**12,517**	**-**	**-**	**-**	**-**	**-**	**12,517**
Malaysian Government investment issues	**820,816**	**-**	**-**	**-**	**-**	**-**	**820,816**
Sukuk Perumahan Kerajaan	**90,231**	**-**	**-**	**-**	**-**	**-**	**90,231**
Khazanah Sukuk	**156,249**	**-**	**-**	**-**	**-**	**-**	**156,249**
Corporate bonds/Sukuk	**798,907**	**298,046**	**137,704**	**-**	**-**	**58,027**	**1,292,684**
Cagamas bond	**-**	**5,227**	**-**	**-**	**-**	**-**	**5,227**
	3,300,983	**303,273**	**140,631**	**697**	**109**	**58,248**	**3,803,941**

Economic Entity and The Bank 2016							
Short-term funds	1,053,018	-	920	3,906	-	-	1,057,844
Derivative financial assets	-	-	8,987	-	-	-	8,987
Financial investments available-for-sale							
Malaysian Government investment issues	628,785	-	-	-	-	-	628,785
Sukuk Perumahan Kerajaan	129,431	-	-	-	-	-	129,431
Khazanah Sukuk	173,287	-	-	-	-	-	173,287
Corporate bonds/Sukuk	483,139	322,112	91,391	-	-	-	896,642
Cagamas bond	-	5,263	-	-	-	-	5,263
Financial investments held-to-maturity							
Corporate bonds/Sukuk	-	-	-	-	-	72,122	72,122
	2,467,660	327,375	101,298	3,906	-	72,122	2,972,361

Collateral is not generally obtained directly from the issuers of debt securities. Certain debt securities may be collateralised by specifically identified assets that would be obtainable in the event of default.

Deposits and short-term funds, corporate bonds/sukuk, treasury bills and derivatives which are past due but not impaired is not significant.

39 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Other financial assets - credit quality

Other financial assets of the Bank is neither past due nor impaired are summarised as below:

	Economic Entity and The Bank 2017 RM'000	Economic Entity and The Bank 2016 RM'000
Neither past due nor impaired		
Other assets	**14,934**	5,302
Amount due from holding company	**406,523**	-
Amount due from associate	**500**	500
Impaired		
Amount due from joint ventures	**51,178**	46,725
Allowance for impairment	**(18,329)**	-
	32,849	46,725

Other financial assets that are past due but not impaired or impaired are not significant.

(ii) Market risk

Market risk defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk parameters are established based on risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least annually.

Profit rate risk is quantified by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

Periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

Risk Management Policies and Procedures

Risk management policies and procedures are reviewed and updated to ensure relevance to current business needs as well as current/applicable regulatory requirements such as BNM's policy documents on:

(a) Managing Unauthorised Trading & Market Manipulation;

(b) Code of Conduct for Malaysia Wholesale Financial Markets; and

(c) Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

39 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Risk measures

(I) Mark-to-market valuation tracks the current market value of the outstanding financial instruments.

(ii) Stress tests are conducted to attempt to quantify market risk arising from abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

Profit rate sensitivity

The table below shows the sensitivity for the financial assets and financial liabilities held as at reporting date.

Impact on profit after tax is measured using Repricing Gap Simulation methodology based on 100 basis point parallel shifts in profit rate.

Impact in equity represents the changes in fair value of fixed income instruments held in available-for sale portfolio arising from the shift in the profit rate.

Economic Entity and The Bank 2017	**+100 basis point RM million**	**-100 basis point RM million**
Impact on profit after tax	**(9.0)**	**9.0**
Impact on equity	**(93.2)**	**100.9**

Economic Entity and The Bank 2016	+100 basis point RM million	-100 basis point RM million
Impact on profit after tax	(13.4)	13.4
Impact on equity	(66.6)	71.4

Foreign exchange risk sensitivity analysis

An analysis of the exposure to assess the impact of a one per cent change in exchange rate to the profit after tax are as follows:

	Economic Entity and The Bank	
	2017 RM'000	**2016 RM'000**
+1%		
Euro	**1,584**	1,651
United States Dollar	**4,011**	5,527
Great Britain Pound	**1**	18
Australian Dollar	**3**	2
Japanese Yen	**91**	1
Others	**69**	15
	5,759	7,214
-1%		
Euro	**(1,584)**	(1,651)
United States Dollar	**(4,011)**	(5,527)
Great Britain Pound	**(1)**	(18)
Australian Dollar	**(3)**	(2)
Japanese Yen	**(91)**	(1)
Others	**(69)**	(15)
	(5,759)	(7,214)

39 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Economic Entity and The Bank 2017	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
Assets							
Cash and short-term funds	371	156	(245)	478	302	269	1,331
Derivative financial assets	1,146	-	-	-	-	8	1,154
Financing, advances and other financing	-	418,573	-	-	-	-	418,573
Total financial assets	1,517	418,729	(245)	478	302	277	421,058
Liabilities							
Deposits from customers	61,683	426,592	87	112	5	12	488,491
Deposits and placements of banks and other financial institutions	-	69,258	-	-	-	-	69,258
Derivative financial liabilities	-	3,191	1	-	-	-	3,192
Total financial liabilities	61,683	499,041	88	112	5	12	560,941
Net on-balance sheet financial position	(60,166)	(80,312)	(333)	366	297	265	(139,883)
Off balance sheet commitments	268,644	608,085	437	-	11,662	8,833	897,661

39 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk

Economic Entity and The Bank 2016	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
Assets							
Cash and short-term funds	395	2,944	398	317	165	607	4,826
Derivative financial assets	3,404	5,571	12	-	-	1	8,988
Financing, advances and other financing	-	65,542	-	-	-	-	65,542
Total financial assets	3,799	74,057	410	317	165	608	79,356
Liabilities							
Deposits from customers	358,458	22,552	249	19	5	-	381,283
Deposits and placements of banks and other financial institutions	-	84,392	-	-	-	-	84,392
Derivative financial liabilities	-	421	-	-	-	9	430
Total financial liabilities	358,458	107,365	249	19	5	9	466,105
Net on-balance sheet financial position	(354,659)	(33,308)	161	298	160	599	(386,749)
Off balance sheet commitments	571,894	760,499	2,200	-	-	1,342	1,335,935

39 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective. Profit rate risk thresholds are established in line with the Group's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

Economic Entity 2017	Non-trading book							
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash and short-term funds	1,420,000	-	-	-	-	3,594	-	1,423,594
Derivative financial assets	-	-	-	-	-	-	2,623	2,623
Financial investments available-for-sale	5,000	12,517	45,083	738,463	1,551,957	24,704	-	2,377,724
Financing, advances and other financing								
- non-impaired	7,533,121	1,155,018	963,767	3,333,915	2,322,916	(33,324)	-	15,275,413
- impaired	-	-	-	-	-	94,334 #	-	94,334
Others (1)	-	-	-	-	-	48,737	-	48,737
Amount due from holding company	-	-	-	-	-	406,523	-	406,523
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	400,640	-	400,640
Total assets	8,958,121	1,167,535	1,008,850	4,072,378	3,874,873	945,208	2,623	20,029,588
Liabilities								
Deposits from customers	5,666,482	2,692,924	5,246,053	472,842	-	121,031	-	14,199,332
Investment accounts of customers	-	-	449	-	-	-	-	449
Deposits and placements of banks and other financial institutions	770,859	437,954	48,822	-	-	3,765	-	1,261,400
Investment accounts due to designated financial institutions	301,121	166,716	135,358	725,915	1,419,906	-	-	2,749,016
Derivative financial liabilities	-	-	-	-	-	-	3,258	3,258
Other liabilities	-	-	-	-	-	67,456	-	67,456
Total liabilities	6,738,462	3,297,594	5,430,682	1,198,757	1,419,906	192,252	3,258	18,280,911
Net profit sensitivity gap	2,219,659	(2,130,059)	(4,421,832)	2,873,621	2,454,967			

\# Net of individual impairment allowance.
(1) Others include other assets, amount due from joint ventures and amount due from associate.

39 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity 2016	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash and short-term funds	1,049,000	-	-	-	-	8,844	-	1,057,844
Derivative financial assets	-	-	-	-	-	-	8,987	8,987
Financial investments available-for-sale	5,000	4,998	82,364	563,516	1,158,452	19,078	-	1,833,408
Financial investments held-to-maturity	-	-	72,065	-	-	57	-	72,122
Financing, advances and other financing								
- non-impaired	5,724,520	1,285,393	704,981	2,806,480	1,359,068	(28,541)	-	11,851,901
- impaired	-	-	-	-	-	63,042 #	-	63,042
Others (1)	-	-	26,931	-	-	25,252	-	52,183
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	332,000	-	332,000
Total assets	6,778,520	1,290,391	886,341	3,369,996	2,517,520	419,732	8,987	15,271,487
Liabilities								
Deposits from customers	4,478,001	1,725,983	4,047,582	187,599	-	89,533	-	10,528,698
Deposits and placements of banks and other financial institutions	496,681	703,163	47,125	-	-	2,024	-	1,248,993
Investment accounts due to designated financial institutions	-	697,210	130,000	439,946	835,023	7,870	-	2,110,049
Derivative financial liabilities	-	-	-	-	-	-	1,412	1,412
Amount due to holding company	-	-	-	-	-	196,828	-	196,828
Other liabilities	-	-	-	-	-	36,331	-	36,331
Total liabilities	4,974,682	3,126,356	4,224,707	627,545	835,023	332,586	1,412	14,122,311
Net profit sensitivity gap	1,803,838	(1,835,965)	(3,338,366)	2,742,451	1,682,497			

\# Net of individual impairment allowance.
(1) Others include other assets, amount due from joint ventures and amount due from associate.

39 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2017	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash and short-term funds	1,420,000	-	-	-	-	3,594	-	1,423,594
Derivative financial assets	-	-	-	-	-	-	2,623	2,623
Financial investments available-for-sale	5,000	12,517	45,083	738,463	1,551,957	24,704	-	2,377,724
Financing, advances and other financing								
- non-impaired	7,533,121	1,155,018	963,767	3,333,915	2,322,916	(33,324)	-	15,275,413
- impaired	-	-	-	-	-	94,334 #	-	94,334
Others (1)	-	-	-	-	-	48,737	-	48,737
Amount due from holding company	-	-	-	-	-	406,523	-	406,523
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	400,640	-	400,640
Total assets	8,958,121	1,167,535	1,008,850	4,072,378	3,874,873	945,208	2,623	20,029,588
Liabilities								
Deposits from customers	5,666,482	2,692,924	5,246,053	472,842	-	121,031	-	14,199,332
Investment accounts of customers	-	-	449	-	-	-	-	449
Deposits and placements of bank and other financial institutions	770,859	437,954	48,822	-	-	3,765	-	1,261,400
Investment accounts due to designated financial institutions	301,121	166,716	135,358	725,915	1,419,906	-	-	2,749,016
Derivative financial liabilities	-	-	-	-	-	-	3,258	3,258
Other liabilities	-	-	-	-	-	67,456	-	67,456
Total liabilities	6,738,462	3,297,594	5,430,682	1,198,757	1,419,906	192,252	3,258	18,280,911
Net profit sensitivity gap	2,219,659	(2,130,059)	(4,421,832)	2,873,621	2,454,967			

\# Net of individual impairment allowance.
(1) Others include other assets, amount due from joint ventures and amount due from associate.

