

Company No.

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

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

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

Company No.
716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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

PRINCIPAL ACTIVITIES

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

RESULTS

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

DIVIDENDS

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

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

RESERVES, PROVISIONS AND ALLOWANCES

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS OF THE BANK

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

Y. Bhg Dato' Dr. Md Khir Abdul Rahman

Dr. Saleh Jameel Malaikah

Zakir Hussain Rizvi

Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack

Abdul Rahim Abdul Hamid

Y. Bhg Datuk Azrulnizam Abdul Aziz (Appointed w.e.f. 1 March 2017)

Dr. Loh Leong Hua (Appointed w.e.f. 1 March 2017)

Dr. Fouad Hayel Saeed Anam (Resigned w.e.f 28 February 2017)

Rakesh Sanghvi (Resigned w.e.f 28 February 2017)

Gourang Hemani (Resigned w.e.f 28 February 2017)

Tarek Youssef Fawzi (Appointed 18 May 2016 and Resigned w.e.f 28 February 2017)

Giles Cunningham (Resigned w.e.f 11 March 2016)

DIRECTORS' INTERESTS IN SHARES

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

DIRECTORS' BENEFITS

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

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

ISSUE OF SHARES AND DEBENTURES

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

There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

INDEMNITY AND INSURANCE COSTS

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

BAD AND DOUBTFUL FINANCING AND ADVANCES

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

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

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

ITEM OF AN UNUSUAL NATURE

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

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

BUSINESS PLAN AND OUTLOOK

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CORPORATE GOVERNANCE

Introduction

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

BOARD OF DIRECTORS

The Board

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

BOARD OF DIRECTORS (CONTINUED)

Board Composition

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

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

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

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

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

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

BOARD OF DIRECTORS (CONTINUED)

Board Meetings

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

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

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

Supply of Information

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

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

Re-election

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

BOARD OF DIRECTORS (CONTINUED)

Training and Education

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

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

DISCLOSURE OF BOARD COMMITTEES

Nomination Committee

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Remuneration Committee

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

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

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

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Board Audit Committee

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Board Risk Management Committee

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

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

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

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

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

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Board Risk Management Committee (continued)

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

DISCLOSURE OF SHARIAH COMMITTEE

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

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

Duties, Responsibilities & Accountability Of The Shariah Committee

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

1. Responsibility and accountability

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

2. Advise to the Board and the Bank

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

3. Endorse Shariah policies and procedures

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

Duties, Responsibilities & Accountability Of The Shariah Committee (continued)

4. Endorse and validate relevant documentations

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

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

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

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

6. Assist related parties on Shariah matters

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

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

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

8. Provide written Shariah opinions

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

The Shariah Committee members' profiles are as follows:

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

Duties, Responsibilities & Accountability Of The Shariah Committee (continued)

