Company No: 709506-V

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

# Reports and financial statements for the financial year ended 31 December 2017

Company No: 709506-V

# AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

# Reports and financial statements for the financial year ended 31 December 2017

## Contents

**Company No: 709506-V**

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## CORPORATE INFORMATION

### BOARD OF 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)
*(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)*

### CHIEF EXECUTIVE OFFICER

Nazlee bin Khalifah

### COMPANY SECRETARY

Nimma Safira Khalid

### REGISTERED OFFICE

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

### AUDITORS

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

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

### 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

### 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*

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

**DIRECTORS (continued)**

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)*

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 114 of the financial statements.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

### 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 company 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

**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; and

(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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

**OTHER STATUTORY INFORMATION (continued)**

(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.

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

Malaysia economic growth has been excellently performed 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

### 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT
***for the financial year ended 31 December 2017***

**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) a 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*

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**INCOME STATEMENTS** ***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 |
| 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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**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 or 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## 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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**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 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) |

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**STATEMENTS OF CASH FLOWS** ***for the financial year ended 31 December 2017 (continued)***

| | | Economic Entity | | The Bank | |
|---|---|---|---|---|---|
| | | **2017** | 2016 | **2017** | 2016 |
| | **Note** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| ***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) |
| **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 investments 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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## 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 Financial 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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***for the financial year ended 31 December 2017***

**(A) BASIS OF PREPARATION (continued)**

**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.

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

  **<u>Classification and measurements</u>**

  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.

**(A) BASIS OF PREPARATION (continued)**

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

**Classification and measurements (continued)**

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 (continued)**

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

<u>**Disclosures**</u>

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.

**(A) BASIS OF PREPARATION (continued)**

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

- 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.

  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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
***for the financial year ended 31 December 2017***

**(A) BASIS OF PREPARATION (continued)**

**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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
***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.

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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***for the financial year ended 31 December 2017***

### (D) INTANGIBLE ASSETS (continued)

**Computer Software (continued)**

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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***for the financial year ended 31 December 2017***

### (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.

Al-Bai' Bithaman Ajil

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.

Ijarah Muntahiah bil Tamleek/Al-Ijarah Thumma Al-Bai'

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.

Murabahah

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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
***for the financial year ended 31 December 2017***

### (F) RECOGNITION OF FINANCING INCOME AND EXPENSE (continued)

Musyarakah Mutanaqisah

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).

Tawarruq

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.

Istisna'

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, re-evaluate 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 incerementai 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 (continued)**

**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.

## (H) FINANCIAL ASSETS (continued)

### Reclassification of financial assets (continued)

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.

## (I) IMPAIRMENT OF FINANCIAL ASSETS (continued)

### Assets carried at amortised cost (continued)

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.

### (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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*for the financial year ended 31 December 2017*

### (I) IMPAIRMENT OF FINANCIAL ASSETS (continued)

**(ii) Collective impairment allowance (continued)**

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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
***for the financial year ended 31 December 2017***

### (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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***for the financial year ended 31 December 2017***

### (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.

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.

## (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.

### (P) CURRENT AND DEFERRED INCOME TAXES (continued)

**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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***for the financial year ended 31 December 2017***

### (V) PROVISIONS (continued)

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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***for the financial year ended 31 December 2017***

### (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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
***for the financial year ended 31 December 2017***

**(Z) SHARE CAPITAL (continued)**

**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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## 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** | 2016 |
| | **RM'000** | 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** | **Assets** | Contract/ notional amount | Assets |
| | **RM'000** | **RM'000** | RM'000 | 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | RM'000 |
| **At amortised cost** | | |
| Unquoted securities: | | |
| Corporate bonds/Sukuk in Malaysia | - | 72,122 |
| | - | 72,122 |

## 6 FINANCING, ADVANCES AND OTHER FINANCING

### (i) By type

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | RM'000 |
| 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** | 2016 |
| | **RM'000** | 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 |

### (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 (continued)

### (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 |

### (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 |

**6 FINANCING, ADVANCES AND OTHER FINANCING (continued)**

**(vi) By economic sectors**

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | 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 |

