

Company No.

716122	P
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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

**STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Company No.
716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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ASIAN FINANCE BANK BERHAD
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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017. 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	
	2017	2016
	RM	RM
(Loss)/Profit before taxation	(3,680,023)	5,016,890
Taxation	74,155	(1,366,961)
Net (Loss)/Profit for the financial year	<u>(3,605,868)</u>	<u>3,649,929</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.

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DIRECTORS OF THE BANK

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

Y. Bhg Datuk Azrulnizam Abdul Aziz
Y. Bhg Datuk Johar Che Mat (Appointed w.e.f. 19 December 2017)
Y. Bhg Tan Sri Abdul Halim Ali (Appointed w.e.f. 7 February 2018)
Sazaliza Zainuddin (Appointed w.e.f. 7 February 2018)
Aw Hong Boo (Appointed w.e.f. 7 February 2018)
Lynette Yeow Su-Yin (Appointed w.e.f. 7 February 2018)
Tunku Alina Raja Muhd Alias (Appointed w.e.f. 7 February 2018)
Dr. Saleh Jameel Malaikah (Resigned w.e.f. 7 February 2018)
Zakir Hussain Rizvi (Resigned w.e.f. 7 February 2018)
Y. Bhg Dato' Dr. Md Khir Abdul Rahman (Resigned w.e.f. 9 February 2018)
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack (Resigned w.e.f. 9 February 2018)
Abdul Rahim Abdul Hamid (Resigned w.e.f. 9 February 2018)
Dr. Loh Leong Hua (Resigned w.e.f. 9 February 2018)
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 (Resigned w.e.f. 28 February 2017)

DIRECTORS' INTERESTS IN SHARES

According to the register of directors' shareholding, no Director holding office at 31 December 2017 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 28 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 for the related party transactions as disclosed in Note 31 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 premiums paid for Directors and Officers' Liability insurance for the Directors and the officers of the Bank is RM113,960.

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BAD AND DOUBTFUL FINANCING AND ADVANCES

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

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

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

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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

Global economic outlook is expected to remain favorable in 2018. The growth is expected to be largely contributed by improved world trade performance on the back of a synchronised global recovery. Statistics from the World Trade Organisation show that global trade has rebounded strongly, both in value and volume terms, after two consecutive years of lacklustre performance in 2015 and 2016. Prices of major commodities are expected to hold up, premised on supportive global demand-supply dynamics. For crude oil, in particular, prices will likely hold up due to continuing global demand especially from Asian countries such as China and India. Price was also supported by persistent efforts by the Organisation of the Petroleum Exporting Countries (OPEC) and non-OPEC members to continue stabilising crude oil prices would likely result in prices being sustained within the range of USD55-USD65 per barrel in 2018.

In the US, a strong labour market which has contributed immensely to private consumption will likely continue to support headline GDP growth in 2018. Increase employment and rising wages will act as a catalyst in spurring spending and coupled with contribution from increased investment in capex, US GDP is projected to grow by 2.3%-2.8% in 2018. In addition, abated uncertainties with regards to policies under US President Donald Trump, diminished expectations of a trade war with China and positive looking US tax reform is aiding further recovery for the US economy in general.

Malaysia GDP growth is projected to be over 5% in 2018. Its economy is one of major beneficiary of strong global trade recovery in 2018. Being an export-dependent economy, Malaysia's real export is projected to grow by 4.5%. The spillover effect from a strong export performance would be positive for the domestic economy. Private consumption is expected to continue to strengthen having chalked up an average growth rate of 7% in the last three consecutive quarters. Consumer sentiment is on the upswing which can be seen from the general uptrend in Malaysia's Consumer Sentiment Index. The domestic economy will also benefit from higher contribution from infrastructure investments from the ongoing large projects (MRT2, LRT3, Pan Borneo Highway, Menara Warisan and others) in 2018. Private investment's contribution to headline growth has risen close to 30% in the first three quarters of 2017, its longest streak since 1H2014 and likely to sustain in 2018. (MARC)

The Bank will continue to capitalise on positive development in the economy while managing its risk exposure to ensure good governance and sustainability going forward. The Bank will strive to ensure compliance with regulatory, meeting customer expectation and business requirement by adopting appropriate strategies and approaches.

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ASIAN FINANCE BANK BERHAD
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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.

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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 Tan Sri Abdul Halim Ali	Chairman (Non-Independent Non-Executive)
Y. Bhg Datuk Johar Che Mat	Director (Independent Non-Executive)
Y. Bhg Datuk Azrulnizam Abdul Aziz	Director (Independent Non-Executive)
Sazaliza Zainuddin	Director (Non-Independent Non-Executive)
Aw Hong Boo	Director (Independent Non-Executive)
Lynette Yeow Su-Yin	Director (Independent Non-Executive)
Tunku Alina Raja Muhd Alias	Director (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.

Board Meetings

The Board met seventeen (17) times during the financial year ended 31 December 2017. 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	14/17	82
Dr. Saleh Jameel Malaikah	12/15	80
Zakir Hussain Rizvi	7/17	41
Y. Bhg Dato' Dr. Vaseehar Hassan Abdul Razack	15/17	88
Abdul Rahim Abdul Hamid	17/17	100
Datuk Azrulnizam Abdul Aziz (Appointed w.e.f 1 March 2017)	15/15	100
Dr. Loh Leong Hua (Appointed w.e.f 1 March 2017)	15/15	100
Y. Bhg Datuk Johar Che Mat (Appointed w.e.f. 19 December 2017)	1/1	100

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BOARD OF DIRECTORS (CONTINUED)

Board Meetings (Continued)

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.

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.

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DISCLOSURE OF BOARD COMMITTEES

Nomination and Remuneration Committee

During the financial year ended 31 December 2017, nine (9) Nomination and Remuneration 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	9/9	100
Zakir Hussain Rizvi	Member	5/9	56
Dr. Saleh Jameel Malaikah	Member	7/9	78
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Member	8/9	89
Y. Bhg Datuk Azrulnizam Abdul Aziz (Appointed w.e.f 1 March 2017)	Member	6/6	100

The Nomination and Remuneration 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.
- 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.

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DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Board Audit Committee

During the financial year ended 31 December 2017, 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	8/8	100
Y. Bhg Dato' Dr. Md Khir Abdul Rahman	Member	7/8	88
Dr. Loh Leong Hua (Appointed w.e.f 1 March 2017)	Member	8/8	100

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.

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DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Board Risk Management Committee

During the financial year ended 31 December 2017, ten (10) 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	8/10	80
Abdul Rahim Abdul Hamid	Member	9/10	90
Dr. Loh Leong Hua (Appointed w.e.f 1 March 2017)	Member	9/9	100

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 33 to the financial statements for the financial year ended 31 December 2017.

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;

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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

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

Sheikh Nushi Bin Dato' Dr Mahfodz

Y. Bhg Dato' Prof. Dr. Noor Inayah Binti Ya'akub (Appointed w.e.f. 7 February 2018)

Prof. Dr. Abdul Rahim Abdul Rahman (Appointed w.e.f. 7 February 2018)

Assistant Prof. Dr. Akhtarzaite Abd Aziz (Appointed w.e.f. 7 February 2018)

Mohd Nasiruddin Mohd Kamaruddin (Appointed w.e.f. 7 February 2018)

Sheikh Dr. Abdul Sattar Abu Ghuddah (Resigned w.e.f. 8 February 2018)

Sheikh Prof. Dr. Ali Muhyealdin Ali Al-Quradaghi (Resigned w.e.f. 8 February 2018)

Sheikh Dr. Waleed Bin Hadi (Resigned w.e.f. 8 February 2018)

Sheikh Dr. Mohammad Zaini Bin Yahya (Resigned w.e.f. 8 February 2018)

During the financial year ended 31 December 2017, five (5) meetings were held. Details of the Committee and their attendance are as follows:-

Name of Shariah Committee	Designation	Total Meetings Attended	Percentage of Attendance (%)
Sheikh Dr. Abdul Sattar Abu Ghuddah	Chairman	4/5	80
Sheikh Prof. Dr. Ali Muhyealdin Ali Al-Quradaghi	Member	5/5	100
Sheikh Dr. Waleed Bin Hadi	Member	2/5	40
Sheikh Dr. Mohammad Zaini Bin Yahya	Member	3/5	60
Sheikh Nushi Bin Dato' Dr Mahfodz	Member	3/5	60

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DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

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.