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

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

SHEIKH PROF. DR ALI MUHYEALDIN AL-QURADAGHI

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

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

SHEIKH DR. WALEED BIN HADI

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

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

SHEIKH DR. MOHAMMAD ZAINI BIN YAHYA

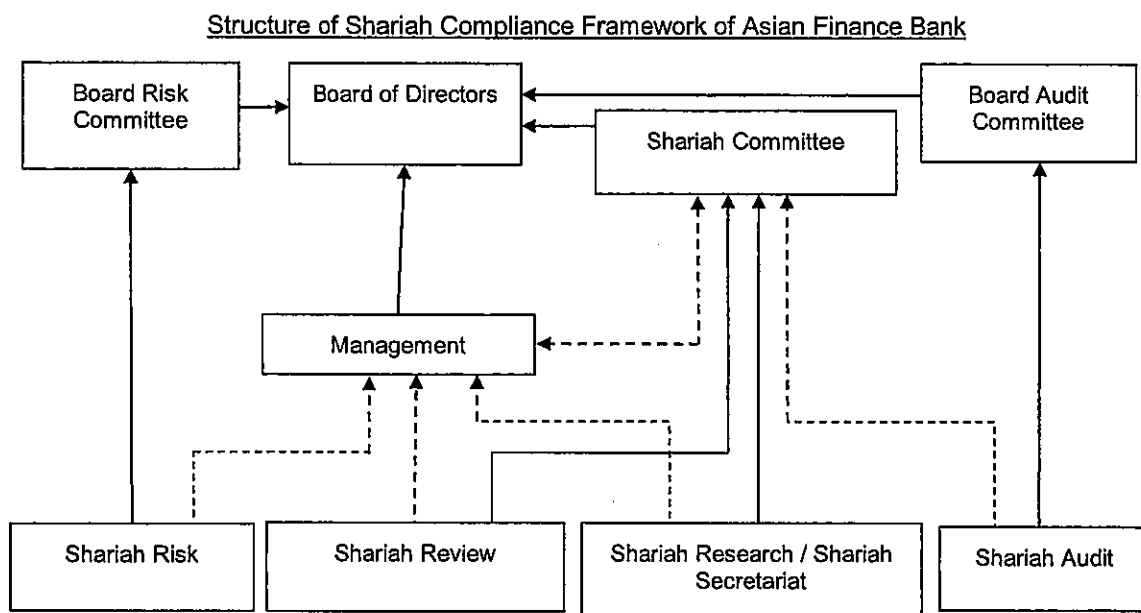
Sheikh Dr. Mohammad Zaini Bin Yahya was born in Malaysia in 1972. He graduated from Al-Azhar University (Egypt), with a Bachelor in Shariah Islamiyyah (1995). He holds Masters in Shariah (1999) from National University of Malaysia and PhD in Usul Fiqh, International Islamic University Malaysia. He started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

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

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)**Duties, Responsibilities & Accountability Of The Shariah Committee (continued)**

SHEIKH NUSHI BIN DATO' DR MAHFODZ

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



Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

SIGNIFICANT EVENT

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

AUDITORS

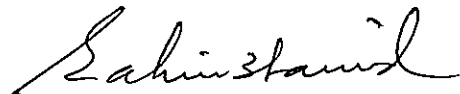
The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016) have indicated their willingness to accept re-appointment.

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

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



DATO' DR. MD KHIR ABDUL RAHMAN
DIRECTOR



ABDUL RAHIM ABDUL HAMID
DIRECTOR

Kuala Lumpur, Malaysia

Date: 29 May 2017



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

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

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

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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



Company No. 716122-P

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

Other Matters

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

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

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

Petaling Jaya, Selangor

Date: 29 May 2017

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

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

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

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

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

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

1. General information

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

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

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

2. Basis of preparation of the financial statements

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

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

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

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

2.1 Statement of compliance

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

2. Basis of preparation of the financial statements (continued)

2.1 Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

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

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

- MFRS 16, *Leases*

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

2. Basis of preparation of the financial statements (continued)

2.1 Statement of compliance (continued)

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

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

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

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

(ii) MFRS 9, *Financial Instruments*

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

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies

3.1 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

3.2 Fair value measurement

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

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.3 Financial assets

(a) Classification

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

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

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

(ii) Financing and advances

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

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

(iii) Financial investments held-to-maturity

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

(iv) Financial investments available-for-sale

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(b) Recognition and initial measurement

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

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

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

(c) Subsequent measurement – gain and losses

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(d) De-recognition

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

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

3.4 Financial liabilities

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

Financial liabilities measured at amortised cost

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

3.5 Impairment of financial assets

(a) Assets carried at amortised cost

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

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

i) Individual impairment allowance

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.5 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

ii) Collective impairment allowance

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

(b) Assets classified as available-for-sale

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.6 Income recognition

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

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

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.6 Income recognition (continued)

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

3.7 Impairment of non-financial assets

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.8 Cash and cash equivalents

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

3.9 Provisions

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.10 Property, plant and equipment

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

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

Renovations	10% - 20%
Computer equipment and software	20% - 33⅓ %
Office equipment, furniture and fixtures	20% - 33⅓ %
Motor vehicles	20%

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

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

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

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

3.11 Intangible assets

(i) Computer software

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.11 Intangible assets (continued)