39 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2016	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash and short-term funds	1,049,000	-	-	-	-	8,844	-	1,057,844
Derivative financial assets	-	-	-	-	-	-	8,987	8,987
Financial investments available-for-sale	5,000	4,998	82,364	563,516	1,158,452	19,078	-	1,833,408
Financial investments held-to-maturity	-	-	72,065	-	-	57	-	72,122
Financing, advances and other financing								
- non-impaired	5,724,520	1,285,393	704,981	2,806,480	1,359,068	(28,541)	-	11,851,901
- impaired	-	-	-	-	-	63,042 #	-	63,042
Others (1)	-	-	26,931	-	-	25,252	-	52,183
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	332,000	-	332,000
Total assets	6,778,520	1,290,391	886,341	3,369,996	2,517,520	419,732	8,987	15,271,487
Liabilities								
Deposits from customers	4,478,001	1,725,983	4,047,582	187,599	-	89,533	-	10,528,698
Deposits and placements of banks and other financial institutions	496,681	703,163	47,125	-	-	2,024	-	1,248,993
Investment accounts due to designated financial institutions	-	697,210	130,000	439,946	835,023	7,870	-	2,110,049
Derivative financial liabilities	-	-	-	-	-	-	1,412	1,412
Amount due to holding company	-	-	-	-	-	196,828	-	196,828
Other liabilities	-	-	-	-	-	36,331	-	36,331
Total liabilities	4,974,682	3,126,356	4,224,707	627,545	835,023	332,586	1,412	14,122,311
Net profit sensitivity gap	1,803,838	(1,835,965)	(3,338,366)	2,742,451	1,682,497			

Net of individual impairment allowance.
(1) Others include other assets, amount due from joint ventures and amount due from associate.

39 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions and regulatory landscape.

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon.

Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Bank's resilience in the event of a liquidity disruption.

The Contingency Funding Plan provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies, enabling the Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

The Group Board Risk Management Committee ('GBRMC') is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the Group Asset Liability Management Committee ('GALCO'). The Liquidity Management Committee ('LMC'), which is a sub-committee of GALCO, augments the functions of GALCO by directing its focus specifically to liquidity issues. The GBRMC is informed regularly on the liquidity position of the Bank.

39 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk disclosure table which is based on contractual undiscounted cash flow

The table below provides analysis of cash flow payables for financial liabilities based on remaining contractual maturities on undiscounted basis. The balances in the table below do not agree directly to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments.

Economic Entity and The Bank 2017	**Up to 1 month RM'000**	**> 1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Deposits from customers	**5,679,470**	**2,749,467**	**5,429,904**	**545,875**	**-**	**14,404,716**
Investment accounts of customers	**10**	**20**	**509**	**-**	**-**	**539**
Deposits and placements of banks and other financial institutions	**773,694**	**441,379**	**49,828**	**-**	**-**	**1,264,901**
Investment accounts due to designated financial institutions	**312,110**	**186,361**	**222,833**	**1,066,799**	**1,672,056**	**3,460,159**
Other liabilities	**67,456**	**-**	**-**	**-**	**-**	**67,456**
	6,832,740	**3,377,227**	**5,703,074**	**1,612,674**	**1,672,056**	**19,197,771**

Economic Entity and The Bank 2016	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	4,485,343	1,764,270	4,187,650	224,538	-	10,661,801
Deposits and placements of banks and other financial institutions	497,814	707,761	48,822	-	-	1,254,397
Investment accounts due to designated financial institutions	7,894	710,596	177,741	620,081	933,805	2,450,117
Other liabilities	36,331	-	-	-	-	36,331
	5,027,382	3,182,627	4,414,213	844,619	933,805	14,402,646

39 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Derivative financial liabilities

Derivative financial liabilities based on contractual undiscounted cash flow:

Economic Entity and The Bank 2017	**Up to 1 month RM'000**	**> 1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	**(171,705)**	**(270,208)**	**-**	**-**	**-**	**(441,913)**
Inflow	**171,703**	**270,630**	**-**	**-**	**-**	**442,333**
	(2)	**422**	**-**	**-**	**-**	**420**

Economic Entity and The Bank 2016	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	(110,626)	-	-	-	-	(110,626)
Inflow	110,639	-	-	-	-	110,639
	13	-	-	-	-	13

39 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Bank. The table below provides analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities.

Economic Entity 2017	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,423,594	-	-	-	-	-	1,423,594
Derivative financial assets	1,477	1,146	-	-	-	-	2,623
Financial investments available-for-sale	14,605	21,868	50,831	738,463	1,551,957	-	2,377,724
Financing, advances and other financing	592,061	639,754	347,828	2,401,442	11,388,662	-	15,369,747
Other assets	13,885	724	450	300	29	2,445	17,833
Amount due from holding company	406,523	-	-	-	-	-	406,523
Amount due from joint ventures	32,849	-	-	-	-	-	32,849
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	400,640	-	-	-	-	-	400,640
Other assets (1)	-	-	-	-	-	8,181	8,181
	2,886,134	663,492	399,109	3,140,205	12,940,648	10,626	20,040,214
Liabilities							
Deposits from customers	5,676,158	2,732,074	5,314,048	477,052	-	-	14,199,332
Investment accounts of customers	-	-	449	-	-	-	449
Deposits and placements of banks and other financial institutions	773,153	439,009	49,238	-	-	-	1,261,400
Investment accounts due to designated financial institutions	301,121	166,716	135,358	725,915	1,419,906	-	2,749,016
Derivative financial liabilities	1,028	2,230	-	-	-	-	3,258
Other liabilities	67,456	-	-	-	-	-	67,456
Provision for taxation	-	-	-	-	-	1,150	1,150
	6,818,916	3,340,029	5,499,093	1,202,967	1,419,906	1,150	18,282,061
Net liquidity gap	(3,932,782)	(2,676,537)	(5,099,984)	1,937,238	11,520,742	9,476	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

39 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

Economic Entity 2016	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,057,844	-	-	-	-	-	1,057,844
Derivative financial assets	8,987	-	-	-	-	-	8,987
Financial investments available-for-sale	13,559	11,790	86,091	563,516	1,158,452	-	1,833,408
Financial investments held-to-maturity	-	-	6,062	40,190	25,870	-	72,122
Financing, advances and other financing	623,096	1,003,458	127,584	2,321,247	7,839,558	-	11,914,943
Other assets	4,390	596	150	278	42	2,445	7,901
Amount due from joint ventures	46,725	-	-	-	-	-	46,725
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	332,000	-	-	-	-	-	332,000
Other assets (1)	-	-	-	-	-	11,153	11,153
	2,087,101	1,015,844	219,887	2,925,231	9,023,922	13,598	15,285,583
Liabilities							
Deposits from customers	4,483,987	1,752,202	4,104,454	188,055	-	-	10,528,698
Deposits and placements of banks and other financial institutions	497,258	704,196	47,539	-	-	-	1,248,993
Investment accounts due to designated financial institutions	7,870	697,210	130,000	439,946	835,023	-	2,110,049
Derivative financial liabilities	1,412	-	-	-	-	-	1,412
Other liabilities	36,331	-	-	-	-	-	36,331
Amount due to holding company	196,828	-	-	-	-	-	196,828
Provision for taxation	-	-	-	-	-	6,015	6,015
	5,223,686	3,153,608	4,281,993	628,001	835,023	6,015	14,128,326
Net liquidity gap	(3,136,585)	(2,137,764)	(4,062,106)	2,297,230	8,188,899	7,583	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

39 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

The Bank 2017	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,423,594	-	-	-	-	-	1,423,594
Derivative financial assets	1,477	1,146	-	-	-	-	2,623
Financial investments available-for-sale	14,605	21,868	50,831	738,463	1,551,957	-	2,377,724
Financing, advances and other financing	592,061	639,754	347,828	2,401,442	11,388,662	-	15,369,747
Other assets	13,885	724	450	300	29	2,445	17,833
Amount due from holding company	406,523	-	-	-	-	-	406,523
Amount due from joint ventures	32,849	-	-	-	-	-	32,849
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	400,640	-	-	-	-	-	400,640
Other assets (1)	-	-	-	-	-	8,831	8,831
	2,886,134	663,492	399,109	3,140,205	12,940,648	11,276	20,040,864
Liabilities							
Deposits from customers	5,676,158	2,732,074	5,314,048	477,052	-	-	14,199,332
Investment accounts of customers	-	-	449	-	-	-	449
Deposits and placements of banks and other financial institutions	773,153	439,009	49,238	-	-	-	1,261,400
Investment accounts due to designated financial institutions	301,121	166,716	135,358	725,915	1,419,906	-	2,749,016
Derivative financial liabilities	1,028	2,230	-	-	-	-	3,258
Other liabilities	67,456	-	-	-	-	-	67,456
Provision for taxation	-	-	-	-	-	1,150	1,150
	6,818,916	3,340,029	5,499,093	1,202,967	1,419,906	1,150	18,282,061
Net liquidity gap	(3,932,782)	(2,676,537)	(5,099,984)	1,937,238	11,520,742	10,126	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

39 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

The Bank 2016	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,057,844	-	-	-	-	-	1,057,844
Derivative financial assets	8,987	-	-	-	-	-	8,987
Financial investments available-for-sale	13,559	11,790	86,091	563,516	1,158,452	-	1,833,408
Financial investments held-to-maturity	-	-	6,062	40,190	25,870	-	72,122
Financing, advances and other financing	623,096	1,003,458	127,584	2,321,247	7,839,558	-	11,914,943
Other assets	4,390	596	150	278	42	2,445	7,901
Amount due from joint ventures	46,725	-	-	-	-	-	46,725
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	332,000	-	-	-	-	-	332,000
Other assets (1)	-	-	-	-	-	11,803	11,803
	2,087,101	1,015,844	219,887	2,925,231	9,023,922	14,248	15,286,233
Liabilities							
Deposits from customers	4,483,987	1,752,202	4,104,454	188,055	-	-	10,528,698
Deposits and placements of banks and other financial institutions	497,258	704,196	47,539	-	-	-	1,248,993
Investment accounts due to designated financial institutions	7,870	697,210	130,000	439,946	835,023	-	2,110,049
Derivative financial liabilities	1,412	-	-	-	-	-	1,412
Other liabilities	36,331	-	-	-	-	-	36,331
Amount due to holding company	196,828	-	-	-	-	-	196,828
Provision for taxation	-	-	-	-	-	6,015	6,015
	5,223,686	3,153,608	4,281,993	628,001	835,023	6,015	14,128,326
Net liquidity gap	(3,136,585)	(2,137,764)	(4,062,106)	2,297,230	8,188,899	8,233	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

39 FINANCIAL RISK MANAGEMENT

(iv) Operational risk management

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Group.