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

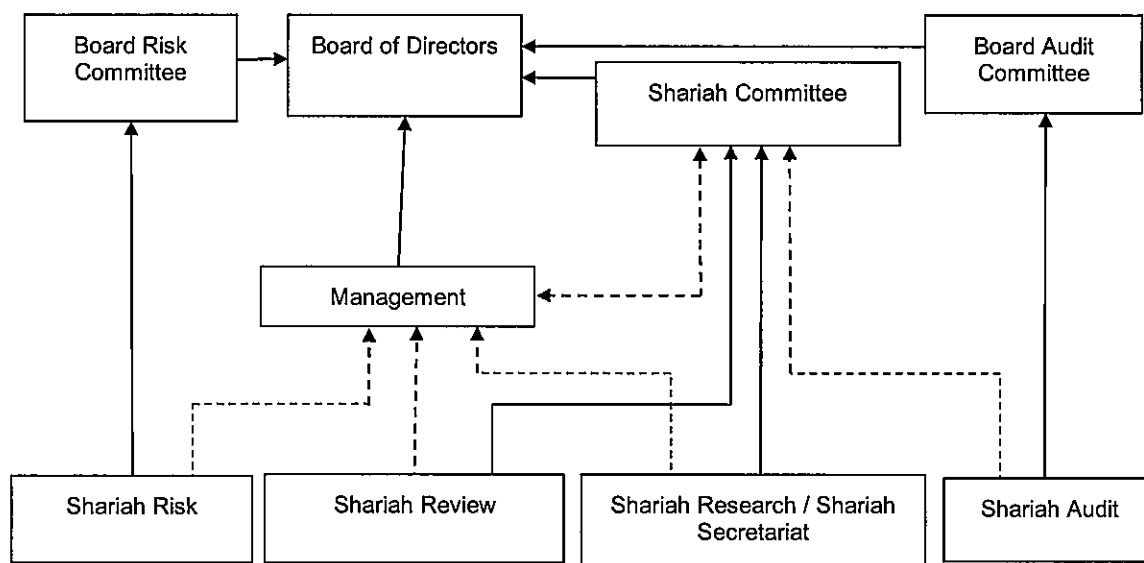
To provide written Shariah opinions in circumstances where the Bank make reference to the SAC for further deliberation, or when the Bank submits applications to BNM for new product approval.

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DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

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

Structure of Shariah Compliance Framework of Asian Finance Bank



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SIGNIFICANT EVENT

On 6 November 2017, Malaysia Building Society Berhad ("MBSB") entered into the Share & Purchase Agreement with the shareholders of Asian Finance Bank Berhad ("AFB/Vendors") for the proposed acquisition by MBSB of the entire equity interest in AFB for an aggregate purchase consideration of RM644,952,807.66 to be satisfied by way of cash amounting to RM396,894,036.26 and the issuance of 225,507,974 Consideration Shares at an issue price of RM1.10 per Consideration Share ("the Acquisition").

The Acquisition was approved by the shareholders' of MBSB on 23rd January 2018. The shareholders also approved the transfer of Shariah Compliant Assets and Liabilities of MBSB to AFB via a Members' Scheme of Arrangement.

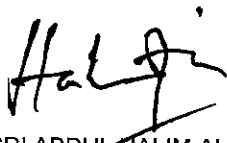
Pursuant to the abovesaid approval and upon completion of the transfer of shares and the payment of the balance of the purchase consideration to the Vendors, AFB became a wholly owned subsidiary of MBSB on 7 February 2018.

AUDITORS

The auditors, KPMG PLT have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 27 to the financial statements.

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



TAN SRI ABDUL HALIM ALI
DIRECTOR



AW HONG BOO
DIRECTOR

Kuala Lumpur, Malaysia

Date: 26 April 2018



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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 2017 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 19 to 99.

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 2017, and of its financial performance and its 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 2016 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.



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Asian Finance Bank Berhad
*Independent Auditors' Report for the
Financial Year Ended 31 December 2017*

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 that 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 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Economic Entity and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Economic Entity and of the Bank, the Directors are responsible for assessing the 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 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 2017*

Other Matters

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: 26 April 2018

Adrian Lee Lye Wang
Approval Number: 02679/11/2019 J
Chartered Accountant

Company No.

716122 P

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

		Economic Entity and Bank	
		2017	2016
	Note	RM	RM
Assets			
Cash and short-term funds	5	478,674,087	210,124,388
Financial investments held-for-trading	6	-	20,140,038
Financial investments available-for-sale	7	227,086,132	266,448,176
Financial investments held-to-maturity	8	600,599,757	459,851,257
Financing and advances	9	1,035,667,653	1,456,983,213
Derivative assets	10	3,090,928	212,430
Other assets	11	8,139,839	3,603,242
Tax recoverable		5,749,936	5,416,157
Statutory deposits with Bank Negara Malaysia		26,773,822	30,373,822
Investment in joint venture	12	-	-
Deferred tax assets	13	625,638	349,226
Property, plant and equipment	14	965,118	1,021,876
Investment properties	15	820,000	-
Intangible assets	16	1,619,581	1,519,012
Total assets		2,389,812,491	2,456,042,837
Liabilities			
Deposits from customers	17	1,198,675,832	897,734,025
Deposits and placements of banks and other financial institutions	18	681,267,846	1,048,209,734
Derivative liabilities	10	777,343	558,050
Other liabilities	19	14,622,814	12,284,912
Total liabilities		1,895,343,835	1,958,786,721
Equity			
Ordinary share capital	20	532,530,020	532,530,020
Reserves	21	(38,061,364)	(35,273,904)
Total equity		494,468,656	497,256,116
Total liabilities and equity		2,389,812,491	2,456,042,837
Commitments and contingencies	32	598,062,145	494,064,246
Capital Adequacy	34		
		Economic Entity and Bank	
CET1 capital		30.236%	23.958%
Tier 1 capital		30.236%	23.958%
Total capital ratio		30.947%	24.755%

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

Company No.

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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Note	Economic Entity and Bank	
		2017 RM	2016 RM
Income derived from investment of depositors' funds	22	89,693,761	91,010,016
Income derived from investment of shareholders' funds	23	29,839,321	30,194,336
Allowances for impairment on financing and advances	24	(12,450,681)	(11,706,070)
Total distributable income		107,082,401	109,498,282
Income attributable to depositors	25	(74,268,074)	(75,594,310)
		32,814,327	33,903,972
Personnel expenses	26	(19,863,821)	(15,015,608)
Other overheads and expenditures	27	(16,630,529)	(13,871,474)
(Loss)/Profit before taxation		(3,680,023)	5,016,890
Taxation	29	74,155	(1,366,961)
Net (loss)/profit for the financial year		(3,605,868)	3,649,929
(Loss)/Profit attributable to:			
Owners of the Bank		(3,605,868)	3,649,929
Non-controlling interest		-	-
		(3,605,868)	3,649,929
(Loss)/Earnings per shares (sen)			
Basic	30	(0.68)	0.69

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

Company No.

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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

	Economic Entity and Bank	
	2017	2016
	RM	RM
(Loss)/Profit for the financial year	(3,605,868)	3,649,929
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
- Unrealised net gain / (loss) on revaluation	1,076,853	(44,979)
Income tax relating to components of other comprehensive income	(258,445)	10,795
Other comprehensive income for the financial year	818,408	792,262
Total comprehensive (loss)/income for the financial year	(2,787,460)	4,442,191
Total comprehensive (loss)/income attributable to:		
Owners of the Bank	(2,787,460)	4,442,191
Non-controlling interest	-	-
	(2,787,460)	4,442,191

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

Company No.

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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Share Capital RM	Accumulated Losses RM	Statutory Reserve RM	Regulatory Reserve RM	AFS Reserve RM	Total RM
<u>Economic Entity and Bank</u>						
2017						
Balance as at						
1 January 2017	532,530,020	(53,094,267)	13,363,710	5,233,721	(777,068)	497,256,116
Other comprehensive income/(loss):						
Financial investments available-for-sale						
- Unrealised net gain on revaluation	-	-	-	-	1,076,853	1,076,853
Income tax relating to components of other comprehensive income	-	-	-	-	(258,445)	(258,445)
Other comprehensive income for the year	-	-	-	-	818,408	818,408
Net loss for the financial year	-	(3,605,868)	-	-	-	(3,605,868)
Total comprehensive (loss)/ income for the year	-	(3,605,868)	-	-	818,408	(2,787,460)
Transfer to Accumulated Losses (Note 21)	-	13,363,710	(13,363,710)	-	-	-
Balance as at						
31 December 2017	532,530,020	(43,336,425)	-	5,233,721	41,340	494,468,656

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

Company No.