(ii) Licenses

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

3.12 Current and deferred income taxes

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

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

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

3.13 Zakat

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.14 Employee benefits

Short term employee benefits

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

Defined contribution plans

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

3.15 Contingent assets and contingent liabilities

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

3. Summary of significant accounting policies (continued)

3.16 Share capital

(a) Classification

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

(b) Share issue costs

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

3.17 Joint Venture

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

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

4. Critical accounting estimates and assumptions

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

Allowance for impairment of financial assets

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

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

Fair value of financial instruments

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

Determination of joint arrangement

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

5. Cash and short-term funds

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

6. Financial investments held-for-trading

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

7. Financial investments available-for-sale

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

8. Financial investments held-to-maturity

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

9. Financing and advances

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

(i) By type of customer

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

9. Financing and advances (continued)

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

9. Financing and advances (continued)

Economic Entity and Bank

2016	2015
RM	RM

(vi) By economic purpose

Purchase of landed property:		
- Residential	23,076,504	26,363,868
- Non-Residential	97,259,346	126,568,215
Working Capital	1,261,596,683	1,307,288,469
Personal Use	334,964	377,081
Purchase of transport vehicles	2,347	11,038
Purchase of fixed asset (excluding landed properties)	-	23,879,690
Others	124,935,030	13,096,988
	<u>1,507,204,874</u>	<u>1,497,585,349</u>

(vii) By sector

Agriculture	294,428,962	204,348,325
Mining and quarrying	119,792,958	157,184,731
Manufacturing	201,371,451	198,811,244
Electricity, gas and water	110,081,776	110,153,973
Construction	166,516,602	153,732,128
Purchase of landed property	25,428,349	26,940,512
Wholesale & retail trade and restaurants & hotels	189,783,500	201,831,827
Transport, storage and communication	30,052,009	46,931,845
Finance, insurance, real estate and business services	369,404,793	397,262,645
Purchase of transport vehicles	2,347	11,038
Consumption credit	342,127	377,081
	<u>1,507,204,874</u>	<u>1,497,585,349</u>

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

9. Financing and advances (continued)

(viii) Financing by types and Shariah contracts

**Economic Entity and Bank
2016**

Type	Bai'	Ijarah	Qard	Total financing and advances
	RM	RM	RM	RM
Term Financing	303,697,306	6,313,929	902	310,012,137
House Financing	22,461,796	2,235,664	-	24,697,460
Other term financing	281,235,510	4,078,265	902	285,314,677
Trust receipts	2,869,467	-	-	2,869,467
Staff financing	2,348	-	320,279	322,627
Revolving credit	1,126,793,273	-	-	1,126,793,273
Others	67,207,370	-	-	67,207,370
	1,500,569,764	6,313,929	321,181	1,507,204,874

2015

Type	Bai'	Ijarah	Qard	Total financing and advances
	RM	RM	RM	RM
Term Financing	283,706,581	7,556,125	901	291,263,606
House Financing	23,753,909	2,363,059	-	26,116,968
Other term financing	259,952,672	5,193,066	901	265,146,639
Trust receipts	2,870,199	-	-	2,870,199
Staff financing	11,278	-	345,574	356,852
Revolving credit	1,147,644,484	-	-	1,147,644,484
Others	55,450,207	-	-	55,450,207
	1,489,682,749	7,556,125	346,475	1,497,585,349

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

9. Financing and advances (continued)

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

9. Financing and advances (continued)

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

10. Derivative financial instruments

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

11. Other assets

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

12. Investment in joint venture

	Economic Entity		Bank	
	2016	2015	2016	2015
	RM	RM	RM	RM
Unquoted share capital at cost	16,222,255	16,222,255	16,222,255	16,222,255
Less:				
Share of loss	(16,222,255)	(16,222,255)	-	-
Impairment	-	-	(16,222,255)	(16,222,255)
	-	-	-	-

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

(i) Management shares

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

12. Investment in joint venture (continued)

(ii) Participating shares

The Principal features of the participating shares are as follows:

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

13. Deferred tax assets

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

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

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

14. Property, plant and equipment

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

14. Property, plant and equipment (continued)

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

15. Intangible assets

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

16. Deposits from customers

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

16. Deposits from customers (continued)

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

17. Deposits and placements of banks and other financial institutions

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

18. Other liabilities

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

19. Ordinary share capital

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

20. Reserves

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

21. Income derived from investment of depositors' funds

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

22. Income derived from investment of shareholders' funds

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

23. Allowances for impairment on financing and advances

Economic Entity and Bank

2016

2015

RM

RM

Allowance for impaired financing and advances:

(a) Individual impairment allowance (Note 9 (ix))

- made during the financial year

10,494,429

329,952

- written back during the financial year

(106,396)