**(vii) By economic purpose**

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | 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 cards | **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** | 2016 |
| | **RM'000** | 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 |

## 7 IMPAIRED FINANCING (continued)

### (ii) Movements in allowance for impairment on financing (continued)

| | Economic Entity and The Bank 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| **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% |

### (iii) Impaired financing by economic sectors

| | Economic Entity and The Bank 2017 RM'000 | 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 | 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 (continued)

### (v) Impaired financing by geographical distribution

| | Economic Entity and The Bank 2017 RM'000 | 2016 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 RM'000 | 2016 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

| | Economic Entity and The Bank 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| 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**

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| 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 | 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 |

## 12 DEFERRED TAX ASSETS (Continued)

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

| | **2017** | 2016 |
|---|---|---|
| | **RM'000** | 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** | 2016 | **2017** | 2016 |
| | **RM'000** | RM'000 | **RM'000** | 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.

## 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 |

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

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

## 16 PROPERTY AND EQUIPMENT (continued)

| Economic Entity and The Bank<br>2016 | Renovation<br>RM'000 | Office equipment and furniture<br>RM'000 | Computer equipment and software<br>RM'000 | Motor vehicles<br>RM'000 | Capital work-in progress<br>RM'000 | Total<br>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 RM'000 | 2016 RM'000 |
|---|---|---|
| **Computer software** | | |
| **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 RM'000 | 2016 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 RM'000 | 2016 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 (continued)

### (iii) By type of customer

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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 rate of return (ROR) %** | Average profit sharing ratio (PSR) % | Average rate of return (ROR) % |
| Investment accounts: | | | | |
| Due within: | | | | |
| Six months to one year | **80.00** | **6.12** | - | - |

## 20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | RM'000 |
| **Mudarabah** | | |
| Licensed banks | **2,749,016** | 2,110,049 |

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | RM'000 |
| **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 |

**Profit Sharing Ratio and Rate of Return**

| | Economic Entity and The Bank | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **Average profit sharing ratio (PSR) %** | **Average rate 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 Mudarabah 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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 | 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** | 2016 | **2017** | 2016 |
| | **RM'000** | RM'000 | **RM'000** | 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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 (continued)**

**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 |

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

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

### 28 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNTS

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | 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 (continued)

(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 |

(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 |

### 33 OTHER OPERATING EXPENSES (continued)

The expenditure includes the following statutory disclosures:

| | **Economic Entity and The Bank** | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | 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) (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** | 2016 |
| | **RM'000** | 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 (continued)**

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** | 2016 |
| | **RM'000** | 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:<br>- Directors<br>- Chief Executive Officer<br>- 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<br>- 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 (continued)**

**(a) Related parties transactions and balances**

| | **Ultimate holding corporate body** | | **Penultimate holding company** | | **Holding company** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Economic Entity and The Bank** | **RM'000** | RM'000 | **RM'000** | RM'000 | **RM'000** | 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 |

| | **Other related companies** | | **Companies in which certain Directors have substantial interest** | | **Key management personnel** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Economic Entity and The Bank** | **RM'000** | RM'000 | **RM'000** | RM'000 | **RM'000** | 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 |

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

### 37 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### (a) Related parties transactions and balances

| | Ultimate holding corporate body | | Penultimate holding company | | Holding company | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Economic Entity and The Bank** | **RM'000** | RM'000 | **RM'000** | RM'000 | **RM'000** | 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 | **-** | - | **-** | - | **-** | - |

| | Other related companies | | Companies in which certain Directors have substantial interest | | Key management personnel | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Economic Entity and The Bank** | **RM'000** | RM'000 | **RM'000** | RM'000 | **RM'000** | 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 (continued)

### (b) Key management personnel compensation

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| | **RM'000** | 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** | Principal amount 2016 |
| | **RM'000** | 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 tenure to maturity).