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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	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
Other comprehensive (loss)/income:						
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
Other comprehensive income for the year	-	-	-	-	792,262	792,262
Net profit for the financial year	-	3,649,929	-	-	-	3,649,929
Total comprehensive income for the year	-	3,649,929	-	-	792,262	4,442,191
Transfer to statutory reserve (Note 21)	-	(1,824,965)	1,824,965	-	-	-
Transfer to regulatory reserve (Note 21)	-	(5,233,721)	-	5,233,721	-	-
Balance as at						
31 December 2016	<u>532,530,020</u>	<u>(53,094,267)</u>	<u>13,363,710</u>	<u>5,233,721</u>	<u>(777,068)</u>	<u>497,256,116</u>

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

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ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Economic Entity and Bank	
	2017	2016
	RM	RM
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation	(3,605,868)	5,016,890
Adjustments for:		
Depreciation of property, plant and equipment (Note 27)	400,376	552,330
Amortisation of intangible assets (Note 27)	799,203	744,786
Loss on sale of property, plant and equipment	8,284	-
Net impairment loss on investment properties (Note 15)	54,000	-
Profit income from financial investments	(30,508,938)	(32,910,927)
Net (gain)/loss on sale of financial investments	(22,889)	900,221
Unrealised loss from financial investments held-for-trading	-	38,892
Net accretion of discount less amortisation of premium	50,323	251,173
Allowances for losses on financing and advances (Note 24 (a) & (b))	12,762,763	11,706,070
Operating loss before working capital changes	(20,062,746)	(13,700,565)
Adjustments for change in operating assets and liabilities:		
Financing and advances	408,552,797	(9,619,525)
Derivative assets	(2,878,498)	566,150
Other assets	(4,610,752)	422,717
Investment properties	(874,000)	-
Statutory deposit with Bank Negara Malaysia	3,600,000	4,310,000
Deposits from customers	300,941,807	(133,952,579)
Deposits and placements of banks and other financial institutions	(366,941,888)	55,317,117
Derivative liabilities	219,293	(382,234)
Other liabilities	2,337,902	198,111
Cash generated from/(used in) operating activities	320,283,915	(96,840,808)
Taxation paid	(794,481)	(2,804,050)
Net cash generated from/(used in) operating activities	319,489,434	(99,644,858)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 14)	(351,972)	(566,255)
Purchase of intangible assets (Note 16)	(899,772)	(421,158)
Profit income from financial investments	30,508,938	32,910,927
Net proceeds from (purchase)/sale of financial instruments	(80,196,999)	14,409,861
Proceeds from sale of property, plant and equipment	70	-
Net cash (used in)/generated from investing activities	(50,939,735)	46,333,375
ANALYSIS OF CASH AND CASH EQUIVALENT		
Net increase/(decrease) in cash and cash equivalents	268,549,699	(53,311,483)
Cash and cash equivalents at beginning of financial year	210,124,388	263,435,871
Cash and cash equivalents at end of financial year (Note 5)	478,674,087	210,124,388

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

Company No.

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ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 2016.

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 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*

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 (continued)

- 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*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- 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*

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

2.1 Statement of compliance (continued)

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 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.
- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019.

The Economic Entity and the Bank does not plan to apply MFRS 17, *Insurance Contracts* and 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* that are effective for annual periods beginning on 1 January 2021 and after a date yet to be confirmed as it is not applicable to the Economic Entity and the Bank.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Economic Entity and the Bank except as mentioned below:

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

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

2.1 Statement of compliance (continued)

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, the assets will be measured at fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") 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.

In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

The anticipated changes to the classification of financial instruments are as follows:

- Financial assets classified as financing and advances and financial investments held to maturity under MFRS 139 are expected to be reclassified as financial assets measured at amortised cost under MFRS 9;
- Financial assets classified as financial investment available-for-sale under MFRS 139 are expected to be reclassified as financial assets measured at FVOCI;
- Financial assets classified as financial investment held-for-trading under MFRS 139 are expected to be reclassified as financial assets measured at FVTPL; and
- Other financial assets and liability currently measured at FVTPL remain.

Upon the initial adoption of MFRS 9, an adjustment will be made to opening accumulated losses, which will decrease the equity and net assets of the Bank. As certain basis and assumptions are still being refined, the quantitative impact to the overall financial statements has not been finalised at this juncture.

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 33.4(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 33.4(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.

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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.

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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.

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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.

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3. Summary of significant accounting policies (continued)

3.6 Income recognition

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

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

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

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

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

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

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3. Summary of significant accounting policies (continued)

3.6 Income recognition (continued)

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

3.7 Impairment of non-financial assets

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

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

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

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3. Summary of significant accounting policies (continued)

3.8 Cash and cash equivalents

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

3.9 Provisions

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

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

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

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

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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	20%
Computer equipment and software	20%
Office equipment, furniture and fixtures	20%
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 Investment properties

Investment properties, comprising only freehold land is held for capital appreciation, and is not occupied by the Economic Entity and the Bank.

The investment properties are recognised at cost subject to annual impairment test based on market values determined by independent qualified valuers.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

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3. Summary of significant accounting policies (continued)

3.12 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.

(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.

3.13 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.

3.14 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
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3. Summary of significant accounting policies (continued)

3.15 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.

3.16 Contingent assets and contingent liabilities

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

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

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

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3. Summary of significant accounting policies (continued)

3.17 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.

3.18 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 investment in its joint venture. At each reporting date, the Economic Entity determines whether there is objective evidence of impairment. If there is such evidence, the Economic Entity calculates the impairment amount and recognises the loss as "share of profit of joint venture" in the statement of profit or loss.

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4. Critical accounting estimates and assumptions

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

Allowance for impairment of financial assets

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

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

Fair value of financial instruments

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

Determination of joint arrangement

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

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

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

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5. Cash and short-term funds

	Economic Entity and Bank	
	2017	2016
	RM	RM
Cash and balances with banks and other financial institutions	47,674,194	40,124,495
Money at call and deposit placements maturing within one month	430,999,893	169,999,893
	478,674,087	210,124,388

6. Financial investments held-for-trading

	Economic Entity and Bank	
	2017	2016
	RM	RM
At fair value:		
Islamic Medium Term Notes	-	20,140,038
	-	20,140,038

7. Financial investments available-for-sale

	Economic Entity and Bank	
	2017	2016
	RM	RM
At fair value:		
Islamic Medium Term Notes	211,884,791	251,300,985
Corporate Sukuk	15,201,341	15,147,191
	227,086,132	266,448,176

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8. Financial investments held-to-maturity

	Economic Entity and Bank	
	2017 RM	2016 RM
At amortised cost:		
Islamic Medium Term Notes	600,599,757	459,851,257
	<u>600,599,757</u>	<u>459,851,257</u>

9. Financing and advances

	Economic Entity and Bank	
	2017 RM	2016 RM
At amortised cost		
Term financing		
- house financing	20,391,272	24,697,460
- other term financing	269,843,354	285,314,677
Trust receipts	-	2,869,467
Staff financing	307,486	322,627
Revolving Credit	712,222,741	1,126,793,273
Others	86,028,574	67,207,370
Gross financing and advances	1,088,793,427	1,507,204,874
Less: Allowance for financing and advances:		
- individual impairment allowance	(45,716,627)	(37,822,797)
- collective impairment allowance	(7,409,147)	(12,398,864)
Net financing and advances	<u>1,035,667,653</u>	<u>1,456,983,213</u>

(i) By type of customer

Domestic non-bank financial institution		
- Others	-	50,060,246
Domestic business enterprises		
- Small medium enterprise	341,139	7,024,162
- Government	242,261,349	270,273,839
- Others	824,853,128	1,154,073,803
Individuals	13,060,987	13,826,327
Foreign entities	8,276,824	11,946,497
	<u>1,088,793,427</u>	<u>1,507,204,874</u>

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9. Financing and advances (continued)