(353,141)

(b) Collective impairment allowance (Note 9 (ix))

- made during the financial year

1,318,037

16,833,731

- written back during the financial year

-

-

11,706,070

16,810,542

24. Income attributable to depositors

Economic Entity and Bank

2016

2015

RM

RM

Deposits from customers:

- Mudharabah funds

313,715

2,636,328

- Non-mudharabah funds

29,590,076

32,758,118

29,903,791

35,394,446

Deposits and placements of banks and other financial institutions:

- Mudharabah funds

-

845,709

- Non-mudharabah funds

45,690,519

49,455,420

45,690,519

50,301,129

75,594,310

85,695,575

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

25. Personnel expenses

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

26. Other overheads and expenditures

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

26. Other overheads and expenditures (continued)

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

27. Remuneration of key management personnel - Chief Executive Officer ("CEO"), Directors and Shariah Committee

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

28. Taxation

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

29. Earnings per share

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

30. Significant related party balances and transactions

(a) Related parties and relationships

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

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

(b) Significant related party balances and transactions

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

30. Significant related party balances and transactions (continued)

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

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

(c) Credit exposures arising from transactions with connected parties

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

31. Commitments and contingencies

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

31. Commitments and contingencies (continued)

31.1 Capital Commitments

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

	Economic Entity and Bank	
	2016	2015
	RM	RM
Authorised and contracted for	2,081,585	257,695

31.2 Lease Commitments

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

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

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

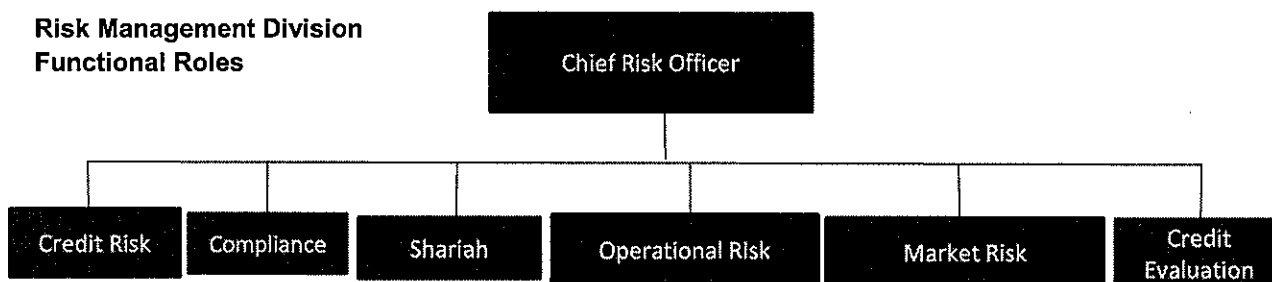
32. Financial risk management

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

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

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

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

**Risk Management Division
Functional Roles**

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management

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

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

Risk limit control and mitigation policies

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

Impairment and provisioning policies

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

(a) Collaterals

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

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

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

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

(b) Maximum exposure to credit risk

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(b) Maximum exposure to credit risk (continued)

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(b) Maximum exposure to credit risk (continued)

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

(c) Credit risk concentration

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(c) Credit risk concentration (continued)

	Short-term funds and placements with financial institution RM	Financial investment held-for- trading RM	Financial investment available- for-sale RM	Financial investment held-to- maturity RM	Financing and advances # RM	Other financial assets * RM	On balance sheet total RM	Commitment and contingencies RM
Economic entity and Bank 2016								
Agriculture	-	-	-	-	294,428,962	-	294,428,962	27,000,000
Mining and quarrying	-	-	-	-	119,792,958	-	119,792,958	8,704,214
Manufacturing	-	-	-	-	201,371,451	-	201,371,451	23,657,460
Electricity, gas and water	-	-	20,121,178	137,280,644	110,081,776	-	267,483,598	-
Construction	-	-	9,952,527	267,266,663	166,516,602	-	443,735,792	125,221,500
Wholesale & retail trade and restaurants & hotels	-	-	-	-	189,783,500	-	189,783,500	63,588,704
Transport, storage and communication	-	-	50,220,657	-	30,052,009	-	80,272,666	300,000
Finance, insurance and business services	206,527,938	20,140,038	186,153,814	40,088,710	369,404,793	-	822,315,293	244,961,331
Education, Health & Others	-	-	-	-	-	-	-	-
Household	-	-	-	-	25,772,823	-	25,772,823	631,037
Others	-	-	-	15,215,240	-	3,815,672	19,030,912	-
	<u>206,527,938</u>	<u>20,140,038</u>	<u>266,448,176</u>	<u>459,851,257</u>	<u>1,507,204,874</u>	<u>3,815,672</u>	<u>2,463,987,955</u>	<u>494,064,246</u>
Assets not subject to credit risk	3,596,450	-	-	-	-	-	3,596,450	-
	<u>210,124,388</u>	<u>20,140,038</u>	<u>266,448,176</u>	<u>459,851,257</u>	<u>1,507,204,874</u>	<u>3,815,672</u>	<u>2,467,584,405</u>	<u>494,064,246</u>

