Alliance Islamic Bank Berhad (776882-V)

REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

ALLIANCE ISLAMIC BANK BERHAD (776882-V)
(Incorporated in Malaysia)

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ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Bank for the financial year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in all aspects of Islamic banking and finance business and the provision of related financial services. Islamic banking and finance business refers generally to the acceptance of deposits and granting of financing and all other activities allowed under the Islamic Financial Services Act, 2013 and the Shariah principles.

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	101,300
Taxation	(24,653)
Net profit for the financial year	76,647

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIVIDENDS

The amount of dividends declared and paid by the Bank since 31 March 2016 were as follows:

		RM'000
(i)	An interim dividend of 5.7 sen per share on 345,045,045 ordinary shares in respect of the financial year ended 31 March 2016, was paid on 14 June 2016.	19,668
(ii)	A first interim dividend of 4.23 sen per share on 345,045,045 ordinary shares in respect of the financial year ending 31 March 2017, was paid on 16 December 2016.	14,595
		34,263

The Directors do not propose any final dividend in respect of the financial year ended 31 March 2017.

ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME

The Alliance Financial Group Berhad Employees' Share Scheme ("AFG Bhd ESS") is governed by the Bye-Laws approved by its shareholders at an Extraordinary General Meeting held on 28 August 2007. The AFG Bhd ESS which comprises the Share Option Plan, the Share Grant Plan and the Share Save Plan took effect on 3 December 2007 and is in force for a period of 10 years.

There were no share grants or share options offered under the Share Grant Plan and Share Option Plan during the financial year.

The salient features of the ESS are disclosed in Note 18 to the financial statements.

BUSINESS REVIEW FOR FINANCIAL YEAR ENDED ("FYE") 31 MARCH 2017

The Bank recorded a Net Profit After Tax ("NPAT") of RM76.6 million for the financial year ended 31 March 2017, representing an increase of 46.3% or RM24.2 million compared to the last financial year. The increase in NPAT is primarily due to net profit income being higher by RM31.6 million or 15.7%.

Other operating income grew by RM3.0 million mainly from client based income.

Gross financing and advances expanded by RM232.6 million or 3.3% to arrive at a total gross financing and advances of RM7.3 billion as at 31 March 2017. This growth was driven mainly by the segments with higher risk-adjusted returns, namely personal financing, term financing, revolving credit and cashline, which collectively grew by RM425.2 million.

Total customer deposits stood at RM8.7 billion, a slight decrease of 0.3%. The Bank's Current Account and Savings Account ("CASA") ratio recorded an increase to 30.2% from 27.5%.

The Bank maintained a Total Capital ratio of 14.5%, while both Common Equity Tier 1 and Tier 1 ratios stood at 13.4% as at 31 March 2017.

ECONOMIC OUTLOOK AND PROSPECTS FOR FYE 31 MARCH 2017

Bank Negara Malaysia has forecasted that the Malaysian Gross Domestic Product ("GDP") growth will be between 4.3% and 4.8% in 2017, despite the challenging international economic and financial landscape.

Domestic demand will remain the key driver of growth. While household expenditure will be supported by continued wage growth and the government's measures to boost disposable income, investment activity is expected to be sustained by capital expenditure in export-oriented industries and ongoing transport-related infrastructure projects.

Meanwhile, Bank Negara Malaysia expects inflation to trend between 3.0% and 4.0% in 2017, on the back of cost-push factors such as the pass-through impact of the increase in global crude oil prices. On the external sector, gross exports are forecasted to expand 5.5% in 2017, higher than the 1.1% growth recorded in 2016.

Malaysia stands to benefit from brighter global macro prospects given its well-diversified export products and markets.

BUSINESS OUTLOOK FOR FYE 31 MARCH 2018

The outlook for the Islamic Banking industry remains positive with continued growth potential.

The Bank will continue to pursue sustainable value through high quality growth in products with more attractive risk-adjusted returns and cost-efficient deposits while ensuring that portfolio risks are sufficiently monitored and mitigated.

The Bank will also leverage on the Group’s strategic client relationships and enhance brand visibility in selected market segments.

The Bank expects that these actions will position its businesses for sustainable revenue and profitability for financial year 2018.

RATING BY EXTERNAL RATING AGENCY

The Bank is rated by Rating Agency Malaysia Berhad ("RAM"). Based on RAM’s rating in January 2017, the Bank’s short-term and long-term ratings are reaffirmed at P1 and A1 respectively. RAM has classified these rating categories as follows:

P1 - Financial institutions in this category have superior capacities for timely payments of obligations.

A1 - Financial institutions rated in this category are adjudged to offer adequate safety for timely payments of financial obligations. This level of rating indicates financial institutions with adequate credit profiles, but which possess one or more problem areas, giving rise to the possibility of future riskiness. Financial institutions rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic conditions than those rated in the higher categories.

DIRECTORS

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of this report are:

Datuk Wan Azhar Bin Wan Ahmad (Chairman)
Dato' Majid Bin Mohamad
Md Ali Bin Md Sarif
Ibrahim Bin Hassan (Appointed on 1 September 2016)
Shaharuddin Bin Zainuddin (Appointed on 1 September 2016)
Megat Dziauddin Bin Megat Mahmud (Retired on 7 September 2016)
Foziakhatoon Binti Amanulla Khan (Ceased on 24 September 2016)

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in Note 29 to the financial statements.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangements to which the Bank is a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than those arising from the share options/share grants under the AFG Bhd ESS.

DIRECTORS' BENEFITS (CONTD.)

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits shown under Directors' Remuneration in Note 29 to the financial statements) by reason of a contract made by the Bank or its holding company or subsidiaries of the holding companies 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.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors in office at the end of the financial year had any interest in shares, share options and share grants in the Bank or its related corporations during the financial year.

ISSUE OF SHARES AND DEBENTURES

There was no new issue of shares and debentures during the financial year.

BAD AND DOUBTFUL FINANCING

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

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

CURRENT ASSETS

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that any current assets, which were unlikely to realise their value as shown in the accounting records in the ordinary course of business, had been written down to an amount which they might be expected so to realise.

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

VALUATION 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 method of valuation of assets or liabilities of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

(i) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
(ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

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

HOLDING AND ULTIMATE HOLDING COMPANY

The immediate holding company of the Bank is Alliance Bank Malaysia Berhad, a bank incorporated in Malaysia. The ultimate holding company of the Bank is Alliance Financial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

AUDITOR'S REMUNERATION

Details of auditor's remuneration are set out in Note 23 to the financial statements.

SHARIAH COMMITTEE

The Shariah Committee for the financial year 2016/2017 consists of 5 members appointed by the Bank’s Board of Directors. The main duties and responsibilities of the Shariah Committee are as follows:-

(a) 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;

(b) to endorse Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah;

(c) 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;

SHARIAH COMMITTEE (CONTD.)

The Shariah Committee for the financial year 2016/2017 consists of 5 members appointed by the Bank’s Board of Directors. The main duties and responsibilities of the Shariah Committee are as follows: (contd.)

(d) to assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters which forms part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report;

(e) to advise the Bank to consult the Bank Negara Malaysia ("BNM")’s Shariah Advisory Council ("SAC") on Shariah matters that could not be resolved; and

(f) to provide written Shariah opinions in circumstances where the Bank make reference to the BNM’s SAC for further deliberation, or where the Bank submits applications to the BNM for new product.

ZAKAT OBLIGATION

The Management of the Bank’s zakat matters is governed by the Bank's Zakat Policy and Procedures. The Bank as an Islamic business entity computes zakat using Profit and Loss method at the rate of 2.575 percent based on Gregorian calendar. The zakat payment does not cover the zakat obligation of the depositors. The zakat computation is endorsed by the Shariah Committee. The payment of zakat to zakat authorities and eligible recipients is recommended and approved by Shariah Committee and the Board of Directors respectively.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the financial year ended 31 March 2017.

SUBSEQUENT EVENTS

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

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 31 May 2017.

Signed on behalf of the Board of Directors.

Datuk Wan Azhar Bin Wan Ahmad

Dato' Majid Bin Mohamad

Kuala Lumpur, Malaysia

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Datuk Wan Azhar Bin Wan Ahmad and Dato' Majid Bin Mohamad, being two of the Directors of Alliance Islamic Bank Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 14 to 86 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 March 2017 and financial performance of the Bank for the financial year ended 31 March 2017 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 31 May 2017.

Datuk Wan Azhar Bin Wan Ahmad | Dato' Majid Bin Mohamad

Kuala Lumpur, Malaysia

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016

I, Wong Lai Loong, being the officer primarily responsible for the financial management of Alliance Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 86 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Wong Lai Loong
at Kuala Lumpur in the Federal Territory
on 31 May 2017

Wong Lai Loong

Before me,

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT

In the name of Allah, The Most Gracious, The Most Merciful

In performing our roles and responsibilities in line with the Shariah Compliance Framework of Alliance Islamic Bank Berhad ("the Bank"), Bank Negara Malaysia ("BNM")'s Shariah Governance Framework, as well as our letter of appointment, we are required to submit the following report:

We wish to state notwithstanding our report presented herein, the management of the Bank is responsible for ensuring that the Bank conducts its business in accordance with Shariah principles.

During the period under review we had convened 15 Shariah Committee meetings during which we reviewed the principles and the contracts relating to the products, transactions and dealings entered into by the Bank as well as issues arising thereof which had been presented before us. In addition, during the period under review we also assessed the work carried out by the Shariah Review and Shariah Audit teams.