		Economic Entity and Bank	
		2017	2016
		RM	RM
(ii) By profit rate sensitivity			
Fixed rate			
- Other fixed rate financing		39,155,518	62,232,814
Variable			
- Base financing rate		344,434,331	325,600,657
- Cost-plus		705,171,163	1,119,050,222
Non-profit sensitive		32,415	321,181
		1,088,793,427	1,507,204,874
(iii) By contractual maturity			
Maturity within one year		748,567,079	1,049,715,344
More than one year to three years		112,152,536	92,762,708
More than three years to five years		92,550,257	132,645,365
More than five years		135,523,555	232,081,457
		1,088,793,427	1,507,204,874
(iv) By geographical distribution			
Malaysia		1,088,352,339	1,506,790,229
United Kingdom		441,088	414,645
		1,088,793,427	1,507,204,874

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9. Financing and advances (continued)

	Economic Entity and Bank	
	2017	2016
	RM	RM
(v) By economic purpose		
Purchase of landed property:		
- Residential	19,556,245	23,076,504
- Non-Residential	73,142,439	97,259,346
Working Capital	884,526,997	1,261,596,683
Personal Use	42,596	334,964
Purchase of transport vehicles	101,234	2,347
Others	111,423,916	124,935,030
	1,088,793,427	1,507,204,874
(vi) By sector		
Agriculture	160,378,344	294,428,962
Mining and quarrying	70,390,140	119,792,958
Manufacturing	129,758,945	201,371,451
Electricity, gas and water	60,130,685	110,081,776
Construction	153,895,573	166,516,602
Purchase of landed property	21,194,718	25,428,349
Wholesale & retail trade and restaurants & hotels	104,962,750	189,783,500
Transport, storage and communication	62,949,961	30,052,009
Finance, insurance, real estate and business services	324,988,481	369,404,793
Purchase of transport vehicles	101,234	2,347
Consumption credit	42,596	342,127
	1,088,793,427	1,507,204,874

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9. Financing and advances (continued)
(vii) Financing by types and Shariah contracts
**Economic Entity and Bank
2017**

Type	Bai'	Ijarah	Qard	Total financing and advances
	RM	RM	RM	RM
Term Financing	285,345,531	4,889,095	-	290,234,626
House Financing	18,031,390	2,359,882	-	20,391,272
Other term financing	267,314,141	2,529,213	-	269,843,354
Trust receipts	-	-	-	-
Staff financing	99,480	175,591	32,415	307,486
Revolving credit	712,222,741	-	-	712,222,741
Others	86,028,574	-	-	86,028,574
	1,083,696,326	5,064,686	32,415	1,088,793,427

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

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9. Financing and advances (continued)

	Economic Entity and Bank	
	2017	2016
	RM	RM
(viii) Movement in the allowance for impaired advances and financing		
Individual Assessment Allowance		
Balance beginning of financial year	37,822,797	10,062,217
Allowance made during the financial year (Note 24 (a))	17,867,169	10,494,429
Amount written back (Note 24 (a))	(114,689)	(106,396)
Reclassified from collective assessment allowance	-	17,372,547
Amount written off during the year	(9,858,650)	-
Balance as at end of financial year	<u>45,716,627</u>	<u>37,822,797</u>
Collective Assessment Allowance		
Balance beginning of financial year	12,398,864	28,453,374
Allowance made during the financial year (Note 24 (b))	-	1,318,037
Amount written back (Note 24 (b))	(4,989,717)	-
Reclassified to individual assessment allowance	-	(17,372,547)
Balance as at end of financial year	<u>7,409,147</u>	<u>12,398,864</u>
Regulatory reserve as at 31 December 2017/2016	5,233,721	5,233,721
As % of gross financing and advances less individual assessment allowances	<u>1.21%</u>	<u>1.20%</u>
(ix) Movement in impaired financing and advances		
Balance beginning of financial year	124,935,030	13,096,988
Classified as impaired during the financial year	2,963,130	113,040,116
Reclassified as non-impaired	(685,831)	(1,017,008)
Amount recovered	(5,929,763)	(185,066)
Amount written off during the financial year as uncollectible	(9,858,650)	-
Balance as at end of financial year	<u>111,423,916</u>	<u>124,935,030</u>
Gross impaired financing and advances ratio	<u>10.23%</u>	<u>8.29%</u>

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9. Financing and advances (continued)

	Economic Entity and Bank	
	2017	2016
	RM	RM
(x) Impaired financing by sector		
Mining and quarrying	70,390,653	74,921,378
Manufacturing	-	299,778
Construction	-	5,596,139
Wholesale & retail trade and restaurants & hotels	-	1,172,542
Finance, insurance, real estate and business services	37,492,755	37,238,143
Purchase of landed property	3,540,508	5,699,887
Consumption credit	-	7,163
	111,423,916	124,935,030
(xi) Impaired financing by geographical distribution		
Malaysia	111,423,916	124,935,030

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					
	2017			2016		
	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	130,503,294	3,090,928	(777,343)	209,997,225	212,430	(558,050)

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11. Other assets

	Economic Entity and Bank	
	2017	2016
	RM	RM
Prepayment and deposit	3,877,087	1,001,878
Other debtors	4,262,752	2,601,364
	8,139,839	3,603,242

12. Investment in joint venture

	Economic Entity		Bank	
	2017	2016	2017	2016
	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.

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12. Investment in joint venture (continued)

(ii) Participating shares

The Principal features of the participating shares are as follows:

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

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13. Deferred tax assets

	Economic Entity and Bank	
	2017	2016
	RM	RM
At beginning of the year	349,226	-
Recognised in the income statement (Note 29)	534,857	103,836
Recognised in other comprehensive income	(258,445)	245,390
At end of the year	<u>625,638</u>	<u>349,226</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				
2017				
At 1 January	245,390	-	103,836	349,226
Recognised in income statement	-	-	534,857	534,857
Recognised in other comprehensive income	(258,445)	-	-	(258,445)
At 31 December	<u>(13,055)</u>	<u>-</u>	<u>638,693</u>	<u>625,638</u>
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>

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14. Property, plant and equipment

	Renovations RM	Computer equipment RM	Office equipment, furniture and fixtures RM	Motor vehicles RM	Total RM
Economic Entity and Bank 2017					
Cost					
Balance as at 1 January 2017	5,314,934	5,470,265	1,764,659	763,459	13,313,317
Additions	-	289,429	62,543	-	351,972
Disposal	-	(17,805)	(28,092)	(675,924)	(721,821)
Balance as at 31 December 2017	5,314,934	5,741,889	1,799,110	87,535	12,943,468
Accumulated Depreciation					
Balance as at 1 January 2017	5,278,531	4,558,229	1,701,158	753,523	12,291,441
Charge for the financial year (Note 27)	36,403	308,378	47,321	8,274	400,376
Disposal	-	(17,805)	(19,738)	(675,924)	(713,467)
Balance as at 31 December 2017	5,314,934	4,848,802	1,728,741	85,873	11,978,350
Net Book Value					
Balance as at 31 December 2017	-	893,087	70,369	1,662	965,118

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14. Property, plant and equipment (continued)

	Renovations RM	Computer equipment RM	Office equipment, furniture and fixtures RM	Motor vehicles 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
Transfer	-	-	-	-	-
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 27)	106,421	223,664	92,428	129,817	552,330
Disposal/Written off	-	-	-	-	-
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

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15. Investment properties

	Economic Entity and Bank	
	2017 RM	2016 RM
At cost		
Freehold land		
At 1 January	-	-
Addition	874,000	-
Impairment loss	(54,000)	-
At 31 December	<u>820,000</u>	<u>-</u>
Fair Value		
At 1 January	-	-
At 31 December	<u>820,000</u>	<u>-</u>

The fair value of investment properties is categorised under Level 3 fair value which has been generally derived using the sales comparison approach.