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(c) Credit risk concentration (continued)

Economic entity and Bank 2015	Short-term funds and placements with financial institution RM	Financial investment available- for-sale RM	Financial investment available- for-sale RM	Financial investment held-to- maturity RM	Financing and advances # RM	Other financial assets * RM	On balance sheet total RM	Commitment and contingencies RM
Agriculture	-	-	-	-	204,348,325	-	204,348,325	75,000,000
Mining and quarrying	-	-	-	-	157,184,731	-	157,184,731	21,467,500
Manufacturing	-	-	-	-	198,811,244	-	198,811,244	14,991,761
Electricity, gas and water	-	-	70,820,955	66,088,238	110,153,973	-	247,063,166	15,000,000
Construction	-	-	-	257,237,688	153,732,128	-	410,969,816	94,173,375
Wholesale & retail trade and restaurants & hotels	-	-	-	-	201,831,827	-	201,831,827	36,822,144
Transport, storage and communication	-	-	95,527,837	15,228,469	46,931,845	-	157,688,151	597,610
Finance, insurance and business services	260,538,098	-	201,034,427	40,091,059	397,262,645	-	898,926,229	293,829,151
Education, Health & Others	-	-	-	-	-	-	-	-
Household	-	-	-	-	27,328,631	-	27,328,631	1,187,970
Others	-	-	-	15,218,683	-	5,049,929	20,268,612	-
	260,538,098	-	367,383,219	393,864,137	1,497,585,349	5,049,929	2,524,420,732	553,069,511
Assets not subject to credit risk	2,897,773	-	-	-	-	-	2,897,773	-
	263,435,872	-	367,383,219	393,864,137	1,497,585,349	5,049,929	2,527,318,505	553,069,511

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(d) Credit quality

Financing and guarantees

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

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

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

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

Sukuk

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

Others

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(d) Credit quality (continued)

(i) Financing and advances

Financing and advances are summarised as follows:

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

(a) Financing and advances neither past due nor impaired

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(d) Credit quality (continued)

(i) Financing and advances (continued)

(b) Financing and advances past due but not impaired

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

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

(c) Impaired financing and advances

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

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

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

Credit Risk Mitigation ("CRM") Disclosures

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.1 Credit risk management (continued)

(d) Credit quality (continued)

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.2 Market Risk

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

(i) Profit Rate Risk

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

Market Risk Measurement Techniques

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.2 Market Risk (continued)

(i) Profit Rate Risk (continued)

Profit rate sensitivity analysis

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

	Economic Entity and Bank	
	Impact on profit after tax RM	Impact on equity RM
<u>2016</u>		
+100 basis points ('bps')	4,282,745	4,282,745
-100 basis points ('bps')	<u>(4,282,745)</u>	<u>(4,282,745)</u>
<u>2015</u>		
+100 basis points ('bps')	4,754,040	4,754,040
-100 basis points ('bps')	<u>(4,754,040)</u>	<u>(4,754,040)</u>