In our opinion:

(a) In performing our role as espoused above we obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that the Bank has not violated Shariah principles;

(b) The contracts, transactions and dealings entered into by the Bank during the financial year ended 31 March 2017 that we have reviewed are in compliance with Shariah principles;

(c) The allocation of profit and charging of losses relating to investment accounts conformed to the basis that had been approved by us in accordance with Shariah principles;

(d) The Bank carried out Shariah Review and Shariah Audit functions on a regular basis where we reviewed reports prepared thereof and examined on a test basis, each type of transaction, the relevant documentations and procedures adopted by the Bank to enable us to form an opinion as to whether the Bank has complied with Shariah principles and Shariah rulings issued by the Shariah Advisory Council ("SAC") of BNM, as well as Shariah Committee's decisions. We also noted that the incidences of non-compliances revealed arising from the reviews and audit conducted were tracked and monitored until closure;

(e) In the financial year under review, pursuant to the Bank's Zakat Policy and Procedures, the Bank has fulfilled its obligation to pay zakat on its business to the eligible recipients. The zakat amount was computed using Profit and Loss method;

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT (CONTD.)

(f) During the period under review, three (3) Shariah non-compliance events were confirmed by the Shariah Committee which resulted in Shariah non-compliant income of RM729,164 as follows:

(i) Two (2) events pertaining to the absence of underlying Shariah contract and using Shariah non-compliant assets for Revolving Credit-i; and

(ii) One (1) event pertaining to the absence of underlying Shariah contract for several Alliance Term Deposit-i placement.

The Shariah non-compliance events were due to lack of systems control, process flow and lack of knowledge on products offered. The Bank guided by the Shariah Committee decisions had rectified the Shariah non-compliance by regularizing the contract lapses and disposing the Shariah non-compliant income either by refunding it to the rightful owner or treating the profit paid to customers as a Hibah. As a long term measure to prevent the lapses, the Bank has enhanced the current process flow, conducted trainings as well as enhanced the system controls to ensure compliance with Shariah requirements.

We, the members of the Shariah Committee of the Bank, do hereby confirm to the best of our knowledge that the operations of the Bank based on what have been diclosed to us for the year ended 31 March 2017 have been conducted in conformity with Shariah principles.

Associate Professor Dr. Badruddin Hj. Ibrahim
Chairman of the Shariah Committee

Tuan Haji Md. Ali Bin Md. Sarif
Shariah Committee

Kuala Lumpur, Malaysia
31 May 2017

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
(Company No. 776882-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Alliance Islamic Bank Berhad (“the Bank”) give a true and fair view of the financial position of the Bank as at 31 March 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.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 86.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD (CONTD.)
(Incorporated in Malaysia)
(Company No. 776882-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

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 Directors' Report and Shariah Committee's Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian 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 Bank that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD (CONTD.)
(Incorporated in Malaysia)
(Company No. 776882-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Auditors' responsibilities for the audit of the financial statements

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

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

(a) Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the 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 Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD (CONTD.)
(Incorporated in Malaysia)
(Company No. 776882-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Auditors' responsibilities for the audit of the financial statements (contd.)

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/17 (J))
Chartered Accountant

Kuala Lumpur
31 May 2017

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Note	2017 RM'000	2016 RM'000
ASSETS			
Cash and short-term funds	3	170,255	1,014,248
Financial assets held-for-trading	4	40,694	-
Financial investments available-for-sale	5	2,071,758	1,277,242
Financial investments held-to-maturity	6	80,957	233,390
Financing and advances	7	7,228,622	6,996,332
Other assets	8	23,595	2,407
Statutory deposits with Bank Negara Malaysia	9	274,288	271,870
Property, plant and equipment	10	185	234
Tax recoverable		-	3,027
Deferred tax assets	11	2,083	-
Intangible assets	12	914	510
TOTAL ASSETS		9,893,351	9,799,260
LIABILITIES AND EQUITY			
Deposits from customers	13	8,686,798	8,714,012
Deposits and placements of banks and other financial institutions	14	213,175	139,818
Other liabilities	15	137,332	130,712
Provision for taxation		5,120	-
Deferred tax liabilities	11	-	1,028
Provision for zakat		206	123
TOTAL LIABILITIES		9,042,631	8,985,693
Share capital	16	345,045	345,045
Reserves	17	505,675	468,522
TOTAL EQUITY		850,720	813,567
TOTAL LIABILITIES AND EQUITY		9,893,351	9,799,260
COMMITMENTS AND CONTINGENCIES	35	1,635,756	1,750,762

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

	Note	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds and others	19	457,867	428,829
Income derived from investment of shareholder's funds	20	42,224	34,956
Allowance made for losses on financing, advances and other receivables	21	(46,298)	(43,818)
Total distributable income		453,793	419,967
Income attributable to the depositors and financial institutions	22	(251,252)	(249,579)
Total net income		202,541	170,388
Other operating expenses	23	(101,241)	(101,343)
Profit before taxation		101,300	69,045
Taxation	24	(24,653)	(16,639)
Net profit for the financial year		76,647	52,406
Other comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss			
Revaluation reserve on financial investments available-for-sale			
- Net (loss)/gain from change in fair value		(6,652)	5,475
- Realised gain transferred to statement of income on disposal and impairment		(228)	(551)
- Transfer from/(to) deferred tax		1,651	(1,181)
Other comprehensive (expense)/income net of tax		(5,229)	3,743
Total comprehensive income for the financial year		71,418	56,149
Profit for the financial year attributable to:			
Equity holder of the Bank		76,647	52,406
Total comprehensive income for the financial year attributable to:			
Equity holder of the Bank		71,418	56,149
Earnings per share attributable to Equity holder of the Bank - basic/diluted (sen)	25	22	15

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

ALLIANCE ISLAMIC BANK BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

	←		Non-distributable reserves			→	Distributable reserves	
	Ordinary shares RM'000	Share premium RM'000	Statutory reserves RM'000	Regulatory reserves RM'000	Revaluation reserves RM'000	Equity contribution from ultimate holding company RM'000	Retained profits RM'000	Total equity RM'000
At 1 April 2016	345,045	54,955	205,558	14,479	5,380	350	187,800	813,567
Net profit for the financial year	-	-	-	-	-	-	76,647	76,647
Other comprehensive expense	-	-	-	-	(5,229)	-	-	(5,229)
Total comprehensive (expense)/income for the financial year	-	-	-	-	(5,229)	-	76,647	71,418
Share-based payment under Employees' Share Scheme ("ESS")	-	-	-	-	-	142	-	142
Payment for ESS recharged from ultimate holding company	-	-	-	-	-	(144)	-	(144)
Transfer of ESS recharged difference on shares vested	-	-	-	-	-	(33)	33	-
ESS on share options lapsed	-	-	-	-	-	(123)	123	-
Dividend paid (Note 26)	-	-	-	-	-	-	(34,263)	(34,263)
Transfer to reserves	-	-	19,162	(4,588)	-	-	(14,574)	-
At 31 March 2017	345,045	54,955	224,720	9,891	151	192	215,766	850,720
At 1 April 2015	300,000	-	192,457	-	1,637	233	162,948	657,275
Net profit for the financial year	-	-	-	-	-	-	52,406	52,406
Other comprehensive income	-	-	-	-	3,743	-	-	3,743
Total comprehensive income for the financial year	-	-	-	-	3,743	-	52,406	56,149
Share-based payment under ESS	-	-	-	-	-	257	-	257
Payment for ESS recharged from ultimate holding company	-	-	-	-	-	(114)	-	(114)
Transfer of ESS recharged difference on shares vested	-	-	-	-	-	(26)	26	-
Transfer to reserves	-	-	13,101	14,479	-	-	(27,580)	-
Issue of ordinary shares	45,045	54,955	-	-	-	-	-	100,000
At 31 March 2016	345,045	54,955	205,558	14,479	5,380	350	187,800	813,567

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	101,300	69,045
Adjustments for:		
Accretion of discount less amortisation of premium of financial investments	(25,935)	(39,315)
Depreciation of property, plant and equipment	79	71
Amortisation of computer software	221	126
Net gain from sale of financial investments available-for-sale	(228)	(673)
Unrealised loss on revaluation of financial assets held-for-trading	80	-
Property, plant and equipment written off	-	5
Income from financial assets held-for-trading	(179)	-
Income from financial investments held-to-maturity	(6,707)	(12,763)
Income from financial investments available-for-sale	(48,305)	(34,632)
Allowance for impairment on financing and advances	45,797	44,585
Share options/grants under ESS	142	257
Allowance for other receivables	223	261
Zakat	143	56
Operating profit before working capital changes	66,631	27,023
Changes in working capital:		
Deposits from customers	(27,214)	747,999
Deposits and placements of banks and other financial institutions	73,357	(275,231)
Other liabilities	6,620	(26,621)
Financial assets held-for-trading	(40,606)	-
Financing and advances	(278,087)	(497,208)
Statutory deposits with Bank Negara Malaysia	(2,418)	21,500
Other assets	(21,411)	(2,033)
Cash used in operations	(223,128)	(4,571)
Taxation paid	(17,967)	(21,718)
Zakat paid	(59)	(61)
Net cash used in operating activities	(241,154)	(26,350)

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 (CONTD.)

	2017 RM'000	2016 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Income from financial investments held-to-maturity	8,883	12,914
Income from financial investments available-for-sale	45,179	30,697
Purchase of property, plant and equipment	(30)	(36)
Purchase of intangible assets	(625)	(196)
Proceeds from redemption/disposal of financial investments held-to-maturity (net of purchase)	169,616	213,997
Proceeds from redemption/disposal of financial investments available-for-sale (net of purchase)	(791,455)	109,059
Net cash (used in)/generated from investing activities	(568,432)	366,435
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment for ESS recharged from ultimate holding company	(144)	(114)
Dividend paid	(34,263)	-
Proceeds from issuance of share capital	-	100,000
Net cash (used in)/generated from financing activities	(34,407)	99,886
Net (decrease)/increase in cash and cash equivalents	(843,993)	439,971
Cash and cash equivalents at beginning of financial year	1,014,248	574,277
Cash and cash equivalents at end of financial year	170,255	1,014,248
Cash and cash equivalents comprise the following:		
Cash and short-term funds	170,255	1,014,248

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2017

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in all aspects of Islamic banking and finance business and the provision of related financial services. Islamic banking and finance business refers generally to the acceptance of deposits and granting of financing and all other activities allowed under the Islamic Financial Services Act, 2013 and the Shariah principles.