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(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 (continued)**

**(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** | 2016 |
| | **Maximum Credit Exposure** | Maximum Credit Exposure |
| | **RM'000** | 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

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### 39 FINANCIAL RISK MANAGEMENT (continued)

**(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.

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 (continued)

### (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 |

(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** | 2016 |
| | **RM'000** | 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').

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Credit risk (continued)**

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

(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** | 2016 |
| | **RM'000** | 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** | 2016 |
| | **RM'000** | RM'000 |
| Analysis of impaired assets: | | |
| Gross impaired financing | **142,310** | 97,498 |
| Individually impaired financing | **65,212** | 44,964 |

**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** | 2016 |
| | **RM'000** | 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.

# AFFIN Islamic Bank Berhad
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## NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2017*

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 (continued)**

**(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** | 2016 |
| | **RM'000** | 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 (continued)**

**(ii) Market risk**

**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**<br>**2017** | **+100**<br>**basis point**<br>**RM million** | **-100**<br>**basis point**<br>**RM million** |
|---|---|---|
| Impact on profit after tax | **(9.0)** | **9.0** |
| Impact on equity | **(93.2)** | **100.9** |

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

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(ii) Market risk (continued)**

**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** | 2016 |
| | **RM'000** | 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) |

**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.

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

**(ii) Market risk (continued)**

**Foreign exchange risk**

| Economic Entity and The Bank<br>2017 | Euro<br>RM'000 | United States Dollar<br>RM'000 | Great Britain Pound<br>RM'000 | Australian Dollar<br>RM'000 | Japanese Yen<br>RM'000 | Others<br>RM'000 | Total<br>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 |

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

**(ii) Market risk (continued)**

**Foreign exchange risk (continued)**

| 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 |

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

**(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.

| | Non-trading book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **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** | **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** |

# Net of individual impairment allowance.

(1) Others include other assets, amount due from joint ventures and amount due from associate.

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

**(ii) Market risk (continued)**

**Profit rate risk (continued)**

| 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 |
|---|---|---|---|---|---|---|---|---|
| **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 | | | |

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(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 |
| Deposits and placements with banks and other financial institutions | - | - | - | - | - | - | - | - |
| 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 |
| Amount due from holding company | - | - | - | - | - | - | - | - |
| 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 |

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

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(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 |
|---|---|---|---|---|---|---|---|---|
| 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 | | | |

### 39 FINANCIAL RISK MANAGEMENT (continued)

**(ii) Market risk (continued)**

**Profit rate risk**

| | Non-trading book | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **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** | **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 |

# Net of individual impairment allowance.

(1) Others include other assets, amount due from joint ventures and amount due from associate.

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(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 |
|---|---|---|---|---|---|---|---|---|
| **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 | | | |

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

**(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 |
| Deposits and placements of banks and other financial institutions | - | - | - | - | - | - | | - | - |
| 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 |

\# Net of individual impairment allowance.

(1) Others include other assets, amount due from joint ventures and amount due from associate.

## 39 FINANCIAL RISK MANAGEMENT (continued)

### (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 |
|---|---|---|---|---|---|---|---|---|
| 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 | | | |

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(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.

# AFFIN Islamic Bank Berhad

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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** |
| Invesment 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 |

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 |

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 |

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (iii) Liquidity risk (continued)

**Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)**

| 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 |
|---|---|---|---|---|---|---|---|
| **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 | |

# AFFIN Islamic Bank Berhad

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 |

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 |
|---|---|---|---|---|---|---|---|
| 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 | |

# AFFIN Islamic Bank Berhad
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## NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2017*

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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** |

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 |
|---|---|---|---|---|---|---|---|
| **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 | |

# AFFIN Islamic Bank Berhad
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## NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2017*

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 |

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

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

### 39 FINANCIAL RISK MANAGEMENT (continued)

#### (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 |
|---|---|---|---|---|---|---|---|
| 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 | |

## 39 FINANCIAL RISK MANAGEMENT (continued)

### (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.

### (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.

**39 FINANCIAL RISK MANAGEMENT (continued)**

**(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.

**(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 (continued)

### (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 (continued)**

**(vii) Fair value financial assets and liabilities (continued)**

**Effect of changes in significant unobservable assumptions to reasonably possible alternatives**

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.