16. Intangible assets

	Economic Entity and Bank	
	2017 RM	2016 RM
Computer Software		
Cost		
Balance as at the beginning of the financial year	22,377,068	21,955,910
Additions	899,772	421,158
Balance as at the end of the financial year	<u>23,276,840</u>	<u>22,377,068</u>
Accumulated amortisation		
Balance as at the beginning of the financial year	20,858,056	20,113,270
Charge for the financial year (Note 27)	799,203	744,786
Balance as at the end of the financial year	<u>21,657,259</u>	<u>20,858,056</u>
Net Book Value		
As at the end of the financial year	<u>1,619,581</u>	<u>1,519,012</u>

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17. Deposits from customers

		Economic Entity and Bank	
		2017	2016
		RM	RM
(i) By type of deposit:			
<u>Non-Mudharabah Funds:</u>			
Demand deposits	70,796,742	56,705,294	
Savings deposits	1,820,576	1,650,497	
Commodity Murabahah	1,118,029,069	814,821,973	
General investment deposits	-	10,577,233	
	1,190,646,387	883,754,997	
<u>Mudharabah Funds:</u>			
Savings deposits	513,574	56,888	
General investment deposits	7,515,871	13,922,140	
	8,029,445	13,979,028	
	1,198,675,832	897,734,025	
(ii) The deposits are sourced from the following classes of customers:			
Business enterprises	1,183,326,682	884,005,053	
Individuals	15,349,150	13,728,972	
	1,198,675,832	897,734,025	
(iii) The maturity structure of saving deposits, amount payable on demand and term deposits are as follows:			
Due within six months	988,527,969	746,928,809	
More than six months to one year	67,623,395	3,774,280	
More than one year to three years	142,524,468	104,879,947	
More than three years	-	42,150,989	
	1,198,675,832	897,734,025	
(iv) By type of contract:			
Mudharabah	8,029,445	13,979,028	
Tawarruq	1,118,029,069	825,399,206	
Wadiah	72,617,318	58,355,791	
	1,198,675,832	897,734,025	

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18. Deposits and placements of banks and other financial institutions

		Economic Entity and Bank	
		2017	2016
		RM	RM
(i) By type of deposit:			
<u>Non-Mudharabah Funds:</u>			
Licensed Islamic banks		180,708,017	-
Other financial institutions		500,559,829	1,048,209,734
		681,267,846	1,048,209,734
(ii) By type of contract:			
Tawarruq		680,807,591	1,048,124,742
Wadiah		460,255	84,992
		681,267,846	1,048,209,734

19. Other liabilities

		Economic Entity and Bank	
		2017	2016
		RM	RM
Sundry creditors		8,632,563	8,236,494
Other provisions and accruals		5,990,251	4,048,418
		14,622,814	12,284,912

Included in sundry creditors at 31 December 2017 are Gharamah from late payment charges of RM1,866,281 (2016: RM1,699,662) (Note 36).

20. Ordinary share capital

	Economic Entity and Bank		Economic Entity and Bank	
	Number of shares	Amount	Number of shares	Amount
	2017	2017	2016	2016
		RM		RM
Ordinary shares, issued and fully paid:				
As at 1 January / 31 December	532,530,020	532,530,020	532,530,020	532,530,020

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21. Reserves

	Economic Entity and Bank	
	2017	2016
	RM	RM
Accumulated Losses	(43,336,425)	(53,094,267)
Statutory Reserve	-	13,363,710
Regulatory Reserve	5,233,721	5,233,721
AFS Reserve	41,340	(777,068)
	<u>(38,061,364)</u>	<u>(35,273,904)</u>
Statutory Reserve		
At beginning of the financial year	13,363,710	11,538,745
Transfer from net profit for the financial year	-	1,824,965
Transfer to accumulated losses	(13,363,710)	-
At end of the financial year	<u>-</u>	<u>13,363,710</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 requirement to maintain a reserve fund has been removed pursuant to BNM's Guideline on "Capital Funds for Islamic Banks" issued 3 May 2017, following which the outstanding balance was transferred to accumulated loss.

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

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

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22. Income derived from investment of depositors' funds

	Economic Entity and Bank	
	2017	2016
	RM	RM
Income derived from investment of:		
(i) General investment deposit	416,975	1,157,865
(ii) Other deposits	89,276,786	89,852,151
	89,693,761	91,010,016
(i) Income derived from investment of general investment deposits		
<u>Finance income and hibah:</u>		
Financing and advances	259,948	733,615
Financial investment held-for-trading	1,007	800
Financial investment available-for-sale	36,246	138,064
Financial investment held-to-maturity	76,401	185,433
Money at call and deposits with financial institutions	43,373	99,953
	416,975	1,157,865
(ii) Income derived from investment of other deposits		
<u>Finance income and hibah:</u>		
Financing and advances	55,516,907	56,919,716
Financial investment held-for-trading	185,160	62,609
Financial investment available-for-sale	7,671,338	10,711,179
Financial investment held-to-maturity	16,488,122	14,400,642
Money at call and deposits with financial institutions	9,415,259	7,758,005
	89,276,786	89,852,151

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23. Income derived from investment of shareholders' funds

	Economic Entity and Bank	
	2017	2016
	RM	RM
<u>Finance income and hibah</u>		
Financing and advances	13,713,536	14,070,160
Financial investment held-for-trading	47,767	15,589
Financial investment available-for-sale	1,899,904	2,646,233
Financial investments held-to-maturity	4,063,066	3,560,093
Money at call and deposits with financial institutions	2,314,783	1,913,813
Total finance income and hibah	22,039,056	22,205,888
Other operating income (Note 23 (a))	7,800,265	7,988,448
	<u>29,839,321</u>	<u>30,194,336</u>

Other operating income comprise of:

(a) Fee and other income:		
Commission	577,481	1,003,834
Fees and other income	4,909,199	7,330,234
Net gain / (loss) on derivative foreign exchange contracts	2,313,585	(345,620)
Total other operating income	<u>7,800,265</u>	<u>7,988,448</u>

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24. Allowances for impairment on financing and advances

	Economic Entity and Bank	
	2017	2016
	RM	RM
Allowance for impaired financing and advances:		
(a) Individual impairment allowance (Note 9 (viii))		
- made during the financial year	17,867,169	10,494,429
- written back during the financial year	(114,689)	(106,396)
(b) Collective impairment allowance (Note 9 (viii))		
- made during the financial year	-	1,318,037
- written back during the financial year	(4,989,717)	-
(c) Bad debts and financing recovered	(312,082)	-
- made during the financial year	-	-
- written back during the financial year	-	-
- Amount recovered from written off during the financial year	(312,082)	-
	12,450,681	11,706,070

25. Income attributable to depositors

	Economic Entity and Bank	
	2017	2016
	RM	RM
Deposits from customers:		
- Mudharabah funds	174,702	313,715
- Non-mudharabah funds	35,330,768	29,590,076
	35,505,470	29,903,791
Deposits and placements of banks and other financial institutions:		
- Mudharabah funds	-	-
- Non-mudharabah funds	38,762,604	45,690,519
	38,762,604	45,690,519
	74,268,074	75,594,310

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26. Personnel expenses

	Economic Entity and Bank	
	2017	2016
	RM	RM
Salaries, allowances and bonuses	15,680,991	11,313,700
Contributions to Employee Provident Fund and SOCSO	1,751,528	1,590,438
Directors fees (Note 28)	732,000	617,043
Shariah Committee remunerations (Note 28)	194,274	192,000
Medical related expenses	513,732	656,959
Travelling and parking	126,411	42,783
Other staff related cost	864,885	602,685
	19,863,821	15,015,608

27. Other overheads and expenditures

	Economic Entity and Bank	
	2017	2016
	RM	RM
<u>Establishment expenses</u>		
Depreciation of property, plant and equipment (Note 14)	400,376	552,330
Amortisation of intangible assets (Note 16)	799,203	744,786
Rental of premises	1,945,512	1,914,772
Software and hardware maintenance	5,983,616	4,904,025
Rental of equipment and network line	274,929	302,378
Security expenses	434,231	415,896
Others	2,759,188	2,143,642
	12,597,055	10,977,829
<u>Marketing expenses</u>		
Advertising and promotional activities	73,312	109,208
Entertainment expenses	12,677	18,096
Travelling expenses	73,259	106,506
	159,248	233,810

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27. Other overheads and expenditures (continued)

	Economic Entity and Bank	
	2017	2016
	RM	RM
<u>Administration and general expenses</u>		
Licence and association fees and levies	403,213	392,086
Travelling, transport and accomodation expenses	224,552	171,346
Printing, stationery, postage and clearing charges	339,361	342,149
Telecommunication charges	419,652	458,205
Electricity and water	311,365	306,971
Other professional fees	1,100,614	150,967
Auditors remuneration		
- Statutory audit fees		
- current year	316,000	301,000
- Regulatory-related services		
- current year	111,000	80,000
Others	648,469	457,111
	3,874,226	2,659,835
	16,630,529	13,871,474

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

	Economic Entity and Bank	
	2017	2016
	RM	RM
Non-Executive Directors		
- Fees	732,000	617,043
Chief Executive Officer ("CEO")		
- Salary and other remuneration	807,765	-
	<u>1,539,765</u>	<u>617,043</u>
Shariah Committee members fees	194,274	192,000
	<u>1,734,039</u>	<u>809,043</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	
	2017	2016
	RM	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	7	6
Above RM50,000	<u>5</u>	<u>4</u>