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office is located at 3rd Floor, Menara Multi-Purpose, Capital Square, 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

The immediate holding company of the Bank is Alliance Bank Malaysia Berhad ("ABMB"), a bank incorporated in Malaysia. The ultimate holding company of the Bank is Alliance Financial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 31 May 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Malaysian Financial Reporting Standards ("MFRS") Framework

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

The financial statements of the Bank have been prepared under the historical cost convention, as modified by the financial investments available-for-sale and financial assets/liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements are presented in Ringgit Malaysia ("RM") and all numbers are rounded to the nearest thousand (RM'000), unless otherwise stated.

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements is on allowance for losses on financing, advances and other losses (Note 21) - the Bank make allowance for losses on financing and advances based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines and accounting standards, management makes judgment on the future and other key factors in respect of the estimation of the amount and timing of the cash flows in assessing allowance for losses of financing and advances. Among the factors considered are the Bank’s aggregate exposure to the borrowers, the net realisable value of the underlying collateral value, the viability of the customer’s business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Bank's financial year beginning on or after 1 April 2016 are as follows:

- Amendment to MFRS 11 "Joint Arrangements" - Accounting for acquisition of interests in joint operations
- Amendments to MFRS 127 "Equity Method in Separate Financial Statements"
- Amendments to MFRS 10, 12 and 128 "Investment entities - Applying the Consolidation Exception"
- Amendments to MFRS 101 "Presentation of financial statements - Disclosure Initiative"
- Annual Improvements to MFRSs 2012 - 2014 Cycle

The adoption of the new accounting standards, amendments and intrepretations did not have a material impact on the financial statements of the Bank.

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

The Bank will apply the new standards, amendments to standards and interpretations in the following period:

<u>Financial year beginning on/after 1 April 2017</u>

(a) Amendments to MFRS 107 "Statement of Cash Flows - Disclosure Initiative" (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.

(b) Amendments to MFRS 112 "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses" (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

<u>Financial year beginning on/after 1 April 2018</u>

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

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

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

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt. An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

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

The Bank will apply the new standards, amendments to standards and interpretations in the following period (contd.)

<u>Financial year beginning on/after 1 April 2018 (contd.)</u>

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

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

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liablities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than income statement, unless this creates an accounting mismatch.

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

(c) MFRS 15 "Revenue from Contracts with Customers" (effective from 1 January 2018) replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and related interpretations.

The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

A new five-step process is applied before revenue can be recognised:
• Identify contracts with customers;
• Identify the separate performance obligations;
• Determine the transaction price of the contract;
• Allocate the transaction price to each of the separate performance obligations; and
• Recognise the revenue as each performance obligation is satisfied.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

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

The Bank will apply the new standards, amendments to standards and interpretations in the following period (contd.)

Financial year beginning on/after 1 April 2018 (contd.)

(c) MFRS 15 "Revenue from Contracts with Customers" (effective from 1 January 2018) replaces MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and related interpretations. (contd.)

Key provisions of the new standard are as follows:

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

Financial year beginning on/after 1 April 2019

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

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

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

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

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

Unless otherwise disclosed, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Bank in the year of initial application, except for the adoptionn MFRS 9. The Bank is assessing the potential impact of this Standard.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Intangible Assets: Computer Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. The costs are amortised over their useful lives of five years and are stated at cost less accumulated amortisation and accumulated impairment, if any. Computer software is assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and amortisation method are reviewed at least at the end of each reporting period.

The policy for the recognition and measurement of impairment is in accordance with Note 2(g)(ii).

Costs associated with maintaining computer software programmes are recognised as expenses as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These costs include software development employee costs and appropriate portion of relevant overheads.

(c) Financial Assets

(i) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. The policy of the recognition and measurement of impairment is in accordance with Note 2(g).

Financial assets at fair value through profit or loss

The Bank classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading.

Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank's financing and receivables comprise cash and short-term funds, deposits and placements with bank and other financial institutions, financing and advances and other assets, in the statement of financial position.

Financial investments available-for-sale

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

Financial investments held-to-maturity

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Financial Assets (contd.)

(ii) Reclassification

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

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective profit rates for financial assets reclassified to financing and receivables and held-to-maturity categories are determined at the reclassification date.

As at the reporting date, the Bank has not made any such reclassification.

(iii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date.

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

(iv) Subsequent measurement - gains and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing and receivables and 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, interest 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 Note 2(g) and foreign exchange gains and losses Note 2(p).

(v) De-recognition

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

Receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost.

Certain financial liabilities are designated at initial recognition at fair value through profit or loss when one of the designation criteria is met:

(i) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

(ii) Its performance is evaluated on a fair value basis, in accordance with a documented with management or investment strategy.

(iii) The item is a hybrid contract that contains one or more embedded derivative.

Profit payables are now classified into the respective class of financial liabilities.

(e) Repurchase Agreements

Financial instruments purchased under resale agreements are instruments which the Bank have purchased with a commitment to resell at future dates. The commitment to resell the instruments are reflected as an asset in the statement of financial position.

Conversely, obligations on financial instruments sold under repurchase agreements are instruments which the Bank has sold from their portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the instruments are reflected as a liability in the statement of financial position.

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are initially recorded at cost net of the amount of goods and service tax ("GST") except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property, plant and equipment. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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 Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income during the financial year in which they are incurred.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment, if any. The policy for the recognition and measurement of impairment is in accordance with Note 2(g)(ii).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Property, Plant and Equipment and Depreciation (contd.)

Property, plant and equipment are depreciated on the straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, summarised as follows:

Office equipment, furniture and fixtures	10% - 20%
Renovations	20%
Computer equipment	33.3%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the statement of comprehensive income.

(g) Impairment of Assets

(i) Impairment of financial assets

(a) Assets carried at amortised cost

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

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

- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in profit or principal payments;
- it becomes probable that the borrower will enter bankruptcy or winding up petition is served on the borrower, significant shareholder or significant guarantor;
- adverse Center Credit Reference Information System ("CCRIS") findings or unfavorable industry developments for that borrower; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows including adverse changes in the repayment behavior of the borrower or downgrade of the borrower's credit ratings.

The Bank first assesses individually whether objective evidence of impairment exists for all financing deemed to be individually significant, and individually or collectively for financing and advances that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the financing is then collectively assessed for impairment.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Assets (Contd.)

(i) Impairment of financial assets (contd.)

(a) Assets carried at amortised cost (contd.)

Financial assets which are not individually assessed, are grouped together for collective impairment assessment. These financial assets are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. These characteristics are relevant to the estimation of future cash flows for banks of such financings by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. Future cash flows on a bank of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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.

(b) Assets classified as financial investments available-for-sale

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses 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 financial investments 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 the profit or loss.

In the case of equity securities classified as financial investments 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 financial investments available-for-sale, 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 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 financial investments available-for-sale are not reversed through profit or loss in subsequent periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Assets (contd.)

(ii) Other non-financial assets

Other non-financial assets such as property, plant and equipment and computer software are reviewed for objective indications of impairment at the end of each reporting period or whenever there is any indication that these assets may be impaired. Where such indications exist, impairment is determined as the excess of the asset's carrying value over its recoverable amount (greater of value in use or fair value less costs to sell) and is recognised in the statement of comprehensive income. Impairment for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised.

The carrying amount is increased to its revised recoverable amount, provided that the amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment been recognised for the asset in prior years. A reversal of impairment for an asset is recognised in the statement of comprehensive income.

(h) Leases

A lease is recognised as a finance lease if it transfers substantially to the Bank all the risks and rewards incidental to ownership. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(i) Finance Leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the profit rate implicit in the lease, when it is practicable to determine; otherwise, the Bank’s incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(f). The policy for the recognition and measurement of impairment is in accordance with Note 2(g)(ii).

(ii) Operating Leases

Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expenses over the lease term on a straight-line basis.

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land that normally has an indefinite economic life and where title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Leases (contd.)

(ii) Operating Leases (contd.)

The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments at the end of the reporting period. In the case of a lease of land and buildings, the prepaid lease payments or the upfront payments made are allocated, whenever necessary, between the land and buildings elements in proportion to the relative fair values for leasehold interest in the land element and buildings element of the lease at the inception of the lease. The prepaid lease payments are amortised over the lease term in accordance with the pattern of benefits provided.

(i) Bills and Acceptances Payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(j) Share Capital

(i) Classification

Ordinary shares with discretionary dividends are classified as equity

(ii) Share issue costs

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

(iii) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share

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

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

(k) Other Assets

Other receivables are carried at anticipated realisable values. Bad debts are written-off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Provisions

Provisions are recognised when:

- the Bank has 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 can be made.

Where the Bank expects a provision to be reimbursed by another party (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.

(m) Recognition of Financing Income

Finance income is recognised using effective profit rates, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financing or, where appropriate, a shorter period to the net carrying amount of the financing. When calculating the effective profit rate, the Bank estimates cash flows considering all contractual terms of the financing but does not consider future credit losses. The calculation includes significant fees paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs and all other premiums or discounts.

Profit and financing income are recognised in the statement of comprehensive income for all profit-bearing assets on an accrual basis. Finance income includes the amortisation of premium or accretion of discount.

For impaired financing where the value has been reduced as a result of impairment loss, financing income continues to be accrued using the rate of profit used to discount the future cash flows for the purposes of measuring the impairment.

(n) Recognition of Financing Expenses

Finance cost and income attributable on deposits and borrowings of the Bank are recognised on an accrual basis.