Group Board Risk Management Committee ('GBRMC') approves all policies/policy changes relating to operational risk. Group Operational Risk Management Committee ('GORMC') supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The operational risk management ('ORM') function within Group Risk Management ('GRM') operates in independent capacity to manage the risks in activities associated with the operational function of the Bank.

The Bank adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of the average annual gross income over the previous three years.

Operational risks are managed daily through established systems and processes to ensure compliance with policies, guidelines and control procedures.

The Bank employs the following standard operational risk tools for risk and control identification and assessment:

- Risk Control Self Assessment ('RCSA')
- Key Control Standards ('KCS')
- Key Risk Indicator ('KRI')
- Loss Event Database ('LED')

Scenario analysis is an extension of the risk assessment process whereby business/support unit identify potential operational risk events in a given scenario, assess the potential outcomes and the need for additional risk management controls or mitigation solutions for each of the potential outcome.

Information Technology ('IT') and cyber risks are managed as part of the operational risk activities. The IT systems and processes are assessed and tested regularly for resilience and continuity, and that they are secure from internal and external threats.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness.

Operational Risk Coordinators (ORC) are appointed at business and support units as champions of ORM activities within respective units. The ORC is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results. As an internal requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

39 FINANCIAL RISK MANAGEMENT

(v) Shariah Non-Compliance Risk

Shariah non-compliance (“SNC”) is the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Bank may suffer arising from the failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia (“SAC”), standards on Shariah matters issued by BNM pursuant to section 29(1) of the IFSA or decisions or advice of the Shariah Committee that are consistent with the rulings of the SAC.

The Shariah Governance Framework for Islamic Financial Institutions (BNM/RH/GL_012_3) issued by BNM and the Bank’s Shariah Risk Management Framework are the main reference for the Shariah governance and Shariah risk management process within Affin Islamic Bank Berhad.

A Shariah Committee (‘SC’) is established to deliberate on Shariah issues presented to them and provide resolution as well as guidance. GORMC together with BRMC and GBRMC assist the Board in the overall oversight of Shariah risk management of the Group.

Shariah Risk Management is part of an integrated risk management control function to identify all possible risks of SNC and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

SNC risk is proactively managed via the following tools and methodologies:

1. SNC Event Reporting to BNM to collect, evaluate, monitor and report Shariah loss data;

2. Shariah Risk and Control Self-Assessment (RCSA)/Risk Profiling to assist business/functional unit to identify and assess risks and controls. RCSA will be performed annnually or as and when there is occurrence of significant events either internal or external;

3. Key Risk Indicator (KRI) to predict and highlight any potential high risk area. These indicators will be reviewed on a periodic basis (monthly or quarterly) to alert Management to changes that may have risk concerns; and

4. Key Control Standard (KCS) to validate the effectiveness of control measures.

(vi) Business Continuity Risk

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management (‘BCM’).

BRMC approves all policies and its changes relating to business continuity management. It also reviews, monitors and discusses business continuity management reports tabled at its meetings. GORMC supports BRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risks listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

Policies and processes are in place to support the monitoring and reporting of business continuity risks.

39 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities

Fair value is defined as the price that would be received to sell as an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Bank's exposures to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Bank's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. Transfers between fair value hierarchy primarily due to change in the level of trading activity, change in observable market activity related to an input, reassessment of available pricing information and change in the significance of the unobservable input. There were no transfers between Level 1, 2 and 3 of the fair value hierarchy during the financial year (2016: Nil).

39 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities (continued)

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

Economic Entity and The Bank 2017	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Assets				
Derivative financial assets	**-**	**2,623**	**-**	**2,623**
Financial investments available for sale *				
- Money market instruments	**-**	**1,085,040**	**-**	**1,085,040**
- Corporate bonds/Sukuk	**-**	**1,292,684**	**-**	**1,292,684**
	-	**2,380,347**	**-**	**2,380,347**
Liabilities				
Derivative financial liabilities	**-**	**3,258**	**-**	**3,258**
	-	**3,258**	**-**	**3,258**

Economic Entity and The Bank 2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Derivative financial assets	-	8,987	-	8,987
Financial investments available for sale *				
- Money market instruments	-	936,766	-	936,766
- Corporate bonds/Sukuk	-	896,642	-	896,642
	-	1,842,395	-	1,842,395
Liabilities				
Derivative financial liabilities	-	1,412	-	1,412
	-	1,412	-	1,412

* Net of allowance for impairment.

The following table present the changes in Level 3 instruments for the financial year ended:

	Economic Entity and The Bank	
	2017 RM'000	**2016 RM'000**
At beginning of the financial year	**-**	525
Purchases	**-**	-
Sales	**-**	(25)
Reclassify to investment in associate	**-**	(500)
At end of the financial year	-	-

39 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities (continued)

Effect of changes in significant unobservable assumptions to reasonably possible alternative

As at reporting date, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) mainly include unquoted shares held for socio economic purposes.

Qualitative information about the fair value measurements using significant unobservable inputs (Level 3):

Description	Fair value assets 2017 RM'000	Fair value assets 2016 RM'000	Valuation techniques	Unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Economic Entity and The Bank					
Financial investments available-for-sale					
Unquoted shares	-	-	Net tangible assets	Net tangible assets	Higher net tangible assets results in higher fair value

In estimating its significance, the Bank used an approach that is currently based on methodologies used for fair value adjustments. These adjustments reflects the values that the Bank estimate is appropriate to adjust from the valuations produced to reflect for uncertainties in the inputs used. The methodologies used can be a statistical or other relevant approved techniques.

Economic Entity and The Bank 2017	**Carrying value RM'000**	**Fair value Level 1 RM'000**	**Fair value Level 2 RM'000**	**Fair value Level 3 RM'000**	**Fair value Total RM'000**
Financial assets					
Financing, advances and other financing	**15,369,747**	**-**	**15,005,506**	**-**	**15,005,506**
	15,369,747	**-**	**15,005,506**	**-**	**15,005,506**
Financial liabilities					
Deposits from customers	**14,199,332**	**-**	**14,208,578**	**-**	**14,208,578**
	14,199,332	**-**	**14,208,578**	**-**	**14,208,578**

Economic Entity and The Bank 2016	Carrying value RM'000	Fair value Level 1 RM'000	Fair value Level 2 RM'000	Fair value Level 3 RM'000	Fair value Total RM'000
Financial assets					
Financial investments held-to-maturity	72,122	-	72,122	-	72,122
Financing, advances and other financing	11,914,943	-	11,612,207	-	11,612,207
	11,987,065	-	11,684,329	-	11,684,329
Financial liabilities					
Deposits from customers	10,528,698	-	10,535,227	-	10,535,227
	10,528,698	-	10,535,227	-	10,535,227

39 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities (continued)

Other than as disclosed above, the total fair value of each financial assets and liabilities presented on the statements of financial position as at reporting date of the Bank approximates the total carrying amount.

The fair value estimates were determined by application of the methodologies and assumptions described below.

Short-term funds and placements with banks and other financial institutions

For short-term funds and placements with banks and other financial institutions with maturity of less than six months, the carrying amount is a reasonable estimate of fair value.

For amounts with maturities of six months or more, fair values have been estimated by reference to current rates at which similar deposits and placements would be made with similar credit ratings and maturities.

Financial investments held-to-maturity

The fair values of financial investments held-to-maturity are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on the expected cash flows of the instruments discounted by indicative market yields for the similar instruments as at reporting date or the audited net tangible asset of the invested company.

Financing, advances and other financing

Financing, advances and other financing of the Bank comprise of floating rate financing and fixed rate financing. For performing floating rate financing, the carrying amount is a reasonable estimate of their fair values.

The fair values of performing fixed rate financing are arrived at using the discounted cash flows based on the prevailing market rates of financing, advances and other financing with similar credit ratings and maturities.

The fair values of impaired financing, advances and other financing whether fixed or floating are represented by their carrying values, net of individual and collective allowances, being the reasonable estimate of recoverable amount.

Other assets and liabilities

The carrying value less any estimated allowance for financial assets and liabilities included in other assets and other liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

Deposits from customers, banks and other financial institutions and bills and acceptances payable

The carrying values of deposits and liabilities with maturities of six months or less are assumed to be reasonable estimates of their fair values. Where the remaining maturities of deposits and liabilities are above six months, their estimated fair values are arrived at using the discounted cash flows based on prevailing market rates currently offered for similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-profit bearing deposits, approximates carrying amount which represents the amount payable on demand.

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with MFRS 132 'Financial Instruments: Presentation', the Bank reports financial assets and financial liabilities on a net basis on the statements of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangement on:

- All financial assets and liabilities that are reported net on statements of financial position; and
- All derivative financial instruments and other similar secured financing and funding agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for statements of financial position netting.

The table identifies the amounts that have been offset in the statements of financial position and also those amounts that are covered by enforeable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of MFRS 132 described above.

The "Net amounts" presented below are not intended to represent the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

Related amount not offset

Derivative financial assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Economic Entity and The Bank 2017	**Effects of offsetting on the statements of financial position** Gross amount RM'000	Amount offset RM'000	Net amount reported on statement of financial position RM'000	**Related amounts not offset** Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
Financial assets						
Derivative financial assets	**2,623**	**-**	**2,623**	**(2,187)**	**-**	**436**
Total assets	**2,623**	**-**	**2,623**	**(2,187)**	**-**	**436**
Financial liabilities						
Derivative financial liabilities	**3,258**	**-**	**3,258**	**(2,187)**	**-**	**1,071**
Total liabilities	**3,258**	**-**	**3,258**	**(2,187)**	**-**	**1,071**

Economic Entity and The Bank 2016	Effects of offsetting on the statements of financial position Gross amount RM'000	Amount offset RM'000	Net amount reported on statement of financial position RM'000	Related amounts not offset Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
Financial assets						
Derivative financial assets	8,987	-	8,987	(687)	-	8,300
Total assets	8,987	-	8,987	(687)	-	8,300
Financial liabilities						
Derivative financial liabilities	1,412	-	1,412	(687)	-	725
Total liabilities	1,412	-	1,412	(687)	-	725

41 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments under non-cancellable operating leases commitments are as follows:

	Economic Entity and The Bank	
	2017	**2016**
	RM'000	**RM'000**
Within one year	**915**	691
One year to five years	**730**	682

42 CAPITAL MANAGEMENT

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Capital Components) dated 28 November 2012.