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29. Taxation

	Economic Entity and Bank	
	2017	2016
	RM	RM
Tax expense for the financial year:		
- Current year	339,375	1,470,797
- Under provision in prior year	121,327	-
Deferred tax:		
- Relating to reversal and origination of temporary differences	(614,328)	249,400
- Under/(over) provision of deferred tax in prior years	79,471	(353,236)
	(74,155)	1,366,961

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	
	2017	2016
	RM	RM
(Loss) / Profit before income tax	(3,680,023)	5,016,890
Taxation at Malaysian statutory tax rate of 24%	(883,205)	1,204,054
Non-deductible expenses	608,252	516,143
Under/(over) provision in prior years	200,798	(353,236)
Income tax expense	(74,155)	1,366,961

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30. 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	
	2017	2016
	RM	RM
Basic:		
Net (loss)/profit for the financial year	<u>(3,605,868)</u>	<u>3,649,929</u>
Weighted average number of ordinary shares in issue	<u>532,530,020</u>	<u>532,530,020</u>
Basic (loss)/earnings per share (sen)	<u>(0.68)</u>	<u>0.69</u>

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ASIAN FINANCE BANK BERHAD
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31. 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
2017			
<u>Income</u>			
Profit income on financing	-	186,834	-
Other income	57,112	5,856	-
	<u>57,112</u>	<u>192,690</u>	<u>-</u>
<u>Expenditure</u>			
Profit expense on deposits	-	413	-
	<u>-</u>	<u>413</u>	<u>-</u>
<u>Amount due to</u>			
Current account and investment deposits	271,000	-	58,880
Derivative liabilities	-	-	-
	<u>271,000</u>	<u>-</u>	<u>58,880</u>

ASIAN FINANCE BANK BERHAD
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31. 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
2016			
<u>Income</u>			
Profit income on financing	-	2,077,036	-
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>

(c) Credit exposures arising from transactions with connected parties

	Economic Entity and Bank	
	2017	2016
	RM	RM
Outstanding credit exposures with connected parties	<u>-</u>	<u>67,775,522</u>
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	<u>0.00%</u>	<u>2.50%</u>
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	<u>0.00%</u>	<u>2.00%</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.

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32. 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				
2017				
Direct credit substitutes	24,450,875	-	24,450,875	24,325,438
Trade-related contingencies	28,158,459	-	5,631,692	5,631,692
Irrevocable commitments				
to extend credit:				
- one year or less	349,818,937	-	174,909,469	172,233,415
- over one year to five years	14,314,079	-	7,157,040	7,151,380
- over five years	50,816,501	-	25,408,251	25,407,626
Foreign exchange related				
contracts				
- one year or less	130,503,294	3,090,928	4,271,134	1,247,225
Total	598,062,145	3,090,928	241,828,461	235,996,776

	Principal amount RM	Gross Positive Fair Value - Derivative Contract RM	Credit equivalent amount RM	Risk weighted amount RM
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

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ASIAN FINANCE BANK BERHAD
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32. Commitments and contingencies (continued)

32.1 Capital Commitments

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

	Economic Entity and Bank	
	2017	2016
	RM	RM
Contracted and not provided for	470,820	2,081,585

32.2 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	
	2017	2016
	RM	RM
Within one year	2,100,512	1,069,679
Between one to five years	3,189,135	165,572
	5,289,647	1,235,251

ASIAN FINANCE BANK BERHAD
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33. Financial risk management

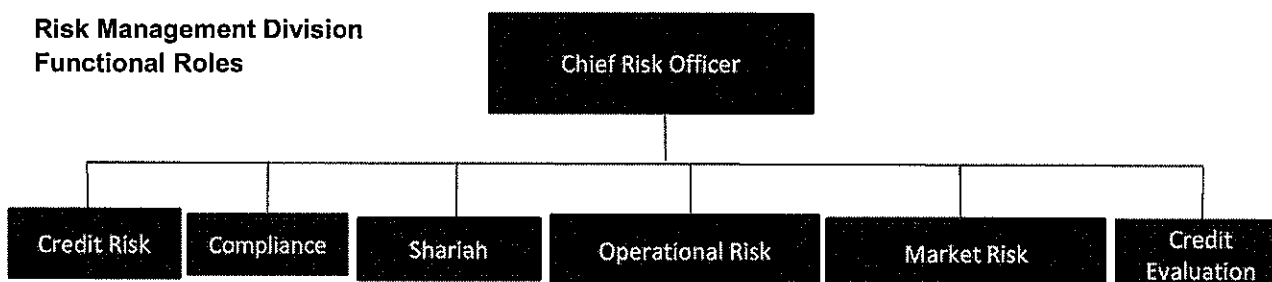
The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks, measure these risks, manage the risk position, determine capital allocations and report independently. The Bank regularly 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
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33. Financial risk management (continued)

33.1 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, short-term funds and placements with financial institution and also credit enhancement activities including provision of financial guarantees, letters of credit, endorsements and acceptances.

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

Risk limit control and mitigation policies

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

Impairment and provisioning policies

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

(a) Collaterals

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

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

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

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

(b) Maximum exposure to credit risk

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

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33. Financial risk management (continued)

33.1 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	
	2017	2016
	RM	RM
Credit risk exposure relating to financial assets:		
Short-term funds (exclude cash in hand)	477,373,926	206,527,938
Financial assets and investments portfolios		
- Held-for-trading	-	20,140,038
- Available-for-sale	227,086,132	266,448,176
- Held-to-maturity	600,599,757	459,851,257
Financing and advances	1,035,667,653	1,456,983,213
Derivative assets	3,090,928	212,430
Other assets	8,139,839	3,603,242
	2,351,958,235	2,413,766,294

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33. Financial risk management (continued)

33.1 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 33.48% as at 31 December 2017 (31 December 2016: 24.40%). 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 2017 are set out in the following pages.

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33. Financial risk management (continued)

33.1 Credit risk management (continued)

(c) Credit risk concentration (continued)

Economic entity and Bank	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
2017								
Agriculture	-	-	-	-	160,378,344	-	160,378,344	190,950,000
Mining and quarrying	-	-	-	-	70,390,140	-	70,390,140	10,704,214
Manufacturing	-	-	-	-	129,758,945	-	129,758,945	79,713,262
Electricity, gas and water	-	-	35,200,315	137,238,017	60,130,685	-	232,569,017	-
Construction	-	-	20,194,008	291,888,553	153,895,573	-	465,978,134	94,911,501
Wholesale & retail trade and restaurants & hotels	-	-	-	-	104,962,750	-	104,962,750	38,451,148
Transport, storage and communication	-	-	50,418,930	15,138,600	62,949,961	-	128,507,491	14,440,822
Finance, insurance and business services	477,373,926	-	121,272,879	70,381,571	324,988,481	-	994,016,857	41,428,556
Household	-	-	-	-	21,338,548	-	21,338,548	50,276
Others	-	-	-	85,953,016	-	11,230,767	97,183,783	-
	<u>477,373,926</u>	<u>-</u>	<u>227,086,132</u>	<u>600,599,757</u>	<u>1,088,793,427</u>	<u>11,230,767</u>	<u>2,405,084,009</u>	<u>470,649,779</u>
Assets not subject to credit risk	1,300,161	-	-	-	-	-	1,300,161	-
	<u>478,674,087</u>	<u>-</u>	<u>227,086,132</u>	<u>600,599,757</u>	<u>1,088,793,427</u>	<u>11,230,767</u>	<u>2,406,384,170</u>	<u>470,649,779</u>

Excludes collective and individual impairment of RM7,409,147 and RM45,716,627 respectively.

* Other financial assets consist of derivative assets and other assets amounting to RM3,090,928 and RM8,139,839 respectively.

^ Commitments and contingencies excluding foreign exchange related contracts.

ASIAN FINANCE BANK BERHAD
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33. Financial risk management (continued)
33.1 Credit risk management (continued)
(c) Credit risk concentration (continued)

	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
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	36,569,948
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	62,195,292
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>284,279,451</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>284,279,451</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.

^ Commitments and contingencies excluding foreign exchange related contracts.