The method of allocation of income to the types of deposits is based on "the Framework on Rate of Return" issued by BNM. This Framework on Rate of Return (BNM/GP2-*i*) which is based on the return on assets concept, calculates the income on assets. The return on assets, after deducting incidental expenses and allowances for losses on financing and advances are distributed to the depositors using the weighted average method.

(o) Recognition of Fees and Other Income

Financing arrangement fees and commissions, management and participation fees are recognised as income when all conditions precedent are fulfilled. Commitment and guarantee fees which are material are recognised as income based on time apportionment basis. Dividends are recognised when the right to receive payment is established.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(p) Foreign Currencies

(i) Functional and presentation currency

Items included in the financial statements 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 Bank’s functional and presentation currency.

(ii) 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.

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

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

(q) Current and Deferred Income Tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the end of the reporting date. In the event of uncertain tax position, the tax is measured using the single best estimate of the most likely outcome.

Tax is recognised in the 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 also recognised in the comprehensive income or directly in equity, respectively.

Deferred tax is provided in full, using the liability method, on temporary differences at the end of the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(q) Current and Deferred Income Tax (contd.)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised as income or an expense in the statement of comprehensive income for the period, except when it arises from a transaction which is recognised directly in other comprehensive income or directly in equity, in which case the deferred tax is also charged or credited to other comprehensive income or to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill.

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

(r) Cash and Cash Equivalents

Cash and cash equivalents as stated in the statement of cash flows comprise cash and bank balances and short term deposits maturity within one month that are readily convertible into cash with insignificant risk of changes in value.

(s) Employee Benefits

(i) Short-term Employee Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Bank pays fixed contributions into separate entities or funds and will have no legal or constructive obligations to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the statement of comprehensive income as incurred. As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF").

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(s) Employee Benefits (contd.)

(iii) Equity Compensation Benefits

Alliance Financial Group Berhad ("AFGB"), the ultimate holding company, operates a number of equity-settled share-based compensation plan under which the Bank receives services from employees as consideration for equity instruments (options/grants) of the holding company. The award is treated as equity settled in the Bank's financial statements. The fair value of the employee services received in exchange for the grant of the options/grants is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options/grants granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding of shares for a specific period of time).

Non-market vesting conditions and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of the reporting period, the Bank revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss over the vesting period with a corresponding credit recognised in equity.

In circumstances where employees provide services in advance of the grant date, the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

The credit to equity is treated as a capital contribution as the AFGB is compensating the Bank's employees with no expense to the Bank.

Where the parent recharges the Bank for the equity instruments granted, the recharge is recognised over the vesting period.

(t) Contingent Liabilities and Contingent Assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(u) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

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

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

(v) Offsetting financial instruments

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

3. CASH AND SHORT-TERM FUNDS

	2017 RM'000	2016 RM'000
Cash and balances with banks and other financial institutions	45,245	63,970
Money at call and deposit placements maturing within one month	125,010	950,278
	170,255	1,014,248

4. FINANCIAL ASSETS HELD-FOR-TRADING

	2017 RM'000	2016 RM'000
At fair value		
Unquoted securities:		
Sukuk	40,694	-

5. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2017 RM'000	2016 RM'000
At fair value		
Money market instruments:		
Malaysian Government investment certificates	521,167	462,111
Negotiable instruments of deposits	747,008	179,485
Unquoted securities:		
Sukuk	803,583	635,646
	2,071,758	1,277,242

6. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	2017 RM'000	2016 RM'000
At amortised cost		
Money market instruments:		
Malaysian Government investment certificates	80,957	233,390

7. FINANCING AND ADVANCES

By types and Shariah concepts:

	Bai` Bithaman Ajil RM'000	Tawarruq RM'000	Al-Ijarah Thumma Al-Bai`/ AITAB RM'000	Murabahah RM'000	Qard Hasan RM'000	Bai` Al-Dayn RM'000	Bai' `Inah RM'000	Total Financing and Advances RM'000
31 March 2017								
Cash line financing	205,036	309,889	-	-	635	-	-	515,560
Term financing								
- Housing financing	2,421,492	-	-	-	-	-	-	2,421,492
- Hire purchase receivables	-	-	535,475	-	-	-	-	535,475
- Other term financing	1,899,842	693,938	-	-	-	-	335,084	2,928,864
Bills receivables	-	-	-	8,569	-	-	-	8,569
Trust receipts	-	-	-	26,673	-	-	-	26,673
Claims on customers under acceptance credits	-	-	-	481,432	-	74,326	-	555,758
Staff financing [including financing to Directors of RM Nil (31.03.16: RM123,000)]	19,316	-	-	-	-	-	-	19,316
Revolving credits *	259,712	-	-	-	-	-	-	259,712
Gross financing and advances	4,805,398	1,003,827	535,475	516,674	635	74,326	335,084	7,271,419
Add : Sales commission and handling fees								37,019
Less: Allowances for impairment on financing and advances								
- Individual assessment allowance								(2,480)
- Collective assessment allowance								(77,336)
Total net financing and advances								7,228,622

7. FINANCING AND ADVANCES (CONTD.)

By types and Shariah concepts (contd.):

	Bai` Bithaman Ajil RM'000	Tawarruq RM'000	Al-Ijarah Thumma Al-Bai`/ AITAB RM'000	Murabahah RM'000	Qard Hasan RM'000	Bai` Al-Dayn RM'000	Bai` `Inah RM'000	Total Financing and Advances RM'000
31 March 2016								
Cash line financing	300,342	152,144	-	-	813	-	-	453,299
Term financing								
- Housing financing	2,558,721	-	-	-	-	-	-	2,558,721
- Hire purchase receivables	-	-	617,468	-	-	-	-	617,468
- Other term financing	1,721,376	513,986	-	-	-	-	405,063	2,640,425
Bills receivables	-	-	-	2,249	-	-	-	2,249
Trust receipts	-	-	-	29,691	-	-	-	29,691
Claims on customers under acceptance credits	-	-	-	449,386	-	80,604	-	529,990
Staff financing [including financing to Directors of RM123,000 (31.03.15: RM155,000)]	21,745	-	-	-	-	-	-	21,745
Revolving credits *	185,248	-	-	-	-	-	-	185,248
Gross financing and advances	4,787,432	666,130	617,468	481,326	813	80,604	405,063	7,038,836
Add : Sales commission and handling fees								33,875
Less: Allowances for impairment on financing and advances								
- Individual assessment allowance								(6,470)
- Collective assessment allowance								(69,909)
Total net financing and advances								6,996,332

* The total Financing and Advances under Bai' Bithaman Ajil ("BBA") includes Revolving Credit-i (Murabahah) which substantively adopts a BBA product structure.

7. FINANCING AND ADVANCES (CONTD.)

(i) Purpose and source of fund for Qard Hasan Financing:

	2017 RM'000	2016 RM'000
At beginning of financial year	813	292
Sources of Qard Hasan fund:		
- Shareholders' fund	3,941	5,889
Uses of Qard Hasan fund:		
- Purchase of landed property - Non-residential	-	(5)
- Personal use	(519)	(1,304)
- Working capital	(3,410)	(4,059)
- Others	(190)	-
At end of financial year	635	813

(ii) By maturity structure:

	2017 RM'000	2016 RM'000
Within one year	1,395,040	1,234,108
One year to three years	290,465	207,646
Three years to five years	594,230	555,275
Over five years	4,991,684	5,041,807
Gross financing and advances	7,271,419	7,038,836

(iii) By type of customers:

	2017 RM'000	2016 RM'000
Domestic non-bank financial institutions	50,513	10,495
Domestic business enterprises		
- Small and medium enterprises	2,062,115	1,786,370
- Others	1,113,877	1,040,096
Individuals	3,937,127	4,090,392
Other domestic entities	4,343	4,550
Foreign entities	102,779	106,933
Government and statutory bodies	665	-
Gross financing and advances	7,271,419	7,038,836

(iv) By profit rate sensitivity:

	2017 RM'000	2016 RM'000
Fixed rate		
- House financing	35,097	39,370
- Hire purchase receivables	535,475	617,468
- Other fixed rate financing	1,391,554	1,182,754
Variable rate		
- House financing	2,399,247	2,532,834
- Other variable rate financing	2,910,046	2,666,410
Gross financing and advances	7,271,419	7,038,836

7. FINANCING AND ADVANCES (CONTD.)

(v) By economic purposes:

	2017 RM'000	2016 RM'000
Purchase of transport vehicles	514,949	620,872
Purchase of landed property	3,613,348	3,644,342
of which: - Residential	*2,437,865*	*2,554,331*
- Non-residential	*1,175,483*	*1,090,011*
Purchase of fixed assets excluding land and buildings	36,875	9,221
Personal use	1,199,243	1,100,945
Construction	14,610	10,074
Working capital	1,436,455	1,236,399
Others	455,939	416,983
Gross financing and advances	7,271,419	7,038,836

(vi) By geographical distribution:

	2017 RM'000	2016 RM'000
Northern region	537,035	437,313
Central region	5,010,676	4,844,207
Southern region	1,054,634	1,092,361
Sabah region	500,779	494,271
Sarawak region	168,295	170,684
Gross financing and advances	7,271,419	7,038,836

(vii) Movements in impaired financing and advances

	2017 RM'000	2016 RM'000
At beginning of financial year	108,713	48,380
Impaired during the financial year	153,838	183,309
Reclassified as unimpaired during the financial year	(135,189)	(68,094)
Recoveries	(33,613)	(29,881)
Amount written off	(42,360)	(25,001)
At end of financial year	51,389	108,713
Individual allowance for impairment	(2,480)	(6,470)
Collective allowance for impairment (impaired portion)	(19,984)	(23,535)
Net impaired financing and advances	28,925	78,708
Gross impaired financing as a % of gross financing and advances	0.7%	1.5%