The Bank is currently adopting Standardised Approach for Credit Risk and Market Risk, the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 5.750% (2016: 5.125%) and 7.250% (2016: 6.625%) respectively for year 2017. The minimum regulatory capital adequacy requirement has increased to 9.250% (2016 : 8.625%) for total capital ratio.

The Bank has adopted and to comply with the Guidelines and are subject to the transition arrangements as set out by BNM. The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operates;
- To safeguard the Bank's 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.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the management which takes into account the risk profile of the Bank.

The table in Note 43 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2017.

43 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Paid-up share capital	**1,060,000**	560,000	**1,060,000**	560,000
Statutory reserves	**-**	305,016	**-**	305,016
Retained profits	**610,202**	237,127	**610,852**	237,777
Unrealised losses on AFS	**(6,915)**	(23,768)	**(6,915)**	(23,768)
	1,663,287	1,078,375	**1,663,937**	1,079,025
Less:				
Deferred tax assets	**(5,020)**	(8,056)	**(5,020)**	(8,056)
Investment in associate/joint ventures	**(600)**	(450)	**(1,120)**	(840)
CET1 capital	**1,657,667**	1,069,869	**1,657,797**	1,070,129
Tier I capital	**1,657,667**	1,069,869	**1,657,797**	1,070,129
Collective impairment @	**33,324**	28,541	**33,324**	28,541
Regulatory adjustments	**94,866**	73,178	**94,866**	73,178
Less:				
Investment in associate/joint ventures	**(150)**	(300)	**(280)**	(560)
Tier II capital	**128,040**	101,419	**127,910**	101,159
Total capital	**1,785,707**	1,171,288	**1,785,707**	1,171,288
CET1 capital ratio	**15.086%**	12.421%	**15.087%**	12.424%
Tier 1 capital ratio	**15.086%**	12.421%	**15.087%**	12.424%
Total capital ratio	**16.251%**	13.598%	**16.251%**	13.598%
CET1 capital ratio (net of proposed dividends)	**15.086%**	12.421%	**15.087%**	12.424%
Tier 1 capital ratio (net of proposed dividends)	**15.086%**	12.421%	**15.087%**	12.424%
Total capital ratio (net of proposed dividends)	**16.251%**	13.598%	**16.251%**	13.598%
Risk-weighted assets for:				
Credit risk	**10,438,538**	8,124,441	**10,438,538**	8,124,441
Market risk	**19,266**	37,254	**19,266**	37,254
Operational risk	**530,574**	451,894	**530,574**	451,894
Total risk-weighted assets	**10,988,378**	8,613,589	**10,988,378**	8,613,589

@ Qualifying collective impairment is restricted to allowances on unimpaired portion of the financing, advances and other financing.

In accordance with BNM's Guidelines on Investment Account, the credit and market risk weighted on the assets funded by the RIA are excluded from calculation of capital adequacy. As at 31 December 2017, RIA assets excluded from Total Capital Ratio calculation amounted to RM2,749,016,284 (2016: RM2,110,048,727)

44 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. To enhance the information content of the estimates, certain variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Allowance for impairment losses on financing, advances and other financing

The accounting estimates and judgments related to the impairment of financing and provision for off-balance sheet positions is a critical accounting estimate because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Bank's results of operations.

In assessing assets for impairment, management judgment is required. The determination of the impairment allowance required for financing which are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as local economic conditions, the financial performance of the counterparty and the value of any collateral held, for which there may not be a readily accessible market. 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 reported allowances.

The impairment allowance for portfolios of smaller balance homogenous financing, such as those to individuals and small business customers of the private and retail business, and for those financing which are individually significant but for which no objective evidence of impairment exists, is determined on a collective basis. The collective impairment allowance is calculated on a portfolio basis using statistical models which incorporate numerous estimates and judgments, and therefore is subject to estimation uncertainty. The Bank performs a regular review of the models and underlying data and assumptions as far as possible to reflect the current economic circumstances. The probability of default, loss given defaults, and loss identification period, amongst other things, are all taken into account during this review.

45 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

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

		The Bank	
		2017	**2016**
		RM'000	**RM'000**
(i)	The aggregate value of outstanding credit exposures with connected parties (RM'000)	**625,349**	777,489
(ii)	The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	**3%**	4%
(iii)	The percentage of outstanding credit exposures with connected parties which is impaired or in default	**Nil**	Nil

46 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 29 March 2018.

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, MOHD SUFFIAN BIN HAJI HARON and LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA), two of the Directors of AFFIN ISLAMIC BANK BERHAD, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 52 to 146 are drawn up so as to give a true and fair view of the state of affairs of the Economic Entity and the Bank as at 31 December 2017 and of the results and cash flows of the Economic Entity and the Bank for the financial year ended on the date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016, in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 29 March 2018.

MOHD SUFFIAN BIN HAJI HARON
Chairman

LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)
Director

STATUTORY DECLARATION

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

I, RAMANATHAN RAJOO, the officer of AFFIN ISLAMIC BANK BERHAD primarily responsible for the financial management of the Economic Entity and the Bank, do solemnly and sincerely declare that in my opinion, the accompanying financial statements set out on pages 52 to 146 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

RAMANATHAN RAJOO

Subscribed and solemnly declared by the abovenamed RAMANATHAN RAJOO at Kuala Lumpur in Malaysia on 29 March 2018, before me.

Commissioner for Oaths

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the Most Beneficent, the Most Merciful

Praise be to Allah, the Lord of the Worlds, and peace and blessings upon our Prophet Muhammad and on his scion and companions

In compliance with the Shariah Governance Framework, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we affirm the following:

We have reviewed the principles and contracts relating to the transactions and applications offered by AFFIN Islamic Bank Berhad ('the Bank') during the period ended 31 December 2017. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of the Bank is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on the review work carried out by the Shariah review and Shariah audit of the Bank and to report to you.

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a sample testing basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

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

We conducted interactive sessions and discussions with senior management to enhance understanding on Islamic finance. Periodic training for staff has been conducted in order to provide adequate knowledge and competency in undertaking tasks for the business of the Bank.

In our opinion:

1. the contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2017 that we have reviewed are in compliance with the Shariah principles;

2. the allocation of profit and incurrence of losses relating to investment accounts conform to the basis that we have approved in accordance with Shariah principles;

3. no earning and purification was recorded from sources or by means prohibited by the Shariah principles for the financial year end 31 December 2017.

4. The Shariah non-compliant events discovered involved Tawarruq financings i.e. disbursement was made prior to Tawarruq transaction. The rectification has been done.

5. the calculation of zakat is in compliance with Shariah principles. The zakat fund is distributed through various channels i.e. States Zakat Collection Centre, non-govermental organization and individuals under *asnaf* categories of poor, needy, *amil, riqab, gharimin* and *fisabilillah.*

SHARIAH COMMITTEE'S REPORT

We, the members of the Shariah Committee of AFFIN Islamic Bank Berhad, do hereby confirm that the operations of the Bank for the year ended 31 December 2017 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee: **Associate Professor Dr. Said Bouheraoua**

Shariah Committee: **Associate Professor Dr. Ahmad Azam Bin Othman**

Shariah Committee: **Associate Professor Dr. Zulkifli Bin Hasan**

Shariah Committee: **Dr. Mohammad Mahbubi Ali**

Shariah Committee: **Dr. Nor Fahimah Binti Mohd Razif**

Kuala Lumpur, Malaysia
29 March 2018

INDEPENDENT AUDITORS' REPORT

to the Member of AFFIN ISLAMIC Bank Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of AFFIN Islamic Bank Berhad ("the Bank") and the Economic Entity give a true and fair view of the financial position of the Economic Entity and of the Bank as at 31 December 2017, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Economic Entity and of the Bank, which comprise the statements of financial position as at 31 December 2017 of the Economic Entity and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Economic Entity and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 52 to 146.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

In connection with our audit of the financial statements of the Economic Entity and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Economic Entity and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Economic Entity and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Economic Entity and of the Bank that are free from material misstatement, whether due to fraud or error.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Auditors' responsibilities for the audit of the financial statements

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

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

(a) Identify and assess the risks of material misstatement of the financial statements of the Economic Entity and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Economic Entity's and Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Economic Entity's or Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Economic Entity and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Economic Entity or Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Economic Entity and of the Bank, including the disclosures, and whether the financial statements of the Economic Entity and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

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

INDEPENDENT AUDITORS' REPORT

to the Member of AFFIN ISLAMIC Bank Berhad (Incorporated in Malaysia)

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

NG YEE LING
03032/01/2019 J
Chartered Accountant

Kuala Lumpur, Malaysia
29 March 2018

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BASEL II PILLAR 3 DISCLOSURES

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2017

1 INTRODUCTION

1.1 Background

The Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued by Bank Negara Malaysia ('BNM'), which is the equivalent of the Basel II issued by the Basel Committee of Banking Supervision and the Islamic Financial Services Board is structured around three fundamental pillars:

– Pillar 1 defines the minimum capital requirement to ensure that financial institutions hold sufficient capital to cover their exposure to credit, market and operational risks.

– Pillar 2 requires financial institutions to have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.

– Pillar 3 requires financial institutions to establish and implement an appropriate disclosure policy that promotes transparency regarding their risk management practices and capital adequacy positions.

Pillar 3 disclosure is required under the BNM Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3).

Affin Islamic Bank Berhad ('the Bank') adopts the following approaches under Pillar 1 requirements:

– Standardised Approach for Credit Risk

– Basic Indicator Approach for Operational Risk

– Standardised Approach for Market Risk

1.2 Scope of Application

This document contains the disclosure requirements under Pillar 3 for the Bank for the year ended 31 December 2017. The disclosures are made in line with the Pillar 3 disclosure requirements under the Basel II framework as laid out by BNM.

The disclosures should be read in conjunction with the Bank's 2017 Annual Report for the year ended 31 December 2017.

2 RISK GOVERNANCE STRUCTURE

2.1 Overview

The Board of Directors of the Bank is ultimately responsible for the overall performance of the Bank. The Board's responsibilities are congruent with the framework of BNM Guidelines. The Board also exercises great care to ensure that high ethical standards are upheld, and that the interests of stakeholders are not compromised. These include responsibility for determining the Bank's general policies and strategies for the short, medium and long term, approving business plans, including targets and budgets, and approving major strategic decisions.

The Board has overall responsibility for maintaining the proper management and protection of the Bank's interests by ensuring effective implementation of the risk management policy and process, as well as adherence to a sound system of internal control. The Board also recognises that risks cannot be eliminated completely. As such, the inherent system of internal control is designed to provide a reasonable though not absolute assurance against the risk of material errors, fraud or losses occurring. The system of internal controls encompasses controls relating to financial, operational, risk management and compliance with applicable laws, regulations, policies and guidelines.