| | **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** |
|---|---|---|---|---|---|
| **Economic Entity and The Bank** | | | | | |
| **2017** | | | | | |
| **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** |

| | 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 |
|---|---|---|---|---|---|
| Economic Entity and The Bank | | | | | |
| 2016 | | | | | |
| 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 (continued)

### (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.

| | Effects of offsetting on the statements of financial position | | | Related amounts not offset | | |
|---|---|---|---|---|---|---|
| | **Gross amount RM'000** | **Amount offset RM'000** | **Net amount reported on statement of financial position RM'000** | **Financial instruments RM'000** | **Financial collateral RM'000** | **Net amount RM'000** |
| **Economic Entity and The Bank** | | | | | | |
| **2017** | | | | | | |
| **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 |

## 40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

| | Effects of offsetting on the statements of financial position | | | Related amounts not offset | | |
|---|---|---|---|---|---|---|
| | Gross amount RM'000 | Amount offset RM'000 | Net amount reported on statement of financial position RM'000 | Financial instruments RM'000 | Financial collateral RM'000 | Net amount RM'000 |
| Economic Entity and The Bank 2016 | | | | | | |
| 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 RM'000** | 2016 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

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

### 42 CAPITAL MANAGEMENT (continued)

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** | 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 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 finan cing.

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 |
| (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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

## 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 10 to 113 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 10 to 113 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

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## 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 report:

We have reviewed the principles and the contracts relating to the transactions and applications offered by AFFIN Islamic Bank Berhad ('the Bank') during the financial 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 the 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 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 comducted in order to provide adequate knowledge and competence 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 the Shariah principles. The zakat fund is distributed through a various channels i.e. States Zakat Collection Centre, non-governmental organization and individuals under asnaf categories of poor, needy, *amil, riqab, gharimin and fisabilillah.*

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

## SHARIAH COMMITTEE'S REPORT (continued)

We, the members of the Shariah Committee of AFFIN Islamic Bank Berhad, do hereby confirm that the operations of the Bank for the financial 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)**
**(Company No. 709506-V)**

## 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 9 to 113.

### 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.

## INDEPENDENT AUDITORS' REPORT
**TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD**
**(Incorporated in Malaysia)**
**(Company No. 709506-V)**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

**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 (CONTINUED)

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.

## INDEPENDENT AUDITORS' REPORT
**TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD**
**(Incorporated in Malaysia)**
**(Company No. 709506-V)**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

Auditors' responsibilities for the audit of the financial statements (continued)

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.

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 | NG YEE LING |
| LLP0014401-LCA & AF 1146 | 03032/01/2019 J |
| Chartered Accountants | Chartered Accountant |

Kuala Lumpur, Malaysia
29 March 2018

Company No: 709506-V

**AFFIN Islamic Bank Berhad**
(Incorporated in Malaysia)

# BASEL II
# PILLAR 3 DISCLOSURES
# As at 31st December 2017

**Company No: 709506-V**

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures**

**Table of Contents** Pages

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures**

## 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 2 Risk Governance Structure (continued)

### 2.1 Overview (continued)

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.

### 2.2 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 2 Risk Governance Structure (continued)

### 2.2 Board Committees (continued)

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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 2 Risk Governance Structure (continued)

### 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 Risk Governance Structure (continued)

### 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.

### 2.5 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 3 Capital Management (continued)

### 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 Capital Management (continued)

### 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 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 5 Credit Risk (continued)

### 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).

### 5.3 Credit Risk Measurement

<u>Financing, advances and other financing</u>

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.

<u>Over-the-Counter ('OTC') Derivatives</u>

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).

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 5 Credit Risk (continued)

### 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 (continued)

### 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

<u>Individual impairment provisioning</u>

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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 5 Credit Risk (continued)

### 5.6 Impairment Provisioning (continued)

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.