7. FINANCING AND ADVANCES (CONTD.)

(viii) Movements in the allowance for impairment on financing and advances are as follows:

	2017 RM'000	2016 RM'000
Individual assessment allowance		
At beginning of financial year	6,470	1,350
Net allowance made during the financial year	2,162	5,435
Amount written off	(6,072)	(437)
Transfer (to)/from collective assessment allowance (net)	(80)	122
At end of financial year	2,480	6,470
Collective assessment allowance		
At beginning of financial year	69,909	55,445
Net allowance made during the financial year	43,635	39,150
Amount written off	(36,288)	(24,564)
Transfer from/(to) individual assessment allowance (net)	80	(122)
At end of financial year	77,336	69,909

(ix) Impaired financing and advances by economic purposes:

	2017 RM'000	2016 RM'000
Purchase of transport vehicles	3,775	5,134
Purchase of landed property	22,272	58,251
of which - Residential	*16,216*	*25,721*
- Non-residential	*6,056*	*32,530*
Personal use	17,954	14,125
Construction	-	55
Working capital	5,512	30,531
Others	1,876	617
Gross impaired financing and advances	51,389	108,713

7. FINANCING AND ADVANCES (CONTD.)

(x) Impaired financing and advances by geographical distribution:

	2017 RM'000	2016 RM'000
Northern region	2,262	3,137
Central region	36,393	94,178
Southern region	8,733	6,914
Sabah region	3,492	3,426
Sarawak region	509	1,058
Gross impaired financing and advances	51,389	108,713

8. OTHER ASSETS

	2017 RM'000	2016 RM'000
Other receivables	2,898	2,857
Deposits	76	76
Prepayment	379	347
Amount due from holding company	21,338	-
Less:		
Allowance for other receivables	(1,096)	(873)
	23,595	2,407

Movement of allowance for other receivables of the Bank:

	2017 RM'000	2016 RM'000
At beginning of financial year	873	612
Allowance made net of write-back	223	261
At end of financial year	1,096	873

9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

Non-interest bearing statutory deposits for the Bank of RM274,288,000 (2016: RM271,870,000) is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which are determined as a set percentage of total eligible liabilities.

10. PROPERTY, PLANT AND EQUIPMENT

	Renovations	Office equipment and furniture	Computer equipment	Total
	RM'000	RM'000	RM'000	RM'000
2017				
COST				
At beginning of financial year	949	77	115	1,141
Additions	-	5	25	30
Written-off	-	-	(8)	(8)
At end of financial year	949	82	132	1,163
ACCUMULATED DEPRECIATION				
At beginning of financial year	778	55	74	907
Charge for the financial year	48	6	25	79
Written-off	-	-	(8)	(8)
At end of financial year	826	61	91	978
NET CARRYING AMOUNT	123	21	41	185

10. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Renovations	Office equipment and furniture	Computer equipment	Total
	RM'000	RM'000	RM'000	RM'000
2016				
COST				
At beginning of financial year	941	77	312	1,330
Additions	8	1	27	36
Written-off	-	(1)	(224)	(225)
At end of financial year	949	77	115	1,141
ACCUMULATED DEPRECIATION				
At beginning of financial year	730	49	277	1,056
Charge for the financial year	48	6	17	71
Written-off	-	-	(220)	(220)
At end of financial year	778	55	74	907
NET CARRYING AMOUNT	171	22	41	234

11. DEFERRED TAX

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

	2017 RM'000	2016 RM'000
Deferred tax assets	2,083	-
Deferred tax liabilities	-	1,028
	2,083	1,028
At beginning of financial year	(1,028)	(89)
Recognised in statement of comprehensive income (Note 24)	1,460	242
Recognised in other comprehensive income	1,651	(1,181)
At end of financial year	2,083	(1,028)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets/liabilities	Other liabilities RM'000	Financial investments available-for-sale RM'000	Property, plant and equipment RM'000	Total RM'000
At 1 April 2016	502	(517)	(74)	(89)
Recognised in statement of comprehensive income	188	-	54	242
Recognised in other comprehensive income	-	(1,181)	-	(1,181)
At 31 March 2016	690	(1,698)	(20)	(1,028)
Recognised in statement of comprehensive income	1,467	-	(7)	1,460
Recognised in other comprehensive income	-	1,651	-	1,651
At 31 March 2017	2,157	(47)	(27)	2,083

12. INTANGIBLE ASSETS

	2017 RM'000	2016 RM'000
Computer software		
At cost:		
At beginning of financial year	988	1,789
Additions	625	196
Written-off	-	(997)
At end of financial year	1,613	988
Accumulated amortisation:		
At beginning of financial year	478	1,349
Charge for the financial year	221	126
Written-off	-	(997)
At end of financial year	699	478
Net carrying amount	914	510

Note:
Computer software includes work in progress of RM125,000 (2016: RM76,000) which is not amortised until ready for use.

13. DEPOSITS FROM CUSTOMERS

	2017 RM'000	2016 RM'000
Demand deposits		
- Wadiah	2,284,459	2,079,888
Savings deposits		
- Wadiah	340,787	319,353
Term deposits		
- Commodity Murabahah	4,282,005	4,337,390
- Negotiable Islamic Debt Certificate		
- Bai' Inah	1,328,415	1,032,979
- Money market deposits		
- Commodity Murabahah	210,405	721,190
- Other deposits		
- Mudharabah	118,531	156,593
- Wakalah	58,782	66,619
- Qard	63,414	-
	8,686,798	8,714,012

13. DEPOSITS FROM CUSTOMERS (CONTD.)

(i) The maturity structure of term deposits are as follows:

	2017 RM'000	2016 RM'000
Due within six months	4,243,535	4,571,336
Six months to one year	1,156,955	1,217,075
One year to three years	404,716	401,442
Three years to five years	256,346	124,918
	6,061,552	6,314,771

(ii) By type of customers:

	2017 RM'000	2016 RM'000
Domestic financial institutions	1,328,416	1,032,980
Government and statutory bodies	2,382,819	2,148,500
Business enterprises	3,111,779	2,846,620
Individuals	1,588,973	1,860,549
Domestic non-bank financial institutions	172,622	726,183
Foreign entities	54,781	59,483
Others	47,408	39,697
	8,686,798	8,714,012

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 RM'000	2016 RM'000
Non-Mudharabah Fund		
Bank Negara Malaysia	213,175	139,818

15. OTHER LIABILITIES

	2017 RM'000	2016 RM'000
Other payables	32,790	25,808
Bills payable	9,438	22,203
Clearing account	78,101	62,156
Sundry deposits	7,485	6,309
Provision and accruals	8,125	5,252
Amount due to holding company	-	8,888
Amount due to ultimate holding company	107	96
Amount due to related company	1,286	-
	137,332	130,712

16. SHARE CAPITAL

	2017 RM'000	2016 RM'000
Ordinary shares issued:		
At beginning of financial year	345,045	300,000
Issued during the financial year	-	45,045
At end of financial year	345,045	345,045

17. RESERVES

	Note	2017 RM'000	2016 RM'000
Non-distributable:			
Statutory reserves	(a)	224,720	205,558
Revaluation reserves	(b)	151	5,380
Equity contribution from ultimate holding company	(c)	192	350
Regulatory reserves	(d)	9,891	14,479
Share premium	(e)	54,955	54,955
		289,909	280,722
Distributable:			
Retained profits		215,766	187,800
		505,675	468,522

(a) The statutory reserves are maintained in compliance with Section 57(2)(f) of the Islamic Financial Services Act, 2013 ("IFSA") which requires a banking institution to maintain a reserve fund and minimum capital funds at all times. The reserve fund is not distributable as dividends.

(b) The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments available-for-sale.

(c) The equity contribution from ultimate holding company relates to the equity-settled share options/grants to Executive Directors and employees. This reserve is made up of the estimated fair value of the share options/grants based on the cumulative services received from Executive Directors and employees over the vesting period.

(d) The Bank is required to maintain in aggregate collective impairment allowances of no less than 1.2% of the total outstanding financing and advances, net of individual impairment allowances, in accordance with the BNM guideline dated 6 April 2015 on "Classification and impairment provisions for financing".

(e) Share premium is used to record premium arising from new shares issued by the Bank.

The Bank has adopted the transitional provisions under the Companies Act, 2016 where the sum standing to the credit of the share premium account may be utilised within 24 months from the commencement date 31 January 2017 in the manner as allowed for under the Act. Any remaining amount standing to the credit of the Bank’s share premium account shall be reclassified and become part of the share capital.

18. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME

The Alliance Financial Group Berhad Employees' Share Scheme ("AFG Bhd ESS") is governed by the Bye-Laws approved by the shareholders at an Extraordinary General Meeting held on 28 August 2007. The AFG Bhd ESS which comprises the Share Option Plan, the Share Grant Plan and the Share Save Plan took effect on 3 December 2007 and is in force for a period of 10 years.

There were no share grants and share options offered under the Share Grant Plan and Share Option Plan during the current financial year.

The salient features of the AFG Bhd ESS are as follows:

(i) The AFG Bhd ESS is implemented and administered by the Employees' Share Participating Scheme Committee ("ESPS Committee") in accordance with the Bye-Laws.

(ii) The total number of shares which may be available under the AFG Bhd ESS shall not exceed in aggregate 10% of the total issued and paid-up share capital of AFG Bhd at any one time during the existence of the AFG Bhd ESS and out of which not more than 50% of the shares available under the AFG Bhd ESS shall be allocated, in aggregate, to Directors and senior management. In addition, not more than 10% of the shares available under the AFG Bhd ESS shall be allocated to any individual Director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of AFG Bhd.