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.2 Market risk

(i) Profit Rate Risk

Economic Entity and Bank	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Non-profit sensitive			
	RM	RM	RM	RM	RM	RM	RM	RM	%
2016									
Assets									
Cash and short term funds	169,999,893	-	-	-	-	40,124,495	-	210,124,388	3.03
Financial investments held-for-trading	-	-	20,140,038	-	-	-	-	20,140,038	2.32
Financial investments available-for-sale	-	15,159,594	25,118,866	226,167,353	-	2,363	-	266,448,176	4.01
Financial investments held-to-maturity	51,008,219	-	5,008,581	253,000,560	150,833,897	-	-	459,851,257	4.29
Financing and advances - performing	668,375,058	294,547,042	86,793,244	225,408,073	107,146,427	(12,398,864)	-	1,369,870,980	5.06
- non performing	-	-	-	-	-	87,112,233	-	87,112,233	-
Derivative assets	202,203	10,227	-	-	-	-	-	212,430	
Other assets	-	-	-	-	-	3,603,242	-	3,603,242	
Tax recoverable	-	-	-	-	-	5,416,157	-	5,416,157	
Statutory deposits	-	-	-	-	-	30,373,822	-	30,373,822	
Deferred tax assets	-	-	-	-	-	349,226	-	349,226	
Property and equipment	-	-	-	-	-	1,021,876	-	1,021,876	
Intangible assets	-	-	-	-	-	1,519,012	-	1,519,012	
Total assets	889,585,373	309,716,863	137,060,729	704,575,986	257,980,324	157,123,562	-	2,456,042,837	

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.2 Market risk (continued)

(i) Profit Rate Risk (continued)

Economic Entity and Bank	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Non-profit sensitive			
	RM	RM	RM	RM	RM	RM	RM	RM	%
2016									
Liabilities									
Deposits from customers	221,015,819	453,349,856	72,020,221	146,485,307	-	4,862,822	-	897,734,025	3.59
Deposits and placements of banks and other financial institutions	219,043,157	449,282,827	373,736,015	-	-	6,147,735	-	1,048,209,734	3.87
Derivative liabilities	460,959	97,091	-	-	-	-	-	558,050	
Other liabilities	-	-	-	-	-	12,284,912	-	12,284,912	
Total liabilities	440,519,935	902,729,774	445,756,236	146,485,307	-	23,295,469	-	1,958,786,721	
Total shareholders equity	-	-	-	-	497,256,116	-	-	497,256,116	
	440,519,935	902,729,774	445,756,236	146,485,307	497,256,116	23,295,469	-	2,456,042,837	
Total profit-sensitivity gap	449,065,438	(593,012,911)	(308,695,507)	558,090,679	(239,275,792)	133,828,093	-	-	

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.2 Market risk (continued)

(I) Profit Rate Risk (continued)

Economic Entity and Bank	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Non-profit sensitive			
	RM	RM	RM	RM	RM	RM	RM	RM	%
2015									
Assets									
Cash and short term funds	190,730,643	-	-	-	-	72,705,228	-	263,435,871	3.12
Financial investments									
held-for-trading	-	-	-	-	-	-	-	-	-
Financial investments available-for-sale	-	35,565,082	115,754,445	216,061,329	-	2,363	-	367,383,219	4.34
Financial investments held-to-maturity	-	-	15,228,469	217,586,214	161,049,454	-	-	393,864,137	4.28
Financing and advances									
- performing	776,271,020	345,859,803	120,657,130	191,311,987	50,388,421	(28,453,374)	-	1,456,034,987	5.07
- non performing	-	-	-	-	-	3,034,771	-	3,034,771	-
Derivative assets	753,830	24,750	-	-	-	-	-	778,580	-
Other assets	-	-	-	-	-	4,271,349	-	4,271,349	-
Tax recoverable	-	-	-	-	-	4,082,904	-	4,082,904	-
Statutory deposits	-	-	-	-	-	34,683,822	-	34,683,822	-
Deferred tax assets	-	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	1,007,951	-	1,007,951	-
Intangible assets	-	-	-	-	-	1,842,640	-	1,842,640	-
Total assets	967,755,493	381,449,635	251,640,044	624,959,530	211,437,875	93,177,654	-	2,530,420,231	

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.2 Market risk (continued)

(i) Profit Rate Risk (continued)