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)

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 5 Credit Risk (continued)

### 5.6 Impairment Provisioning (continued)

Analysed by economic sectors

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| Past due financing | **RM'000** | 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 | |
|---|---|---|
| | **2017** | 2016 |
| Individual impairment | **RM'000** | 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 |

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 5 Credit Risk (continued)

### 5.6 Impairment Provisioning (continued)

Analysed by economic sectors (continued)

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| Individual impairment charged | **RM'000** | 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 |

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| Individual impairment written-off | **RM'000** | RM'000 |
| Wholesale & retail trade and restaurants & hotels | **-** | 1,544 |
| Household | **-** | 2,605 |
| | **-** | 4,149 |

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 5 Credit Risk (continued)

### 5.6 Impairment Provisioning (continued)

Analysed by economic sectors (continued)

| | Economic Entity and The Bank | |
|---|---|---|
| | **2017** | 2016 |
| Collective impairment | **RM'000** | 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 |

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 |

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 5 Credit Risk (continued)

### 5.6 Impairment Provisioning (continued)

Analysed by geographical area (continued)

| | 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 |

| | 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.

### 6.3 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 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.

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

## 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.

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures**

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** |
| 2 | **MARKET RISK** | **Long Position** | **Short Position** | | | | |
| | 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"

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

**Disclosure on Capital Adequacy under the Standardised Approach (RM'000)**

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 |
| | 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 |
| 2 | **MARKET RISK** | **Long Position** | **Short Position** | | | | |
| | 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"

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

**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.

# AFFIN Islamic Bank Berhad
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**BASEL II Pillar 3 Disclosures (continued)**

**Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)**
**Economic Entity and The Bank**
**2017**

| Risk Weights | Exposures after Netting and Credit Risk Mitigation | | | | | | | | | | | | Total Exposure after Netting & Credit Risk Mitigation | Total Risk Weighted Assets |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | | |
| 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"

# AFFIN Islamic Bank Berhad
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**BASEL II Pillar 3 Disclosures (continued)**

**Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)**
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"

# AFFIN Islamic Bank Berhad

**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

**(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 ECAIs | | | | | |
|---|---|---|---|---|---|---|
| | **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 Exposures (using Corporate Risk Weights)** | | | | | | |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) | | - | - | - | - | - |
| Takaful/Insurance Companies, Securities Firms & Fund Managers | | - | - | - | - | 49 |
| Corporates | | 329,585 | 33,696 | - | - | 5,404,728 |
| **Total** | | **329,585** | **33,696** | **-** | **-** | **5,404,777** |

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

**(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)**
Economic Entity and The Bank
2016

| Exposure Class | Ratings of Corporate by Approved ECAIs | | | | | |
|---|---|---|---|---|---|---|
| | 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 Exposures (using Corporate Risk Weights) | | | | | | |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) | | - | - | - | - | - |
| Takaful/Insurance Companies, Securities Firms & Fund Managers | | - | - | - | - | 65 |
| Corporates | | 234,345 | 91,360 | - | - | 4,878,163 |
| Total | | 234,345 | 91,360 | - | - | 4,878,228 |

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

**(ii) 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 |

# AFFIN Islamic Bank Berhad
**(Incorporated in Malaysia)**

**BASEL II Pillar 3 Disclosures (continued)**

**(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)**
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 |

# AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

**BASEL II Pillar 3 Disclosures (continued)**

**a) Disclosures on Credit Risk Mitigation (RM'000)**
**Economic Entity and The Bank**
**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** | **-** |
| | | | | |
| Off-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** | **-** |

# AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

**BASEL II Pillar 3 Disclosures (continued)**

**a) Disclosures on Credit Risk Mitigation (RM'000)**

Economic Entity and The Bank

2016

| 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 | - |
| | | | | |
| Off-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 | - |

# AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

**BASEL II Pillar 3 Disclosures (continued)**

**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**

| 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** |

Economic Entity and The Bank
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 |

## AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

**BASEL II Pillar 3 Disclosures (continued)**

**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.

| 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)** | **0.0** | (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.