The terms of reference of the Board Committees as disclosed in the Annual Report provide an outline of respective roles and functions. In carrying out its functions, the Board has delegated specific responsibilities to other Board Committees, which operate under approved terms of reference, to assist the Board in discharging their duties. The Chairmen of the various Committees report on the outcome of their Committee meetings to the Board and any further deliberation is made at Board level, if required. These reports and deliberations are incorporated into the Minutes of the Board meetings. The Board meets on a monthly basis.

2 RISK GOVERNANCE STRUCTURE

2.2 Board Committees

Board Nomination and Remuneration Committee ('BNRC')

The BNRC is responsible for providing a formal and transparent procedure for the appointment of Directors, Chief Executive Officer and Senior Management. The BNRC develops the remuneration policy for Directors, Chief Executive Officer, Senior Management and other material risk takers, whereby, it assesses the effectiveness of individual Director, the Board as a whole and the performance of the Chief Executive Officer as well as Senior Management.

The Committee obtains advice from experts in compensation and benefits, both internally and externally.

Group Board Risk Management Committee ('GBRMC')

The GBRMC is responsible for overseeing management activities in managing credit, market, liquidity, operational, legal, reputational and other material risks as well as ensuring that the risk management process is in place and functioning effectively.

It is responsible for setting the overall tone of the Bank's strategy and ensuring effective communication and integration of risk appetite within the business strategy, operations and culture.

The Committee also assists the Board in oversight responsibilities on internal controls, and risk management strategies, policies, processes, frameworks and other risk related matters. It has the responsibility of reviewing and/or approving risk management policies, guidelines and reports.

Board Credit Review and Recovery Committee ('BCRRC')

The BCRRC is responsible for providing critical review of financing and other credit facilities with high risk implications and vetoing financing applications that have been approved by the Group Management Credit Committee as appropriate.

Board Audit Committee ('BAC')

The BAC is responsible for providing oversight and reviewing the adequacy and integrity of the internal control systems as well as oversees the work of the internal and external auditors.

Reliance is placed on the results of independent audits performed primarily by internal auditors, the outcome of statutory audits on financial statements conducted by external auditors and on representations by Management based on their control self-assessment of all areas of their responsibility.

Minutes of BAC meetings, which provide a summary of the proceedings, are circulated to Board members for notation and discussion. The Bank has an established Group Internal Audit Division ('GIA') which reports functionally to the BAC and administratively to the Managing Director/Chief Executive Officer ('MD/CEO') of AFFIN Bank Berhad.

Board Oversight Transformation Committee ('BOTC')

The BOTC is responsible for overseeing the transformation plan (Affinity Program), secure the consistency of strategic decision and ensure that the transformation plan is implemented effectively in a timely manner.

Shariah Committee ('SC')

The SC is formed as legislated under the Islamic Financial Services Act 2013 and as per the Shariah Governance Framework for Islamic Financial Institutions.

The roles and responsibilities of the SC include advising the Board on Shariah matters to ensure that the business operations of the Bank comply with Shariah principles at all times. SC is also responsible for endorsing and validating relevant documentations of the Bank's products to ensure that the products comply with Shariah principles, and advising the Bank on matters to be referred to the Shariah Advisory Council.

2 RISK GOVERNANCE STRUCTURE

2.3 Management Committees

Management Committee ('MCM')

The MCM comprises the senior management team chaired by MD/CEO. MCM is responsible for assisting the Board in managing the day-to-day operations, formulating tactical plans and business strategies while monitoring the banking entities' overall performance, and ensuring all business activities conducted are in accordance with the Bank's corporate objectives, strategies, policies as well as Annual Business Plan and Budget.

The MCM is supported by the following sub-committees:

– Governance, Risk and Compliance

– Branch Performance

– IT, Operations, Digital and Customer Experience

Group Management Credit Committee ('GMCC')

The GMCC is established within senior management to approve complex and large financing and workout/recovery proposals beyond the delegated authority of the individual approvers.

Group Asset and Liability Management Committee ('GALCO')

The GALCO comprising the senior management team chaired by the MD/CEO, manages the Bank's asset and liability position by identifying, managing and controlling balance sheet risks and capital management in the execution of the business strategy, while implementing asset liability strategy and policy for the balance sheet of the respective subsidiary.

Liquidity Management Committee ('LMC')

The LMC is a sub-committee of the GALCO. The role of LMC is to augment the functions of GALCO by directing its focus specifically to liquidity issues.

Group Operational Risk Management Committee ('GORMC')

The GORMC is a senior management committee chaired by the Group Chief Risk Officer ('GCRO'), established to oversee the management of operational risks issues and control lapses while supporting BRMC in its review and monitoring of operational risk. It is also responsible for reviewing and ensuring that the operational risk programme, process and framework are implemented in accordance with regulatory requirement and manage loss incidents to an acceptable level.

Group Early Alert Committee ('GEAC')

The GEAC is a senior management committee, established to monitor credit quality through monthly reviews of the Early Alert and Watchlist Accounts as well as to review the actions taken to address the emerging risks and issues in these accounts.

2.4 Group Risk Management Function

Group Risk Management ('GRM'), headed by the GCRO is segregated from the lines of business, with direct reporting line to GBRMC to ensure independence of risk management function.

The independence of risk function is critical towards controlling and managing the Bank's risk taking activities to achieve an optimum return in line with the subsidiaries' risk appetite, with consideration to variations required due to differences in each subsidiary's business model.

Committees namely BCRRC, SC, MCM, GMCC, GALCO, LMC, GORMC and GEAC assist GBRMC in managing credit, market, liquidity, operational and other material risks in the Bank. The responsibilities of these Committees include risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring and reporting.

2 RISK GOVERNANCE STRUCTURE

2.5 Internal Audit and Internal Control Activities

In accordance with BNM's Guidelines on Corporate Governance for Licensed Islamic Banks, GIA conducts continuous reviews on auditable areas within the Bank. The reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance with the audit plan approved by the BAC.

Based on GIA's review, identification and assessment of risk, testing and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity. The risks highlighted on the respective auditable areas as well as recommendation made by the GIA are addressed at BAC and Management meetings on bi-monthly basis. The BAC also conducts annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

3 CAPITAL MANAGEMENT

3.1 Internal Capital Adequacy Assessment Process ('ICAAP')

In line with the BNM guideline on Risk-Weighted Capital Adequacy Framework - Internal Capital Adequacy Assessment Process (Pillar 2), the Bank has put in place the ICAAP Framework to assess the capital adequacy to ensure that the level of capital maintained by the Bank is adequate at all times, taking into consideration the Bank's risk profile and business strategies.

The Bank's capital management approach is focused on maintaining an appropriate level of capital to meet its business needs and regulatory requirements as capital adequacy and risk management are closely aligned. The Bank operates within an agreed risk appetite whilst optimising the use of shareholders' funds to deliver sustainable returns.

3.2 Capital Structure

The total capital and capital adequacy ratios of the Bank is computed in accordance with BNM's CAFIB (Capital Components).

The Bank is currently adopting the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the BNM CAFIB (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 5.750% (2016: 5.125%) and 7.250% (2016: 6.625%) respectively for year 2017. The minimum regulatory capital adequacy requirement is 9.250% (2016: 8.625%) for Total Capital Ratio.

The following table sets forth further details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2017.

3 CAPITAL MANAGEMENT

3.2 Capital Structure (continued)

	Economic Entity		The Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Paid-up share capital	**1,060,000**	560,000	**1,060,000**	560,000
Statutory reserves	**-**	305,016	**-**	305,016
Retained profits	**610,202**	237,127	**610,852**	237,777
Unrealised gains and losses on AFS	**(6,915)**	(23,768)	**(6,915)**	(23,768)
	1,663,287	1,078,375	**1,663,937**	1,079,025
Deferred tax assets	**(5,020)**	(8,056)	**(5,020)**	(8,056)
Investment in associate/joint ventures	**(600)**	(450)	**(1,120)**	(840)
CET1 capital	**1,657,667**	1,069,869	**1,657,797**	1,070,129
Tier I capital	**1,657,667**	1,069,869	**1,657,797**	1,070,129
Collective impairment	**33,324**	28,541	**33,324**	28,541
Regulatory adjustments	**94,866**	73,178	**94,866**	73,178
Less: Investment in associate/joint ventures	**(150)**	(300)	**(280)**	(560)
Tier II capital	**128,040**	101,419	**127,910**	101,159
Total capital	**1,785,707**	1,171,288	**1,785,707**	1,171,288
CET1 capital ratio	**15.086%**	12.421%	**15.087%**	12.424%
Tier 1 capital ratio	**15.086%**	12.421%	**15.087%**	12.424%
Total capital ratio	**16.251%**	13.598%	**16.251%**	13.598%
CET1 capital ratio (net of proposed dividends)	**15.086%**	12.421%	**15.087%**	12.424%
Tier 1 capital ratio (net of proposed dividends)	**15.086%**	12.421%	**15.087%**	12.424%
Total capital ratio (net of proposed dividends)	**16.251%**	13.598%	**16.251%**	13.598%
Risk-weighted assets for:				
Credit risk	**10,438,538**	8,124,441	**10,438,538**	8,124,441
Market risk	**19,266**	37,254	**19,266**	37,254
Operational risk	**530,574**	451,894	**530,574**	451,894
Total risk-weighted assets	**10,988,378**	8,613,589	**10,988,378**	8,613,589

3.3 Capital Adequacy

The Bank's has in place an internal limit for its CET1 capital ratio, Tier I capital ratio and Total capital ratio, which is guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses. The capital management process is monitored by senior management through periodic reviews.

Refer to Appendix I.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is principally engaged in all aspects of Islamic banking and related financial services. There have been no significant changes in these principal activities during the financial year.

The Bank's business activities involve the analysis, measurement, acceptance, management of risks and which operates within well defined risk acceptance criteria covering customer segments, industries and products. The Bank does not enter into risk it cannot administer, book, monitor or value, or deal with persons of questionable integrity.

The Bank's risk management policies are established to identify, assess, measure, control and mitigate all key risks as well as manage and monitor the risk positions.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice in risk management processes. The Bank's aim is to achieve an appropriate balance between risk and return as well as minimise any potential adverse effects.

5 CREDIT RISK

5.1 Credit Risk Management Objectives and Policies

Credit risk is the potential financial loss resulting from the failure of the customer to settle financial and contractual obligations through financing, hedging, trading and investing activities. It includes both pre-settlement and settlement risks of trading counterparties. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transaction with counterparties including interbank money market activities as well as derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by the Credit Risk Management Framework which is supported by a set of approved credit policies, guidelines and procedures. New and existing businesses are governed by Credit Plan which is developed as part of the annual business planning and budgeting process. The Credit Plan is reviewed at least annually to ensure the guidelines and criteria reflect portfolio strategy and market environment. Approval authorities are delegated to Senior Management and GMCC to implement the credit policies and ensure sound credit granting standards. BCRRC has review/veto power.