Economic Entity and Bank	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years				
	RM	RM	RM	RM	RM	RM	RM	RM	%
2015									
Liabilities									
Deposits from customers	536,451,358	293,612,539	54,027,961	142,000,000	-	5,594,746	-	1,031,686,605	3.09
Deposits and placements of banks and other financial institutions	404,032,424	504,533,752	74,570,412	-	-	9,756,029	-	992,892,617	3.78
Derivative liabilities	896,884	43,400	-	-	-	-	-	940,284	-
Other liabilities	-	-	-	-	-	12,086,801	-	12,086,801	-
Total liabilities	941,380,666	798,189,691	128,598,373	142,000,000	-	27,437,576	-	2,037,606,307	
Total shareholders equity	-	-	-	-	492,813,925	-	-	492,813,925	
	941,380,666	798,189,691	128,598,373	142,000,000	492,813,925	27,437,576	-	2,530,420,231	
Total profit-sensitivity gap	26,374,827	(416,740,056)	123,041,671	482,959,530	(281,376,050)	65,740,078	-	-	

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.2 Market Risk (continued)

(ii) Foreign Exchange Risk

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

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)
32.2 Market risk (continued)
(ii) Foreign Exchange Risk (continued)

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

Company No.

716122 P

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

32. Financial risk management (continued)**32.2 Market risk (continued)****(ii) Foreign Exchange Risk (continued)**

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.3 Liquidity Risk

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

(i) Liquidity Risk Management Process

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

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

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

(ii) Funding Approach

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.3 Liquidity Risk (continued)

(iii) Assets held for managing liquidity risk

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

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

(iv) Derivative Liabilities

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.4 Fair value of financial assets and liabilities

(a) Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.4 Fair value of financial assets and liabilities (continued)

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.4 Fair value of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value

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

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

(i) Financing to customers

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

(ii) Investment securities

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

32. Financial risk management (continued)

32.4 Fair value of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value (continued)

(iii) Deposits from banks and due to customers

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

33. Capital adequacy

Capital management

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)
33. Capital adequacy (continued)

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

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

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

34. Operational Risk Management

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

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

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

35. Donations or charity funds

Sources and applications of Charity Fund as at 31 December 2016

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

35. Donations or charity funds (continued)

Sources and applications of Charity Fund as at 31 December 2015

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

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

36. Significant event

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

37. Approval of financial statements

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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

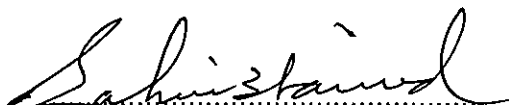
STATEMENT BY DIRECTORS
Pursuant to Section 251(2) of the Companies Act, 2016

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

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



.....
DATO' DR. MD KHIR ABDUL RAHMAN
DIRECTOR



.....
ABDUL RAHIM ABDUL HAMID
DIRECTOR

Kuala Lumpur, Malaysia

Date: 29 May 2017

Company No.

716122 P

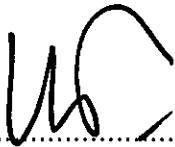
ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATUTORY DECLARATION

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

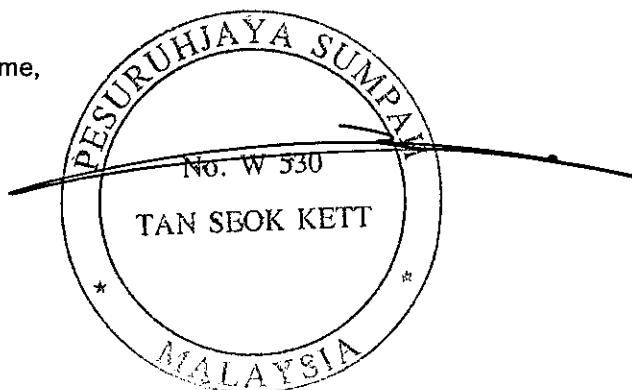
I, Khalid Mahmood Bhaimia, the officer primarily responsible for the financial management of ASIAN FINANCE BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 21 to 100 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously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

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



.....
KHALID MAHMOOD BHAIMIA
CHIEF EXECUTIVE OFFICER

Before me,



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

Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT

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

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

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

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

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

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

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

In our opinion:

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

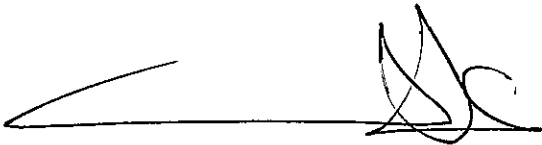
Company No.

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

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

Chairman of Shariah Committee:



Sheikh Dr. Abdul Sattar Abu Ghuddah