(iii) The subscription price for each share under the Share Option Plan, Share Grant Plan and Share Save Plan may be at a discount (as determined by the ESPS Committee or such other pricing mechanism as may from time to time be permitted by Bursa Malaysia Securities Berhad or such other relevant regulatory authorities), provided that the discount shall not be more than 10% from the 5-day weighted average market price of AFG Bhd's shares transacted on Bursa Malaysia Securities Berhad immediately preceding the date on which an offer is made or at par value of the shares, whichever is higher.

(iv) The ESPS Committee may at its discretion offer to any Director or employee of a corporation in the Group to participate in the AFG Bhd ESS if the Director or employee:

(a) has attained the age of 18 years;

(b) in the case of a Director, is on the board of directors of a corporation in the Group;

(c) in the case of an employee, is employed by a corporation in the Group; and

(d) is not a participant of any other employee share option scheme implemented by any other corporation within the Group which is in force for the time being.

provided that the non-executive directors of the Group who are not employed by a corporation in the Group shall not be eligible to participate in the Share Save Plan.

(v) Under the Share Option Plan and Share Grant Plan, the ESPS Committee may stipulate the performance targets, performance period, value and/or other conditions deemed appropriate.

(vi) Under the Share Save Plan, the ESPS Committee may at its discretion offer Share Save Option(s) to any employees of the Group to subscribe for AFG Bhd's shares and the employee shall authorise deductions to be made from his/her salary.

(vii) AFG Bhd may decide to satisfy the exercise of options / awards of shares under the AFG Bhd ESS through the issue of new shares, transfer of existing shares or a combination of both new and existing shares.

(viii) AFG Bhd may appoint or authorise the trustee of the AFG Bhd ESS to acquire its shares from the open market to give effect to the AFG Bhd ESS.

18. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

Save for the Chief Executive Officer of the Bank, none of the other Directors of the Bank were offered/awarded any share options/share grants during the financial year.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options/grants during the financial year:

2017	**Share Options** Number of Share Options					**Share Grants** Number of Share Grants				
	At beginning of financial year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed/ forfeited '000	At end of financial year '000	At beginning of financial year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed/ forfeited '000	At end of financial year '000
2014 Share Scheme	426	-	-	(426)	-	6	-	(6)	-	-
2015 Share Scheme (1st grant)	-	-	-	-	-	37	-	(19)	-	18
2016 Share Scheme	-	-	-	-	-	50	-	(16)	-	34
	426	-	-	(426)	-	93	-	(41)	-	52
WAEP (RM)	5.36	-	-	5.36	-					

2016	**Share Options** Number of Share Options					**Share Grants** Number of Share Grants				
	At beginning of financial year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed/ forfeited '000	At end of financial year '000	At beginning of financial year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed/ forfeited '000	At end of financial year '000
2013 Share Scheme (2nd grant)	225	-	-	(225)	-	8	-	(8)	-	-
2014 Share Scheme	426	-	-	-	426	12	-	(6)	-	6
2015 Share Scheme (1st grant)	-	-	-	-	-	56	-	(19)	-	37
2016 Share Scheme	-	-	-	-	-	-	50	-	-	50
	651	-	-	(225)	426	76	50	(33)	-	93
WAEP (RM)	4.98	-	-	4.25	5.36					

(a) Details of share options/grants at the end of financial year:

	WAEP RM	Exercise Period
2014 Share Options	5.36	16.08.2016 - 16.08.2017

	Vesting Schedule	Vesting Dates
2014 Share Grants	- First 33.3% of the share grants	16.08.2014
	- Second 33.3% of the share grants	16.08.2015
	- Third 33.4% of the share grants	16.08.2016
2015 Share Grants (1st grant)	- First 33.3% of the share grants	23.06.2015
	- Second 33.3% of the share grants	23.06.2016
	- Third 33.4% of the share grants	23.06.2017
2016 Share Grants	- First 33.0% of the share grants	22.06.2016
	- Second 67.0% of the share grants	22.06.2017

18. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

(b) Fair value of share options/grants offered/awarded:

The fair value of share options/grants under the Share Option Plan and the Share Grant Plan during the financial year was estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the share options/share grants were offered/awarded. The rates are based on observable prices. The fair value of share options and share grants measured at offer/award date and the assumptions are as follows:

	Share Options
	2014
Fair value of the shares as at grant date,	
- 16 August 2013 (RM)	0.7200
Weighted average share price (RM)	5.3600
Weighted average exercise price (RM)	5.3600
Expected volatility (%)	0.2084
Expected life (years)	4
Risk free rate (%)	3.09 to 3.83
Expected dividend yield (%)	3.90

	Share Grants		
	2014	**2015 (1st grant)**	**2016**
Fair value of the shares as at grant date,			
- 16 August 2013 (RM)	4.7700	-	-
- 23 June 2014 (RM)	-	4.3400	-
- 22 June 2015 (RM)	-	-	4.0600
Weighted average share price (RM)	5.3600	4.7400	4.3700
Expected volatility (%)	0.2084	0.2418	0.1736
Risk free rate (%)	3.09 to 3.83	3.17 to 4.43	2.99 to 4.29
Expected dividend yield (%)	3.90	4.36	4.31

The expected life of the share options is based on the exercisable period of the option and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the share option/share grant were incorporated into the measurement of fair value.

The risk-free rate is employed using a range of risk-free rates for Malaysian Government Securities ("MGS") tenure from 1-year to 20-year MGS.

19. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2017 RM'000	2016 RM'000
Income derived from investment of :		
(i) Investment accounts	228,366	190,173
(ii) Other deposits	229,501	238,656
	457,867	428,829

(i) Income derived from investment of investment accounts:

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	173,855	144,207
Financial assets held-for-trading	82	-
Financial investments available-for-sale	22,058	14,201
Financial investments held-to-maturity	3,063	5,233
Money at call and deposit placements with financial institutions	10,078	5,006
	209,136	168,647
Amortisation of premium less accretion of discount	11,843	16,121
Total finance income and hibah	220,979	184,768
Other operating income		
- Fee income	7,103	5,063
- Other income	284	342
	228,366	190,173

Included in financing income earned on financing and advances for the current financial year is financing accrued on impaired financing of the Bank amounting to RM327,000 (2016: RM532,000).

(ii) Income derived from investment of other deposits:

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	174,720	180,971
Financial assets held-for-trading	82	-
Financial investments available-for-sale	22,168	17,821
Financial investments held-to-maturity	3,078	6,568
Money at call and deposit placements with financial institutions	10,128	6,282
	210,176	211,642
Amortisation of premium less accretion of discount	11,902	20,231
Total finance income and hibah	222,078	231,873
Other operating income		
- Fee income	7,138	6,354
- Other income	285	429
	229,501	238,656

Included in financing income earned on financing and advances for the current financial year is financing accrued on impaired financing of the Bank amounting to RM329,000 (2016: RM667,000).

20. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	32,146	26,507
Financial assets held-for-trading	15	-
Financial investments available-for-sale	4,079	2,610
Financial investments held-to-maturity	566	962
Money at call and deposit placements with financial institutions	1,863	920
	38,669	30,999
Amortisation of premium less accretion of discount	2,190	2,963
Total finance income and hibah	40,859	33,962
Other operating income		
- Fee income	1,313	931
- Other income	52	63
	42,224	34,956

Included in financing income earned on financing and advances for the current financial year is financing accrued on impaired financing of the Bank amounting to RM61,000 (2016: RM98,000).

21. ALLOWANCE MADE FOR LOSSES ON FINANCING, ADVANCES AND OTHER RECEIVABLES

	2017 RM'000	2016 RM'000
Allowance for losses on financing, advances and other receivables:		
(a) Individual assessment allowance		
- Made during the financial year (net)	2,162	5,435
(b) Collective assessment allowance		
- Made during the financial year (net)	43,635	39,150
(c) Bad debts on financing		
- Written off	8,971	7,274
- Recovered	(8,693)	(8,302)
	46,075	43,557
Allowance for other receivables, net	223	261
	46,298	43,818

22. INCOME ATTRIBUTABLE TO THE DEPOSITORS AND FINANCIAL INSTITUTIONS

	2017 RM'000	2016 RM'000
Deposits from customers:		
- Mudharabah fund	22,194	48,694
- Non-Mudharabah fund	225,946	197,695
Deposits and placements of banks and other financial institutions:		
- Mudharabah fund	476	1,346
- Non-Mudharabah fund	2,636	1,844
	251,252	249,579

23. OTHER OPERATING EXPENSES

	2017 RM'000	2016 RM'000
Personnel costs		
- Salaries, allowances and bonuses	49,045	48,119
- Contribution to EPF	7,942	7,796
- Share options/grants under ESS	142	257
- Others	5,965	5,866
	63,094	62,038
Establishment costs		
- Depreciation on property, plant and equipment	79	71
- Amortisation of computer software	221	126
- Rental	5,157	5,155
- Repairs and maintenance	1,582	1,508
- Water and electricity	1,305	1,326
- Information technology expenses	7,686	6,581
- Others [Note (a)]	7,855	8,463
	23,885	23,230
Marketing expenses		
- Promotion and advertisement	349	629
- Branding and publicity	901	2,179
- Others	593	682
	1,843	3,490
Administration and general expenses		
- Communication expenses	1,836	1,637
- Printing and stationeries	468	547
- Insurance	841	1,979
- Professional fees	3,136	2,398
- Others	6,138	6,024
	12,419	12,585
Total other operating expenses	101,241	101,343

Included in the other operating expenses are the Shariah Committee members' remuneration of RM229,500 (2016: RM240,750).