An independent Group Credit Management function is headed by Group Chief Credit Officer ('GCCO') with direct reporting line to MD/CEO to ensure sound credit appraisal and approval process. GRM with direct reporting line to GBRMC has functional responsibilities for the management of credit risk, to ensure adherence to risk standards and discipline.

5.2 Application of Standardised Approach for Credit Risk

The Bank uses the following External Credit Assessment Institutions ('ECAIs') to determine the risk weights for the rated credit exposures:-

- RAM Rating Services Berhad
- Malaysian Rating Corporation Berhad
- Standard & Poor's Rating Services
- Moody's Investors Service
- Fitch Ratings

The external ratings of the ECAIs are used to determine the risk weights of the following types of exposure: sovereigns, banks, public sector entities and corporates.

The mapping of the rating categories of different ECAIs to the risk weights is in accordance with BNM guidelines. In cases where there is no issuer or issue rating, the exposures are treated as unrated and accorded a risk weight appropriate for unrated exposure in the respective category.

Refer to Appendix II and Appendices III (i) to III (ii).

5 CREDIT RISK

5.3 Credit Risk Measurement

Financing, advances and other financing

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate with the level of risk undertaken. Assessment and quantification of credit risk are supported by the use of internal rating models, scorecards and decision support tools.

The Bank adopts a credit risk grading methodology encompassing probability of default ('PD') driven scorecards for business financing, advances and other financing. Separate scorecards have been developed for two categories of business customers, Large Corporate ('LC') and Small Medium Enterprise ('SME').

For consumer mass market products, statistically developed application scorecards are used to assess the risks associated with the credit application as a decision support tool at financing, advances and other financing origination.

Stress Testing supplements the overall assessment of credit risk across the Bank.

Over-the-Counter ('OTC') Derivatives

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for rate of return and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenure to maturity).

5.4 Risk Limit Control and Mitigation Policies

The Bank employs various policies and practices to control and mitigate credit risk.

Financing limits

The Bank establishes internal limits and related lending guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties, geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions.

The credit risk exposure for derivative and financing, advances and other financing books is managed as part of the overall lending limits with customers together with potential exposure from market movements.

Collateral

Credits are established against customer's capacity to pay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by the Bank are:

- Mortgages over residential properties;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and account receivables; and
- Charges over financial instruments such as marketable securities.

Credit related commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, advances and other financing, guarantees or letters of credit. In terms of credit risk, the Bank is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Refer to Appendix IV (a) to (b).

5 CREDIT RISK

5.5 Credit Risk Monitoring

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year using updated financial and other relevant information. This is to ensure that the credit grades remain appropriate and any signs of weaknesses or deterioration in the credit quality are detected. Remedial action is taken where evidence of deterioration emanates.

Retail credits are actively monitored and managed on a portfolio basis by product type. A collection management system is in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

An Early Alert Process is adopted to pro-actively identify, report, and manage warning signs of potential credit deterioration. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile, identify, analyse and mitigate adverse trends or specific areas of risk concerns.

5.6 Impairment Provisioning

Individual impairment provisioning

All significant financing, advances and other financing exposures, with or without past due status, are subject to individual assessment for impairment when an evidence of impairment surfaces, or at the very least once annually during the Annual Review process.

If impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective rate of return (i.e. the effective rate of return computed at initial recognition). The level of impairment allowance on financing, advances and other financing is to be reviewed at least quarterly, and more frequently when individual circumstances require. The review covers the collateral held (including reconfirmation of its enforceability) and an assessment of actual and expected receipts.

All significant financing, advances and other financing which are deemed not impaired after individual assessment and all financing, advances and other financing which are deemed impaired but do not result in impairment allowance after individual assessment are included in the collective impairment assessment.

Significant financing that are deemed not impaired after individual assessment are included in a group of financing with similar characteristics and collectively assessed for impairment.

Collective impairment provisioning

All financing, advances and other financing are grouped in respective business segments according to similar credit risk characteristics and is generally based on industry, asset or collateral type, credit grade and past due status.

Collective assessment for impairment allowance is conducted in accordance with the impairment methodologies approved by the Board for all financing, advances and other financing not covered under the individual impairment assessment.

Impairment allowance will be determined for each segment based on its respective loss probabilities (history) and other information relevant to estimation of the future cash flows.

The Bank is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing (excluding financing with explicit guarantee from Government of Malaysia), net of individual impairment.

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more. Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

(i) the principal or profit or both is past due more than 90 days or 3 months from the first day of default

(ii) where the account is in arrears for less than 90 days or 3 months, there is evidence of impairment to indicate that the borrower/ customer is 'unlikely to repay' its credit obligations

(iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System (CCRIS)

Analysed by economic sectors

	Economic Entity and The Bank	
Past due financing	**2017 RM'000**	**2016 RM'000**
Primary agriculture	**72,417**	1,154
Mining and quarrying	**145**	132
Manufacturing	**2,132**	2,299
Electricity, gas and water supply	**523**	536
Construction	**13,416**	21,064
Real estate	**31,815**	20,643
Wholesale & retail trade and restaurants & hotels	**13,060**	10,858
Transport, storage and communication	**6,268**	3,012
Finance, takaful/insurance and business services	**10,480**	5,805
Education, health and others	**3,411**	8,560
Household	**769,574**	572,063
	923,241	646,126

	Economic Entity and The Bank	
Individual impairment	**2017 RM'000**	**2016 RM'000**
Manufacturing	**5**	15
Construction	**9,411**	134
Real estate	**13,017**	17,413
Wholesale & retail trade and restaurants & hotels	**1,334**	-
Household	**272**	441
	24,039	18,003

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Analysed by economic sectors (continued)

Individual impairment charged	Economic Entity and The Bank 2017 RM'000	 2016 RM'000
Manufacturing	**-**	313
Construction	**10,781**	135
Real estate	**564**	17,116
Wholesale & retail trade and restaurants & hotels	**1,334**	469
Household	**3,725**	1,307
	16,404	19,340

Individual impairment written-off	Economic Entity and The Bank 2017 RM'000	 2016 RM'000
Wholesale & retail trade and restaurants & hotels	**-**	1,544
Household	**-**	2,605
	-	4,149

Collective impairment	Economic Entity and The Bank 2017 RM'000	 2016 RM'000
Primary agriculture	**677**	482
Mining and quarrying	**75**	54
Manufacturing	**753**	575
Electricity, gas and water supply	**435**	311
Construction	**2,888**	2,608
Real estate	**2,428**	2,394
Wholesale & retail trade and restaurants & hotels	**2,087**	1,529
Transport, storage and communication	**1,019**	1,177
Finance, takaful/insurance and business services	**1,493**	1,236
Education, health and others	**1,321**	2,884
Household	**44,085**	31,745
	57,261	44,995

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Analysed by geographical area

	Economic Entity and The Bank	
	2017	2016
Past due financing	RM'000	RM'000
Perlis	**1,263**	1,607
Kedah	**64,922**	48,533
Pulau Pinang	**30,402**	21,394
Perak	**64,459**	58,896
Selangor	**275,378**	200,909
Wilayah Persekutuan	**193,286**	93,026
Negeri Sembilan	**67,706**	38,265
Melaka	**28,275**	19,181
Johor	**76,784**	51,172
Pahang	**28,236**	19,776
Terengganu	**57,438**	62,656
Kelantan	**24,603**	22,673
Sarawak	**4,374**	2,538
Sabah	**6,104**	5,403
Outside Malaysia	**11**	97
	923,241	646,126

	Economic Entity and The Bank	
	2017	2016
Individual impairment	RM'000	RM'000
Kedah	**7,983**	22
Selangor	**2,854**	456
Wilayah Persekutuan	**12,672**	-
Melaka	**3**	-
Terengganu	**182**	-
Sarawak	**345**	229
Outside Malaysia	**-**	17,296
	24,039	18,003

5 CREDIT RISK

5.6 Impairment Provisioning (continued)

Analysed by geographical area (continued)

	Economic Entity and The Bank	
	2017	2016
Collective impairment	RM'000	RM'000
Perlis	**458**	385
Kedah	**4,343**	2,796
Pulau Pinang	**1,853**	1,366
Perak	**5,087**	4,011
Selangor	**17,422**	14,246
Wilayah Persekutuan	**7,602**	7,921
Negeri Sembilan	**3,330**	1,900
Melaka	**1,269**	783
Johor	**4,960**	2,462
Pahang	**1,524**	1,490
Terengganu	**4,818**	4,091
Kelantan	**2,797**	2,533
Sarawak	**763**	442
Sabah	**734**	302
Labuan	**163**	194
Outside Malaysia	**138**	73
	57,261	44,995

6 MARKET RISK

6.1 Market Risk Management Objectives and Policies

Market risk is defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk management policies and procedures are reviewed and updated to ensure relevance to current business needs as well as current/ applicable regulatory requirements such as BNM's policy documents on:

(a) Managing Unauthorised Trading & Market Manipulation,
(b) Code of Conduct for Malaysia Wholesale Financial Markets, and
(c) Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

6.2 Application of Standardised Approach for Market Risk Capital Charge Computation

The Bank adopts the Standardised Approach for the purpose of calculating the capital requirement for market risk.

Refer Appendix I.

6 MARKET RISK

6.3 Market Risk Measurement, Control and Monitoring

The Bank's market risks are measured primarily using mark-to-market revaluation methodology. Market risk parameters are the tolerance level of risk acceptance set by the Bank to confine losses arising from adverse rate or price movements. Market risk parameters are established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least on an annual basis.

The Bank quantifies profit rate risk by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

In addition, periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

The GALCO and GBRMC are regularly kept informed of the Bank's risk profile and positions. Risk measures include the following:

(i) Mark-to-Market valuation tracks the current market value of the outstanding financial instruments.

(ii) Stress tests are conducted to attempt to quantify market risk arising from abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

6.4 Foreign Exchange Risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

7 LIQUIDITY RISK

7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions and regulatory landscape.

7.2 Liquidity Risk Measurement, Control and Monitoring

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon. Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Bank's resilience in the event of a liquidity disruption.

The Contingency Funding Plan provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies, enabling the Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

The GBRMC is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the GALCO. The LMC, which is a sub-committee of GALCO, augments the functions of GALCO by directing its focus specifically to liquidity issues. The GBRMC is informed regularly on the liquidity position of the Bank.

8 OPERATIONAL RISK

8.1 Operational Risk Management Objectives and Policies

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Group and the Bank.

GBRMC approves all policies/policy changes relating to operational risk. GORMC supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The operational risk management ('ORM') function within GRM operates in independent capacity to facilitate business/support units managing the risks in activities associated with the operational function of the Bank.