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33. Financial risk management (continued)

33.1 Credit risk management (continued)

(d) Credit quality

Financing and guarantees

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

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

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

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

Sukuk

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

Others

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

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

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33. Financial risk management (continued)

33.1 Credit risk management (continued)

(d) Credit quality (continued)

(i) Financing and advances

Financing and advances are summarised as follows:

	Economic Entity and Bank	
	2017	2016
	RM	RM
Neither past due nor impaired	966,758,047	1,282,522,598
Past due but not impaired	10,611,464	99,747,246
Impaired	111,423,916	124,935,030
Gross financing and advances	1,088,793,427	1,507,204,874
Less: Individual allowance	(45,716,627)	(37,822,797)
Collective allowance	(7,409,147)	(12,398,864)
Net financing and advances	1,035,667,653	1,456,983,213

(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	
	2017	2016
	RM	RM
<u>Internal Credit Rating (CRR)</u>		
CRR1 - CRR3	122,040,541	257,713,382
CRR4 - CRR6	822,800,718	864,883,355
CRR7 - CRR10	14,732,114	151,385,541
Non rated CRR	7,184,674	8,540,320
	966,758,047	1,282,522,598

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33. Financial risk management (continued)

33.1 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	
	2017	2016
	RM	RM
Past due up to 30 days	9,685,250	98,630,252
Past due 30 to 60 days	926,214	885,922
Past due 60 to 90 days	-	231,072
	<u>10,611,464</u>	<u>99,747,246</u>

(c) Impaired financing and advances

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

	Economic Entity and Bank	
	2017	2016
	RM	RM
Gross impaired financing and advances	111,423,916	124,935,030
Less: Individual impairment allowance	(45,716,627)	(37,822,797)
Net impaired financing and advances	<u>65,707,289</u>	<u>87,112,233</u>

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

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.

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33. Financial risk management (continued)
33.1 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>2017</u>				
Neither past due nor impaired				
AAA	431,442,083	222,882,356	-	-
AA and below	45,890,085	181,063,916	2,754,964	-
Unrated*	41,758	423,739,617	335,964	8,139,839
	<u>477,373,926</u>	<u>827,685,889</u>	<u>3,090,928</u>	<u>8,139,839</u>
Individually impaired	-	-	-	-
	<u>477,373,926</u>	<u>827,685,889</u>	<u>3,090,928</u>	<u>8,139,839</u>
<u>2016</u>				
Neither past due nor impaired				
AAA	171,209,514	267,490,977	103,083	-
AA and below	35,272,124	206,842,879	54,948	-
Unrated*	46,300	272,105,615	54,399	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>

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

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

33.2 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.

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

33.2 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 2017.

	Economic Entity and Bank	
	Impact on profit after tax RM	Impact on equity RM
<u>2017</u>		
+100 basis points (‘bps’)	3,150,300	3,150,300
-100 basis points (‘bps’)	(3,150,300)	(3,150,300)
<u>2016</u>		
+100 basis points (‘bps’)	3,254,886	3,254,886
-100 basis points (‘bps’)	(3,254,886)	(3,254,886)

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

33.2 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	%
2017									
Assets									
Cash and short term funds	431,000,000	-	-	-	-	47,674,087	-	478,674,087	3.01
Financial investments									
available-for-sale	-	-	70,380,249	146,609,568	10,092,329	3,986	-	227,086,132	4.31
Financial investments									
held-to-maturity	-	-	50,119,726	450,103,264	100,376,767	-	-	600,599,757	4.25
Financing and advances									
- performing	637,016,307	94,807,139	16,743,633	204,702,793	24,099,639	(7,409,147)	-	969,960,364	4.95
- non performing	-	-	-	-	-	65,707,289	-	65,707,289	
Derivative assets	2,845,142	245,786	-	-	-	-	-	3,090,928	
Other assets	-	-	-	-	-	8,139,839	-	8,139,839	
Tax recoverable	-	-	-	-	-	5,749,936	-	5,749,936	
Statutory deposits	-	-	-	-	-	26,773,822	-	26,773,822	
Deferred tax assets	-	-	-	-	-	625,638	-	625,638	
Property and equipment	-	-	-	-	-	965,118	-	965,118	
Investment properties	-	-	-	-	-	820,000	-	820,000	
Intangible assets	-	-	-	-	-	1,619,581	-	1,619,581	
Total assets	1,070,861,449	95,052,925	137,243,608	801,415,625	134,568,735	150,670,149	-	2,389,812,491	

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ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

33. Financial risk management (continued)

33.2 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	%
2017									
Liabilities									
Deposits from customers	294,646,992	504,099,776	253,401,135	142,000,000	-	4,527,929	-	1,198,675,832	3.54
Deposits and placements of banks and other financial institutions	297,152,638	269,747,152	110,745,059	-	-	3,622,997	-	681,267,846	3.80
Derivative liabilities	777,343	-	-	-	-	-	-	777,343	
Other liabilities	-	-	-	-	-	14,622,814	-	14,622,814	
Total liabilities	592,576,973	773,846,928	364,146,194	142,000,000	-	22,773,740	-	1,895,343,835	
Total shareholders equity	-	-	-	-	494,468,656	-	-	494,468,656	
	592,576,973	773,846,928	364,146,194	142,000,000	494,468,656	22,773,740	-	2,389,812,491	
Total profit-sensitivity gap	478,284,476	(678,794,003)	(226,902,586)	659,415,625	(359,899,921)	127,896,409	-	-	

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

33.2 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									
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	
Investment properties	-	-	-	-	-	-	-	-	
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	

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ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

33. Financial risk management (continued)

33.2 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	-	-	

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

33. Financial risk management (continued)

33.2 Market Risk (continued)

(ii) Foreign Exchange Risk

The USD/MYR moved in the range of 4.3953 in January 2017 to 4.0592 in December 2017. 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 USD/MYR as at 31 December 2017:

	Economic Entity and Bank	
	2017	2016
	Impact	Impact
	on profit	on profit
	after tax	after tax
	RM	RM
1%	345,349	20,041
-1%	(345,349)	(20,041)

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
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33. Financial risk management (continued)
33.2 Market risk (continued)
(ii) Foreign Exchange Risk (continued)

Economic Entity and Bank 2017	USD	MYR	Others	Total
Assets				
Cash and short-term funds	43,485,301	432,725,042	2,463,744	478,674,087
Financial investments available-for-sale	-	227,086,132	-	227,086,132
Financial investments-held-to-maturity	-	600,599,757	-	600,599,757
Financing and advances	3,423,423	1,032,244,230	-	1,035,667,653
Derivative assets	3,090,928	-	-	3,090,928
Other assets	-	8,139,839	-	8,139,839
Tax recoverable	-	5,749,936	-	5,749,936
Statutory deposits with Bank Negara Malaysia	-	26,773,822	-	26,773,822
Deferred tax assets	-	625,638	-	625,638
Property, plant and equipment	-	965,118	-	965,118
Investment properties	-	820,000	-	820,000
Intangible assets	-	1,619,581	-	1,619,581
Total Assets	49,999,652	2,337,349,095	2,463,744	2,389,812,491
Liabilities				
Deposits from customers	15,543,581	1,182,757,735	374,516	1,198,675,832
Deposits and placements of banks and other financial institutions	-	681,267,846	-	681,267,846
Derivative liabilities	777,343	-	-	777,343
Other liabilities	-	14,622,814	-	14,622,814
Total Liabilities	16,320,924	1,878,648,395	374,516	1,895,343,835
Net on-balance sheet financial position	33,678,728	458,700,700	2,089,228	494,468,656

ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

33. Financial risk management (continued)

33.2 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	212,430	-	-	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	134,839,286	2,318,354,689	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	558,050	-	-	558,050
Other liabilities	-	12,284,912	-	12,284,912
Total Liabilities	7,106,719	1,950,570,403	1,109,599	1,958,786,721
Net on-balance sheet				
 financial position	127,732,567	367,784,286	1,739,263	497,256,116

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33. Financial risk management (continued)

33.3 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)

33. Financial risk management (continued)

33.3 Liquidity Risk (continued)

(iii) Assets held for managing liquidity risk

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

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

(iv) Derivative Liabilities

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

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33. Financial risk management (continued)

33.4 Fair value of financial assets and liabilities

(a) Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

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33. Financial risk management (continued)
33.4 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
	Carrying value	Level 1	Level 2	Level 3	fair value
	RM	RM	RM	RM	RM
2017					
Financial assets:					
Financial investments					
held-for-trading	-	-	-	-	-
Financial investments available-for-sale	227,086,132	-	227,086,132	-	227,086,132
Derivative assets	3,090,928	-	3,090,928	-	3,090,928
	<u>230,177,060</u>	<u>-</u>	<u>230,177,060</u>	<u>-</u>	<u>230,177,060</u>
Financial liabilities:					
Derivative liabilities	<u>777,343</u>	<u>-</u>	<u>777,343</u>	<u>-</u>	<u>777,343</u>
	Economic Entity and Bank				Total
	Carrying value	Level 1	Level 2	Level 3	fair value
	RM	RM	RM	RM	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	<u>558,050</u>	<u>-</u>	<u>558,050</u>	<u>-</u>	<u>558,050</u>