23. OTHER OPERATING EXPENSES (CONTD.)

The following represent a detailed breakdown of the Bank's share of the holding company's other operating expenses included within the Bank's total other operating expenses:

	2017 RM'000	2016 RM'000
Sharing of Other Operating Expenses		
Personnel costs		
- Salaries, allowances and bonuses	44,694	44,406
- Contribution to EPF	7,262	7,220
- Others	5,360	5,232
	57,316	56,858
Establishment costs		
- Rental	4,898	4,896
- Repairs and maintenance	1,551	1,483
- Water and electricity	1,287	1,308
- Information technology expenses	7,571	6,505
- Others [Note (a)]	7,848	8,425
	23,155	22,617
Marketing expenses		
- Promotion and advertisement	254	498
- Branding and publicity	694	2,056
- Others	590	667
	1,538	3,221
Administration and general		
- Communication expenses	1,504	1,411
- Printing and stationeries	306	362
- Professional fees	2,446	1,851
- Others	1,923	2,288
	6,179	5,912
Total sharing of other operating expenses	88,188	88,608

Note (a): Being substantially cross-charge amount for using the fixed assets of the holding company. This includes computer software, computer equipment, furniture and fittings.

Included in the other operating expenses are the following:

	2017 RM'000	2016 RM'000
Auditors' remuneration		
- statutory audit fees	112	112
- audit related services	161	161
- tax compliance works	12	17

24. TAXATION

	2017 RM'000	2016 RM'000
Income tax:		
Provision for current financial year	26,098	16,890
Under/(over) provision in prior financial years	15	(9)
	26,113	16,881
Deferred tax (Note 11)	(1,460)	(242)
	24,653	16,639

Income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2017 RM'000	2016 RM'000
Profit before taxation	101,300	69,045
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	24,312	16,571
Effect of expenses not deductible for tax purposes	326	137
Over provision of deferred tax in prior financial years	-	(60)
Under/(over) provision of tax expense in prior financial years	15	(9)
Tax expense for the financial year	24,653	16,639

25. EARNINGS PER SHARE

Basic/diluted

Basic/diluted earnings per share amounts are calculated by dividing profit for the financial year attributable to ordinary Equity holder of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	2017 RM'000	2016 RM'000
Profit for the financial year attributable to Equity holder of the Bank	76,647	52,406

	2017 '000	2016 '000
Weighted average numbers of ordinary shares in issued	345,045	345,045
Basic/diluted earnings per share (sen)	22	15

26. DIVIDENDS

	Dividend in respect of financial year			
	2017		2016	
	Sen	RM'000	Sen	RM'000
Recognised during the financial year:				
First interim dividend				
4.23 sen per share on 345,045,045 ordinary shares of RM1.00 each, declared in financial year ending 31 March 2017, was paid on 16 December 2016.	4.23	14,595	-	-
Second interim dividend				
5.70 sen per share on 345,045,045 ordinary shares of RM1.00 each, declared in financial year ended 31 March 2016, was paid on 14 June 2016.	5.70	19,668	-	-
	9.93	34,263	-	-

The Directors do not propose any final dividend in respect of the financial year ended 31 March 2017.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Relationship	**Related parties**
-Key management personnel	Key management personnel refer to those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including Executive Directors and Non-Executive Directors of the Bank (including close members of their families). Other members of key management personnel of the Bank are the Group Chief Executive Officer, Group Chief Operating Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Credit Officer and Group Chief Administrative Officer (including close members of their families).
-Holding company	Alliance Bank Malaysia Berhad
-Related companies	Related companies refer to member companies of Alliance Financial Group Berhad, the ultimate holding company of the Bank, including subsidiaries.
-Ultimate holding company	Alliance Financial Group Berhad

	2017 RM'000	2016 RM'000
(a) Transactions		
Commission paid		
- related companies	15,111	-
Finance expenses		
- holding company	29,157	26,409
- related companies	5	3,537
- key management personnel	10	8
Other operating expenses		
- holding company (sharing of expenses)	87,113	87,561
- ultimate holding company	1,177	1,114
Dividend paid		
- holding company	34,263	-
(b) Balances		
Amount due to deposits from customers		
- holding company	739,495	736,123
- related companies	506	97,495
- key management personnel	368	551
Financing and advances		
- key management personnel	462	556
Other assets		
- holding company	21,338	-
Other liabilities		
- holding company	-	8,888
- ultimate holding company	107	96
- related companies	1,286	-

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

(c) Compensation of key management personnel

Remuneration of Directors excluding past Directors for the financial year are as follows:

	2017 RM'000	2016 RM'000
Short-term employee benefits		
- Fees	395	288
- Salary and other remuneration, including meeting allowances	1,118	998
- Contribution to EPF	143	124
- Share options/grants under ESS	84	152
	1,740	1,562

Included in the total key management personnel are:

	2017 RM'000	2016 RM'000
Directors' remuneration (Note 29)	1,740	1,562

Executive Director of the Bank have been offered/awarded the following number of share options/share grants under the AFG Bhd ESS:

	Share Options		Share Grants	
	2017 '000	2016 '000	2017 '000	2016 '000
At beginning of financial year	272	422	62	49
Offered/awarded	-	-	-	34
Vested	-	-	(27)	(21)
Lapsed/forfeited	(272)	(150)	-	-
At end of financial year	-	272	35	62

The above share options/grants were offered/awarded on the same terms and conditions as those offered to other employees of AFG Bhd Group (Note 18).

Total value of remuneration and number of officers with variable remuneration for the financial year are as follows:

	2017			2016		
	Number	Unrestricted RM'000	Deferred RM'000	Number	Unrestricted RM'000	Deferred RM'000
Fixed remuneration						
Cash		1,293	-		1,185	-
Variable remuneration						
Cash	1	300	63	1	225	-
Shares and share-linked instruments	1	-	84	1	-	152
		300	147		225	152
		1,593	147		1,410	152

28. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2017 RM'000	2016 RM'000
Outstanding credit exposures with connected parties	1,788	2,225
of which:		
Total credit exposure which is impaired or in default	-	-
Total credit exposures	10,313,322	8,625,172
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	0.02%	0.03%
- which is impaired or in default	0.00%	0.00%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks, which became effective on 1 January 2008.

Based on these guidelines, a connected party for Islamic Banks refers to the following:

(i) Directors of the Bank and their close relatives;

(ii) Controlling shareholder and his close relatives;

(iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;

(iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;

(v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and

(vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

29. CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

Remuneration in aggregate for Chief Executive Officer ("CEO"), Directors and Shariah Committee members charged to the statement of comprehensive income for the financial year are as follows:

	2017 RM'000	2016 RM'000
Chief Executive Officer:		
- Salary and other remuneration	745	620
- Bonuses	300	225
- Contribution to EPF	143	124
- Share options/grants under ESS	84	152
	1,272	1,121
Non-executive Directors:		
- Fees	395	288
- Allowances	73	105
	468	393
Past Non-executive Director:		
- Fees	75	57
- Allowances	19	13
	94	70
Total Directors' remuneration	1,834	1,584
Shariah Committee members	229	241
	2,063	1,825

Note:

(a) Other than Directors fees and allowances, there were no amount paid or payable for services rendered by any Directors of the Bank during the financial year.

(b) During the financial year, Directors of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising form acts committed in their capacity as Directors and Officers of the Bank, provided that such Director or Officer has not acted negligently, fraudulently or dishonestly or is in breach of his or her duty of trust. The total apportioned amount of insurance effected for Directors under the Bank was RM13,000.

29. CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (CONTD.)

The total remuneration of the CEO, Directors and Shariah Committee members of the Bank are as follows:

BANK 2017	Salary and other remuneration RM'000	Bonuses RM'000	Contribution to EPF RM'000	Fees RM'000	Allowances RM'000	Share options/ grants under ESS RM'000	Total RM'000
Chief Executive Officer:							
Foziakhatoon Binti Amanulla Khan	745	300	143	-	-	84	1,272
	745	300	143	-	-	84	1,272
Non-executive Directors:							
Datuk Wan Azhar bin Wan Ahmad	-	-	-	119	15	-	134
Hj Md Ali bin Md Sarif	-	-	-	76	21	-	97
Dato' Majid bin Mohamad	-	-	-	112	15	-	127
Ibrahim bin Hassan	-	-	-	44	11	-	55
Shaharuddin bin Zainuddin	-	-	-	44	11	-	55
	-	-	-	395	73	-	468
Past Non-executive Director:							
Megat Dziauddin bin Megat Mahmud	-	-	-	75	19	-	94
	-	-	-	75	19	-	94
Total Directors' remuneration	745	300	143	470	92	84	1,834
Shariah Committee Members:							
Assoc. Prof. Dr. Badruddin bin Hj Ibrahim	-	-	-	42	9	-	51
Dr. Abdul Rahman bin Awang	-	-	-	36	8	-	44
Hj Md Ali bin Md Sarif	-	-	-	36	8	-	44
Ustaz Zaharudin bin Muhammad	-	-	-	36	9	-	45
Dr. Azrul Azlan bin Iskandar Mirza	-	-	-	36	9	-	45
	-	-	-	186	43	-	229
	745	300	143	656	135	84	2,063

29. CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (CONTD.)

The total remuneration of the CEO, Directors and Shariah Committee members of the Bank are as follows (contd.):

BANK 2016	Salary and other remuneration RM'000	Bonuses RM'000	Contribution to EPF RM'000	Fees RM'000	Allowances RM'000	Share options/ grants under ESS RM'000	Total RM'000
Chief Executive Officer:							
Foziakhatoon Binti Amanulla Khan	620	225	124	-	-	152	1,121
	620	225	124	-	-	152	1,121
Non-executive Directors:							
Megat Dziauddin bin Megat Mahmud	-	-	-	132	54	-	186
Hj Md Ali bin Md Sarif	-	-	-	66	13	-	79
Dato' Majid bin Mohamad	-	-	-	66	33	-	99
Datuk Wan Azhar bin Wan Ahmad	-	-	-	24	5	-	29
Dr. Abdul Rahman bin Awang	-	-	-	57	13	-	70
	-	-	-	345	118	-	463
Total Directors' remuneration	620	225	124	345	118	152	1,584
Shariah Committee Members:							
Assoc. Prof. Dr. Badruddin bin Hj Ibrahim	-	-	-	42	11	-	53
Dr. Abdul Rahman bin Awang	-	-	-	36	12	-	48
Hj Md Ali bin Md Sarif	-	-	-	36	12	-	48
Ustaz Zaharudin bin Muhammad	-	-	-	36	10	-	46
Dr. Azrul Azlan bin Iskandar Mirza	-	-	-	36	10	-	46
	-	-	-	186	55	-	241
	620	225	124	531	173	152	1,825

30. FINANCIAL RISK MANAGEMENT POLICIES

The Bank manages risk within clearly defined guidelines that are approved by the Directors. In addition, the Board of Directors of the Bank provides independent oversight to ensure that risk management policies are complied with, through a framework of established controls and reporting processes.