8.2 Application of Basic Indicator Approach for Operational Risk

The Bank adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of the average annual gross income over the previous three years.

8.3 Operational Risk Measurement, Control and Monitoring

Operational risks are managed daily through established systems and processes to ensure compliance with policies, guidelines and control procedures.

The Bank employs the following standard operational risk tools for risk and control identification and assessment:

- Risk Control Self Assessment ('RCSA')
- Key Control Standards ('KCS')
- Key Risk Indicator ('KRI')
- Loss Event Database ('LED')

Scenario analysis is an extension of the risk assessment process whereby business/support unit identify potential operational risk events in a given scenario, assess the potential outcomes and the need for additional risk management controls or mitigation solutions for each of the potential outcome.

Information Technology ('IT') and cyber risks are managed as part of the operational risk activities. The IT systems and processes are assessed and tested regularly for resilience and continuity, and that they are secure from internal and external threats.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness.

Operational Risk Coordinators ('ORC') are appointed at business and support units as champions of ORM activities within respective units. The ORC is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results.

8.4 Certification

As an internal requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

9 SHARIAH NON-COMPLIANCE RISK

9.1 Shariah non-compliance risk objectives and policies

Shariah non-compliance ('SNC') is the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Bank may suffer arising from the failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia ('SAC'), standards on Shariah matters issued by BNM pursuant to section 29(1) of the IFSA or decisions or advice of the Shariah Committee that are consistent with the rulings of the SAC.

The Shariah Governance Framework for Islamic Financial Institutions (BNM/RH/GL_012_3) issued by BNM and the Bank's Shariah Risk Management Framework are the main reference for the Shariah governance process and Shariah risk management process within Affin Islamic Bank Berhad.

A Shariah Committee ('SC') is established to deliberate on Shariah issues presented to them and provide resolution as well as guidance. GORMC together with BRMC and GBRMC assist the Board in the overall oversight of Shariah risk management of the Group.

Shariah Risk Management is part of an integrated risk management control function to identify all possible risks of Shariah non-compliance and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

9.2 Shariah non-compliance risk measurement, control and monitoring

SNC risk is proactively managed via the following tools and methodologies:

1. SNC Event Reporting to BNM to collect, evaluate, monitor and report Shariah loss data;
2. Shariah Risk and Control Self-Assessment ('RCSA') / Risk Profiling to assist business/functional unit to identify and assess risks and controls. RCSA will be performed annually or as and when there is occurrence of significant events either internal or external;
3. Key Risk Indicator ('KRI') to predict and highlight any potential high risk area. These indicators will be reviewed on a periodic basis (monthly or quarterly) to alert Management to changes that may have risk concerns; and
4. Key Control Standard ('KCS') to validate the effectiveness of control measures.

10 BUSINESS CONTINUITY RISK

10.1 Business continuity risk management objectives and policies

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management ('BCM').

BRMC approves all policies and its changes relating to business continuity management. It also review, monitor and discuss business continuity management reports tabled at its meetings. GORMC supports BRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.

10.2 Business continuity risk measurement, control and monitoring

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risks listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

Policies and processes are in place to support the monitoring and reporting of business continuity risks.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2017

Appendix I

The Bank has adopted Basel II - Risk Weighted Assets computation under the BNM's Risk-Weighted Capital Adequacy Framework with effect from 1 January 2008. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operation risk computation.

The following information concerning the Economic Entity and the Bank's risk exposures are disclosed as accompanying information to the annual report, and does not form part of the audited accounts.

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

Economic Entity and The Bank
2017

	Exposure Class	Gross Exposures/ EAD before CRM		Net Exposures/ EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	**CREDIT RISK**						
	On Balance Sheet Exposures						
	Corporates	4,937,875		4,884,094	3,750,233	3,750,233	300,019
	Regulatory Retail	4,233,282		4,217,538	3,163,123	3,163,123	253,050
	Other Assets	931,548		931,548	159,073	159,073	12,726
	Sovereigns/Central Banks	2,634,063		2,634,063	-	-	-
	Banks, Development Financial Institutions & MDBs	29,706		29,706	1,984	1,984	159
	Takaful/Insurance Companies, Securities Firms & Fund Managers	49		49	49	49	4
	Residential Mortgages	4,285,488		4,273,551	2,003,369	2,003,369	160,269
	Higher Risk Assets	149,313		145,698	210,214	210,214	16,817
	Defaulted Exposures	157,592		157,530	216,302	216,302	17,304
	Total for On-Balance Sheet Exposures	**17,358,916**		**17,273,777**	**9,504,347**	**9,504,347**	**760,348**
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	1,447,524		1,433,041	930,581	930,581	74,446
	Defaulted Exposures	2,748		2,748	3,610	3,610	289
	Total for Off-Balance Sheet Exposures	**1,450,272**		**1,435,789**	**934,191**	**934,191**	**74,735**
	Total for on and Off-Balance Sheet Exposures	**18,809,188**		**18,709,566**	**10,438,538**	**10,438,538**	**835,083**
		Long Position	**Short Position**				
2	**MARKET RISK**						
	Profit Rate Risk	771,686	772,194	(509)	8,626	-	690
	Foreign Currency Risk	10,640	-	10,640	10,640	-	851
3	**OPERATIONAL RISK**						
	Operational Risk				530,574		42,446
	Total RWA and Capital Requirements				**10,988,378**	**10,438,538**	**879,070**

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)

Appendix I

Economic Entity and The Bank
2016

	Exposure Class	Gross Exposures/ EAD before CRM		Net Exposures/EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	CREDIT RISK						
	On Balance Sheet Exposures						
	Corporates	4,417,410		4,332,373	3,428,386	3,428,386	274,271
	Regulatory Retail	3,441,735		3,425,420	2,569,179	2,569,179	200,535
	Other Assets	19,347		18,891	19,285	19,285	1,543
	Sovereigns/Central Banks	1,964,813		1,964,813	-	-	-
	Banks, Development Financial Institutions & MDBs	29,582		29,582	1,968	1,968	157
	Takaful/Insurance Companies, Securities Firms & Fund Managers	65		65	65	65	5
	Residential Mortgages	2,741,411		2,730,951	1,280,061	1,280,061	102,405
	Higher Risk Assets	475,513		475,513	82,266	82,266	6,581
	Defaulted Exposures	147,920		144,717	189,837	189,837	15,187
	Total for On-Balance Sheet Exposures	13,237,796		13,122,325	7,571,047	7,571,047	600,684
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	693,127		683,193	531,270	531,270	42,500
	Defaulted Exposures	14,937		14,769	22,124	22,124	1,770
	Total for Off-Balance Sheet Exposures	708,064		697,962	553,394	553,394	44,270
	Total for on and Off-Balance Sheet Exposures	13,945,860		13,820,287	8,124,441	8,124,441	644,954
		Long Position	**Short Position**				
2	MARKET RISK						
	Profit Rate Risk	1,051,537	1,043,829	7,708	8	-	1
	Foreign Currency Risk	37,245	-	37,245	37,246	-	2,980
3	OPERATIONAL RISK						
	Operational Risk				451,894		36,152
	Total RWA and Capital Requirements				8,613,589	8,124,441	684,087

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

Disclosure on Capital Adequacy under the Standardised Approach (continued)

Market risk is defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's Capital-at-Risk ('CaR') is defined as the amount of the Bank's capital that is exposed to the risk of unexpected losses arising particularly from movements in profit and foreign exchange rates. A CaR reference threshold is set as a management trigger to ensure that the Bank's capital adequacy is not impinged upon in the event of adverse market movements. The Bank currently adopts BNM's Standardised Approach for the computation of market risk capital charges. The market risk capital charge addresses among others, capital requirement for market risk which includes the profit rate risk in the Bank's Trading Book as well as foreign exchange risk in the Trading and Banking Books.

The computation of market risk capital charge covers the following outstanding financial instruments:

(a) Foreign Exchange ('FX')

(b) Profit Rate Swap ('IRS')

(c) Cross Currency Swap ('CCS')

(d) Fixed Income Instruments (i.e. Corporate Sukuk and Government Securities)

The Bank's Trading Book Policy Statement stipulates the policies and procedures for including or excluding exposures from the Trading Book for the purpose of calculating regulatory market risk capital.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2017

Appendix II

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Economic Entity and The Bank
2017

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation	Equity	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	2,686,196	-	19,786	-	632,838	-	-	-	445,995	-	-	-	3,784,815	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	47,607	-	23,129	-	630,150	-	-	-	408,100	-	-	-	1,108,986	221,797
35%	-	-	-	-	-	-	3,443,888	-	-	-	-	-	3,443,888	1,205,361
50%	-	-	-	-	95,561	2,555	736,931	7,297	-	-	-	-	842,344	421,172
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	4,271,894	145	-	-	-	-	-	4,272,039	3,204,030
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	49	4,283,681	7,057	629,814	2,072	77,453	-	-	-	5,000,126	5,000,126
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	62,121	7,648	50,107	137,492	-	-	-	-	257,368	386,052
250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight											-		-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000) (continued)

Appendix II

Economic Entity and The Bank
2016

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation	Equity	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	2,005,137	-	19,742	-	480,679	-	-	-	391,213	-	-	-	2,896,771	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	47,416	-	24,005	-	504,556	-	-	-	4,826	-	-	-	580,803	116,161
35%	-	-	-	-	-	-	1,977,746	-	-	-	-	-	1,977,746	692,211
50%	-	-	-	-	159,280	-	330,928	9,051	-	-	-	-	499,259	249,629
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	3,466,599	288	-	-	-	-	-	3,466,887	2,600,165
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	65	3,739,703	5,266	443,062	-	75,818	-	-	-	4,263,914	4,263,914
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	79,633	12,180	29,199	13,895	-	-	-	-	134,907	202,361
250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight														
Deduction from Capital Base											-		-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

Appendix III

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity and The Bank
2017

Exposure Class	Ratings of Corporate by Approved ECAI					
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Rating & Investment Inc	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
On and Off-Balance-Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	49
Corporates		329,585	33,696	-	-	5,404,728
Total		**329,585**	**33,696**	**-**	**-**	**5,404,777**

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued) Appendix III

Economic Entity and The Bank
2016

Exposure Class	Ratings of Corporate by Approved ECAI					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance-Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	65
Corporates		234,345	91,360	-	-	4,878,163
Total		234,345	91,360	-	-	4,878,228

Appendix III

(i) **Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)**

Economic Entity and The Bank
2017

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB + to BBB-	BB + to B-	CCC + to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB + to BBB-	BB + to B-	CCC + to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB + to BBB-	BB + to B-	CCC + to C	Unrated
On and Off-Balance-Sheet Exposures Sovereigns and Central Banks		-	2,733,803	-	-	-	-
Total		-	2,733,803	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB + to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB + to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3-	A1 to A3	BBB1+ to BBB3	BB1 to B3	C1+ to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB + to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance-Sheet Exposures Banks, MDBs and FDIs		12,092	-	-	-	-	30,823
Total		12,092	-	-	-	-	30,823