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

33.4 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
2017		
Financial assets:		
- Financing and advances	1,088,793,427	1,052,798,281
- Financial investments held-to-maturity	600,599,757	599,666,676
	<u>1,689,393,184</u>	<u>1,652,464,957</u>
Financial liabilities:		
- Deposit from customers and financial institutions	<u>1,879,943,678</u>	<u>1,868,928,850</u>
2016		
Financial assets:		
- Financing and advances	1,507,204,874	1,463,031,524
- Financial investments held-to-maturity	459,851,257	456,829,053
	<u>1,967,056,131</u>	<u>1,919,860,577</u>
Financial liabilities:		
- Deposit from customers and financial institutions	<u>1,945,943,759</u>	<u>1,929,844,219</u>

(i) Financing and advances

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) Financial investments held-to-maturity

The fair value of financial investments held-to-maturity is based on market prices.

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

33.4 Fair value of financial assets and liabilities (continued)

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

(iii) Deposit from customers and financial institutions

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The fair value of deposits with remaining maturities of more than one year is based discounted cash flows using current market rates.

34. 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)
34. Capital adequacy (continued)

	Economic Entity and Bank	
	2017	2016
	RM	RM
<u>CET1 Capital</u>		
Paid-up ordinary share capital	532,530,020	532,530,020
Accumulated losses	(43,336,425)	(53,094,267)
AFS revaluation reserve	41,340	(777,068)
Statutory reserve ¹	-	13,363,710
Regulatory reserve**	5,233,721	5,233,721
	494,468,656	497,256,116
Less : CET1 regulatory adjustments		
Deferred tax assets	(625,638)	(349,226)
Intangible assets	(1,619,581)	(1,519,012)
Cumulative (gains)/losses of AFS financial instruments	(29,917)	562,352
Regulatory reserve attributable to financing**	(5,233,721)	(5,233,721)
Total CET1 capital	486,959,799	490,716,509
<u>Tier 1 Capital</u>		
Additional Tier 1 capital instruments	-	-
Less: Tier 1 regulatory adjustments	-	-
Total Tier 1 capital	486,959,799	490,716,509
<u>Tier II Capital</u>		
Collective impairment/allowance for bad and doubtful financing [^]	6,208,630	11,090,712
Regulatory reserve**	5,233,721	5,233,721
Total Tier II capital	11,442,351	16,324,433
Total capital base	498,402,150	507,040,942
Breakdown of risk weighted assets in various categories of risk weights are as follows:		
	2017	2016
	RM	RM
<u>Total risk weighted assets ("RWA")</u>		
- Credit risk	1,511,252,527	1,952,245,668
- Market risk	9,835,781	1,744,106
- Operational risk	89,396,971	94,280,729
Total RWA	1,610,485,279	2,048,270,503
<u>Capital ratios</u>		
CET1 capital	30.236%	23.958%
Tier 1 capital	30.236%	23.958%
Total capital ratio	30.947%	24.755%

[^] 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.

¹ The requirement to maintain a reserve fund has been removed pursuant to BNM's Guideline on "Capital Funds for Islamic Banks" issued 3 May 2017, following which the outstanding balance was transferred to accumulated loss.

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35. 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.

36. Donations or charity funds

Sources and applications of Charity Fund as at 31 December 2017

	Economic Entity and Bank 2017 RM
Sources	
Gharamah from Late Payment Charges	
Balance carried from 2016	1,699,662
Collection during the year 2017	1,079,831
	<u>2,779,493</u>
Application	
Distribution of balance carried from 2016	
Fund contribution for schools, mosques, universities and non-government organisation during the year 2017	<u>(913,212)</u>
Balance as at the end of year	<u><u>1,866,281</u></u>

ASIAN FINANCE BANK BERHAD
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36. Donations or charity funds (continued)

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 year 2016	1,649,662
	<u>2,101,659</u>
Application	
Distribution of balance carried from 2015	
Education fund contribution to Universities & School during the year 2016	<u>(401,997)</u>
Balance as at the end of year	<u><u>1,699,662</u></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.

37. Significant event

On 6 November 2017, Malaysia Building Society Berhad ("MBSB") entered into the Share & Purchase Agreement with the shareholders of Asian Finance Bank Berhad ("AFB/Vendors") for the proposed acquisition by MBSB of the entire equity interest in AFB for an aggregate purchase consideration of RM644,952,807.66 to be satisfied by way of cash amounting to RM396,894,036.26 and the issuance of 225,507,974 Consideration Shares at an issue price of RM1.10 per Consideration Share ("the Acquisition").

The Acquisition was approved by the shareholders' of MBSB on 23rd January 2018. The shareholders also approved the transfer of Shariah Compliant Assets and Liabilities of MBSB to AFB via a Members' Scheme of Arrangement.

Pursuant to the abovesaid approval and upon completion of the transfer of shares and the payment of the balance of the purchase consideration to the Vendors, AFB became a wholly owned subsidiary of MBSB on 7 February 2018.

38. Approval of financial statements

The financial statements have been approved on 26 April 2018 for issue in accordance with a resolution of Board of Directors.

Company No.

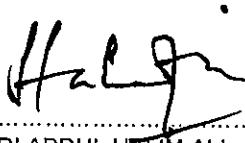
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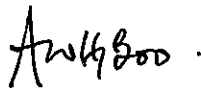
STATEMENT BY DIRECTORS
Pursuant to Section 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 19 to 99 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 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 2017 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:



.....
TAN SRI ABDUL HALIM ALI
DIRECTOR



.....
AW HONG BOO
DIRECTOR

Kuala Lumpur, Malaysia

Date: 26 April 2018

Company No.

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ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

STATUTORY DECLARATION

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

I, Abdul Latif Bin Bujang Masli, 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 19 to 99 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.

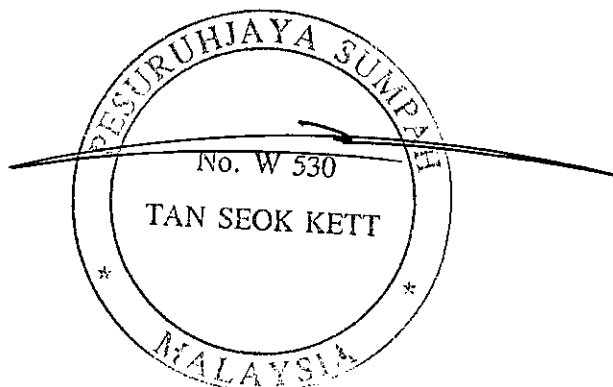
Subscribed and solemnly declared by the abovenamed Abdul Latif Bin Bujang Masli, NRIC: 591019-13-5085 at Kuala Lumpur in Federal Territory on 26 April 2018.



.....
ABDUL LATIF BIN BUJANG MASLI
SENIOR VICE PRESIDENT, FINANCE

Before me,

Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.



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ASIAN FINANCE BANK BERHAD
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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 understand that the principles and the contracts relating to the transactions and applications introduced by Asian Finance Bank Berhad during the year ended 31 December 2017 have been reviewed by the Shariah Committee members then as well as the relevant Committees of Asian Finance Bank Berhad. We also understand that Asian Finance Bank Berhad has 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.

Based on the confirmation given by the then Shariah Committee members, in our opinion:

- the contracts, transactions and dealings entered into by Asian Finance Bank Berhad during the year ended 31 December 2017 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 36 to the financial statements.

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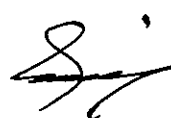
We, the members of the Shariah Committee of Asian Finance Bank Berhad, do hereby confirm that the operations of Asian Finance Bank Berhad for the year ended 31 December 2017 based on confirmation given by the then Shariah Committee members of Asian Finance Bank Berhad have been conducted in conformity with the Shariah principles.

Chairperson of Shariah Committee:

Member of Shariah Committee:



Assistant Prof. Dr. Akhtarzaite Abd Aziz



Sheikh Nushi Bin Dato' Dr Mahfodz