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Appendix III

Economic Entity and The Bank
2016

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB + to BBB-	BB + to B-	CCC + to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB + to BBB-	BB + to B-	CCC + to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB + to BBB-	BB + to B-	CCC + to C	Unrated
On and Off-Balance-Sheet Exposures Sovereigns and Central Banks		-	2,052,552	-	-	-	-
Total		-	2,052,552	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB + to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB + to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3-	A1 to A3	BBB1+ to BBB3	BB1 to B3	C1+ to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB + to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance-Sheet Exposures Banks, MDBs and FDIs		12,414	-	-	-	-	31,333
Total		12,414	-	-	-	-	31,333

(a) **Disclosures on Credit Risk Mitigation (RM'000)**

Economic Entity and The Bank **Appendix IV**
2017

Exposure Class	**Exposures before CRM**	**Exposures Covered by Guarantees/ Credit Derivatives**	**Exposures Covered by Eligible Financial Collateral**	**Exposures Covered by Other Eligible Collateral**
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**2,634,063**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs	**29,706**	**-**	**-**	**-**
Insurance Cos, Securities Firms & Fund Managers	**49**	**-**	**-**	**-**
Corporates	**4,937,875**	**61,865**	**63,658**	**-**
Regulatory Retail	**4,233,282**	**-**	**19,537**	**-**
Residential Mortgages	**4,285,488**	**-**	**12,750**	**-**
Higher Risk Assets	**149,313**	**7,297**	**3,615**	**-**
Other Assets	**931,548**	**-**	**-**	**-**
Defaulted Exposures	**157,592**	**-**	**61**	**-**
Total for On-Balance Sheet Exposures	**17,358,916**	**69,162**	**99,621**	**-**
On-Balance Sheet Exposures				**-**
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	**1,447,524**	**-**	**-**	
Defaulted Exposures	**2,748**	**-**	**-**	**-**
Total for Off-Balance Sheet Exposures	**1,450,272**	**-**	**-**	**-**
Total On and Off-Balance Sheet Exposures	**18,809,188**	**69,162**	**99,621**	**-**

(a) Disclosures on Credit Risk Mitigation (RM'000)

Economic Entity and The Bank
2016

Appendix IV

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,964,813	-	-	-
Banks, Development Financial Institutions & MDBs	29,582	-	-	-
Insurance Cos, Securities Firms & Fund Managers	65	-	-	-
Corporates	4,417,410	53,633	90,551	-
Regulatory Retail	3,441,735	-	20,735	-
Residential Mortgages	2,741,411	-	10,460	-
Higher Risk Assets	475,513	9,051	457	-
Other Assets	19,347	-	-	-
Defaulted Exposures	147,920	-	3,370	-
Total for On-Balance Sheet Exposures	13,237,796	62,684	125,573	-
On-Balance Sheet Exposures				-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	693,127	-	-	
Defaulted Exposures	14,937	-	-	-
Total for Off-Balance Sheet Exposures	708,064	-	-	-
Total On and Off-Balance Sheet Exposures	13,945,860	62,684	125,573	-

(b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cashflows. An economic loss could occur if the transactions with the counterparty has a positive economic value for the Bank at the time of default.

In contrast to the exposure to credit risk through a financing, where the exposure to credit risk is unilateral and only the financing bank faces the risk of loss, Counterparty Credit Risk creates a bilateral risk of loss where the market value for many types of transactions can be positive or negative to either counterparty.

In respect of off-balance sheet items, the credit risk inherent in each off-balance sheet instrument is translated into an on-balance sheet exposure equivalent (credit equivalent) by multiplying the nominal principal amount with a credit conversion factor ('CCF') as prescribed by the Standardised Approach under the Risk Weighted Capital Adequacy Framework. The resulting amount is then weighted against the risk weight of the counterparty. In addition, counterparty risk weights for over-the-counter ('OTC') derivative transactions will be determined based on the external rating of the counterparty and will not be subject to any specific ceiling.

Economic Entity and The Bank
2017

Appendix IV

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	92,241		92,241	84,311
Transaction related contingent Items	293,354		146,677	144,108
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,656,826		828,413	481,577
Short Term Self Liquidating trade related contingencies	279,532		55,907	14,903
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,583,496		316,699	206,972
Unutilised credit card lines	337		68	51
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	25,654		-	-
Foreign exchange related contracts				
- less than one year	802,588	2,623	10,267	2,269
Total	**4,734,028**	**2,623**	**1,450,272**	**934,191**

(b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000) (continued)

Economic Entity and The Bank

Appendix IV

2016

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	33,386		33,386	25,476
Transaction related contingent Items	282,867		141,434	145,156
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	469,986		234,993	226,458
Short Term Self Liquidating trade related contingencies	312,550		62,510	17,534
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,129,279		225,856	136,791
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	39,538		-	-
Foreign exchange related contracts				
- less than one year	1,049,862	8,987	9,885	1,979
Total	3,317,468	8,987	708,064	553,394

(c) Disclosures on Market Risk - Profit Rate Risk/Rate of Return Risk in the Banking Book

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective.

The objective of profit rate risk management is to achieve a stable and sustainable net profit income from the following perspectives:

(1) Next 12 months' Earnings - Profit rate risk from the earnings perspective is the impact based on changes to the net profit income ('NPI') over the next 12 months. This risk is measured through sensitivity analysis including the application of an instantaneous 100 basis point parallel shock in profit rates across the yield curve.

(2) Economic Value - Measuring the change in the economic value of equity ('EVE') is an assessment of the long term impact to the Bank's capital. This is assessed through the application of relevant duration factors to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities to adverse changes in profit rates.

Profit rate risk thresholds are established in line with the Group's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

Appendix IV

Type of Currency (RM million)	**Economic Entity and The Bank**		Economic Entity and The Bank	
	2017	**2017**	2016	2016
	Impact on Positions (100 basis points) Parallel Shift		Impact on Positions (100 basis points) Parallel Shift	
	Increase/(Decline) in Earnings	**Increase/(Decline) in Economic Value**	Increase/(Decline) in Earnings	Increase/(Decline) in Economic Value
Ringgit Malaysia	**(10.1)**	**125.0**	(13.2)	91.9
US Dollar	**(1.1)**	**-**	(0.8)	-
Others (*)	**0.6**	**-**	(3.6)	-
Total	**(10.6)**	**125.0**	(17.6)	91.9

* Others comprise of SGD, JPY, EUR, AUD and GBP currencies where the amount of each currency is relatively small.

NETWORK OF BRANCHES

WILAYAH PERSEKUTUAN

1. **Fraser**
   20-G & 20-1,
   Jalan Metro Pudu,
   Fraser Business Park,
   55100 Kuala Lumpur.
   Tel : 03-9222 8877
   Fax : 03-9222 9877

SELANGOR

1. **Bangi**
   No.175 & 177 Ground Floor,
   Jalan 8/1, Seksyen 8,
   43650 Bandar Baru Bangi,
   Selangor.
   Tel : 03-8925 7333
   Fax : 03-8927 4815

2. **MSU Shah Alam**
   Management & Science University,
   2nd Floor, University Drive,
   Persiaran Olahraga, Section 13,
   40100 Shah Alam,
   Selangor.
   Tel : 03-5510 0425
   Fax : 03-5510 0563

3. **SS2**
   161-163,
   Jalan SS 2/24,
   47300 Petaling Jaya,
   Selangor.
   Tel : 03-7874 3513
   Fax : 03-7874 3480

NEGERI SEMBILAN

1. **Senawang**
   No. 312-G & 312-1,
   Jalan Bandar Senawang 17,
   Pusat Bandar Senawang,
   70450 Seremban,
   Negeri Sembilan.
   Tel : 06-675 7066
   Fax : 06-675 7188

JOHOR

1. **Taman Molek**
   No. 23, 23-01, 23-02,
   Jalan Molek 1/29,
   Taman Molek,
   81100 Johor Bahru, Johor.
   Tel : 07-351 9522
   Fax : 07-357 9522

PULAU PINANG

1. **Juru**
   No. 1813A,
   Jalan Perusahaan, Auto-City,
   North-South Highway,
   Juru Interchange,
   13600 Prai, Pulau Pinang.
   Tel : 04-507 7422
   Fax : 04-507 6522 / 0522

KEDAH

1. **Jitra**
   No. 17, Jalan Tengku Maheran 2,
   Taman Tengku Maheran, Fasa 4,
   06000 Jitra, Kedah.
   Tel : 04-919 0888
   Fax : 04-919 0380

TERENGGANU

1. **Kuala Terengganu**
   63 & 63-A,
   Jalan Sultan Ismail,
   20200 Kuala Terengganu,
   Terengganu.
   Tel : 09-622 3725
   Fax : 09-623 6496

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE **12TH ANNUAL GENERAL MEETING** OF **AFFIN ISLAMIC BANK BERHAD** WILL BE HELD AT **THE BOARD ROOM, 19TH FLOOR, MENARA AFFIN, 80, JALAN RAJA CHULAN, 50200 KUALA LUMPUR** ON **MONDAY, 14 MAY 2018** AT **10.00 A.M**. FOR THE FOLLOWING PURPOSES:-

AGENDA

1.	To lay before the meeting the Audited Financial Statements for the financial year ended 31 December 2017 and the Reports of the Directors and Auditors thereon.	
2.	To re-elect Associate Professor Dr Said Bouheraoua, who retires by rotation pursuant to Article 68 of the Company's Articles of Association.	**Resolution 1**
3.	To re-elect Dato' Bakarudin Bin Ishak who retires pursuant to Article 73 of the Company's Article of Association.	**Resolution 2**
4.	To approve the payment of Directors' Fees, other emoluments and benefits amounting to RM1,786,000 for the financial year ended 31 December 2017.	**Resolution 3**
5.	To approve the payment of Directors' Fees, other emoluments and benefits on a monthly basis based on the present Directors' remuneration structure from 1 January 2018 to the date of the next Annual General Meeting of the Company.	**Resolution 4**
6.	To re-appoint Messrs PricewaterhouseCoopers as Company's Auditors for the financial year ending 31 December 2018 and to authorise the Directors to fix the Auditors' remuneration.	**Resolution 5**
7.	To transact any other ordinary business of the Company.	**Resolution 6**

BY ORDER OF THE BOARD

NIMMA SAFIRA BINTI KHALID (LS 0009015)
Secretary

Kuala Lumpur
23 April 2018

NOTE:

The Audited Financial Statements are for discussion only as they do not require shareholders' approval pursuant to Section 340(1) of the Companies Act, 2016. Hence, this matter will not be put for voting.

AFFIN ISLAMIC
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