The guidelines and policies adopted by the Bank to manage the main risks that arise in the conduct of its business activities are as follows:

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of the Bank's borrowers or counterparties to fulfil their contractual obligations to repay their loans or settle commitments. Exposure to credit risk may be categorised as primary or secondary.

Credit risk arises from financing, advances, investment in securities amongst others. The amount of credit exposure is represented by the carrying amount of financing, advances and investment securitites in the statement of financial position. The financing activities in the Bank are guided by the Bank's Credit Risk Management Framework, in line with regulatory guidelines and best practices.

Credit risk also arises from financial transactions with counterparties (including interbank market activities and debt instruments), of which the amount of credit exposure in respect of these instruments are equal to the carrying amount of these assets in the statement of financial position. This exposure is monitored on an on-going basis against predetermined counterparty limits.

The credit exposure arising from off-balance sheet activities, i.e. commitments and contingencies is set out in Note 35 to the financial statements.

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(i) Maximum exposure to credit risk

The following table presents the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements and after allowance for impairment, where appropriate.

For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees and similiar contracts granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees were to be called upon. For credit related commitments and contingencies that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the credit facilities granted to customers.

	2017 RM'000	2016 RM'000
Credit risk exposure of on-balance sheet:		
Cash and short-term funds (exclude cash in hand)	170,255	1,014,248
Financial assets held-for-trading	40,694	-
Financial investments available-for-sale (exclude equity securities)	2,071,758	1,277,242
Financial investments held-to-maturity	80,957	233,390
Financing and advances (exclude sales commission and handling fees)	7,191,603	6,962,457
Statutory deposits with BNM	274,288	271,870
Other assets (exclude prepayment)	23,216	2,060
Total on-balance sheet	9,852,771	9,761,267
Credit risk exposure of off-balance sheet:		
Financial guarantees	132,373	115,563
Credit related commitments and contingencies	1,503,383	1,635,199
Total off-balance sheet	1,635,756	1,750,762
Total maximum exposure	11,488,527	11,512,029

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (Contd.)

(ii) Credit risk concentrations

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The analyses of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparty is engaged.

2017	Government and Central Bank RM'000	Financial, Takaful, Business Services and Real Estate RM'000	Transport, Storage and Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	170,255	-	-	-	-	-	-	170,255
Financial assets held-for-trading	-	40,694	-	-	-	-	-	40,694
Financial investments available-for-sale (exclude equity securities)	541,332	1,266,551	162,197	30,571	71,107	-	-	2,071,758
Financial investments held-to-maturity	80,957	-	-	-	-	-	-	80,957
Financing and advances (exclude sales commission and handling fees)	-	785,999	76,798	2,141,703	135,908	3,994,363	56,832	7,191,603
Statutory deposits with BNM	274,288	-	-	-	-	-	-	274,288
Other assets (exclude prepayment)	-	21,338	-	-	-	-	1,878	23,216
	1,066,832	2,114,582	238,995	2,172,274	207,015	3,994,363	58,710	9,852,771
Financial guarantees	-	3,301	111	122,212	6,429	42	278	132,373
Credit related commitments and contingencies	-	184,731	7,135	871,006	74,046	50,927	315,538	1,503,383
	-	188,032	7,246	993,218	80,475	50,969	315,816	1,635,756
Total credit risk	1,066,832	2,302,614	246,241	3,165,492	287,490	4,045,332	374,526	11,488,527

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (Contd.)

(ii) Credit risk concentrations (contd.)

2016	Government and Central Bank RM'000	Financial, Takaful, Business Services and Real Estate RM'000	Transport, Storage and Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	1,014,248	-	-	-	-	-	-	1,014,248
Financial investments available-for-sale (exclude equity securities)	482,235	577,279	172,265	-	45,463	-	-	1,277,242
Financial investments held-to-maturity	233,390	-	-	-	-	-	-	233,390
Financing and advances (exclude sales commission and handling fees)	-	561,348	41,430	2,040,573	128,587	4,158,688	31,831	6,962,457
Statutory deposits with BNM	271,870	-	-	-	-	-	-	271,870
Other assets (exclude prepayment)	-	-	-	-	-	-	2,060	2,060
	2,001,743	1,138,627	213,695	2,040,573	174,050	4,158,688	33,891	9,761,267
Financial guarantees	-	2,991	41	78,162	34,194	-	175	115,563
Credit related commitments and contingencies	-	244,761	5,212	893,105	58,022	114,234	319,865	1,635,199
	-	247,752	5,253	971,267	92,216	114,234	320,040	1,750,762
Total credit risk	2,001,743	1,386,379	218,948	3,011,840	266,266	4,272,922	353,931	11,512,029

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iii) Collaterals

The main types of collateral obtained by the Bank are as follows:
- For personal housing financing, mortgages over residential properties;
- For commercial property financing, charges over the properties being financed;
- For hire purchase, ownership claimed over the vehicles or equipment; and
- For other financing, charges over business assets such as premises, financial/trade receivables or deposits.

(iv) Credit quality - Financing and advances

All financing and advances are categorised as either:
- Neither past due nor impaired;
- Past due but not impaired; or
- Impaired.

Past due financing and advances refer to financing that are overdue by one day or more. Impaired financing are classified in accordance to the BNM guideline "Classification and Impairment Provision for Financing".

Distribution of financing and advances by credit quality

	2017 RM'000	2016 RM'000
Neither past due nor impaired	6,894,040	6,616,306
Past due but not impaired	325,990	313,817
Impaired	51,389	108,713
Gross financing and advances (exclude sales commission and handling fees)	7,271,419	7,038,836
Less: Allowance for impairment		
- Individual assessment	(2,480)	(6,470)
- Collective assessment	(77,336)	(69,909)
Net financing and advances	7,191,603	6,962,457
Financial effect of collateral held for financing and advances	68.4%	70.7%

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit quality - Financing and advances (contd.)

Credit 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:

	2017 RM'000	2016 RM'000
Grading classification		
- Good	6,606,295	6,306,321
- Fair	287,745	309,985
	6,894,040	6,616,306

The definition of the grading classification can be summarised as follows:

Good: Refers to financing and advances which have never been past due in the last 6 months and have never undergone any restructuring or rescheduling exercise previously.

Fair: Refers to financing and advances which have been past due at some point within the last 6 months, or have undergone restructuring or rescheduling exercise previously.

An aging analysis of financing and advances that are past due but not impaired is set out below.

For the purpose of this analysis an asset is considered past due and included below when any payment due under strict contractual terms is received late or missed. The amount included is the entire financial assets, not just the payment of principal or profit or both overdue.

	2017 RM'000	2016 RM'000
Past due up to 1 month	236,651	245,717
Past due > 1 - 2 months	71,233	56,437
Past due > 2 - 3 months	18,106	11,663
	325,990	313,817

Financing and advances assessed as impaired

An analysis of the gross amount of financing and advances individually assessed as impaired by the Bank is as follows:

	2017 RM'000	2016 RM'000
Gross impaired financing and advances	51,389	108,713
Gross individually assessed impaired financing and advances	6,387	9,754
Less: Allowance for impairment		
- Individual impairment	(2,480)	(6,470)
Net individually assessed impaired financing and advances	3,907	3,284

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit quality - financial instruments and financial assets

Financial instruments include cash and short term funds, deposits and placements with other financial institutions, debt securities, statutory deposits and other assets. Cash and short term funds herein excludes cash in hand. Debt securities include financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity. Financial assets held-for-trading and financial investments available-for-sale are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

Distribution of financial instruments by credit quality are summarised as below:

2017	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Allowance for impairment RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	170,255	-	-	-	170,255
Financial assets held-for-trading	40,694	-	-	-	40,694
Financial investments available-for-sale (exclude equity securities)	2,071,758	-	-	-	2,071,758
Financial investments held-to-maturity	80,957	-	-	-	80,957
Statutory deposits with BNM	274,288	-	-	-	274,288
Other assets (exclude prepayment)	23,216	-	1,096	(1,096)	23,216
	2,661,168	-	1,096	(1,096)	2,661,168

2016	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Allowance for impairment RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	1,014,248	-	-	-	1,014,248
Financial investments available-for-sale (exclude equity securities)	1,277,242	-	-	-	1,277,242
Financial investments held-to-maturity	233,390	-	-	-	233,390
Statutory deposits with BNM	271,870	-	-	-	271,870
Other assets (exclude prepayment)	2,060	-	873	(873)	2,060
	2,798,810	-	873	(873)	2,798,810

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit quality - financial instruments and financial assets (contd.)

The table below presents an analysis of the credit quality of cash and short term funds, deposits and placements with other financial institutions and debt securities. Cash and short term funds herein excludes cash in hand. Debt securities includes bonds and commercial papers that are held-for-trading, available-for-sale and held-to-maturity. Debt securities held-for-trading and available-for-sale are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Bank uses external credit ratings provided by RAM and MARC. The table below presents an analysis of debt securities by rating agency:

2017	Cash and short term funds RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Statutory deposits with BNM RM'000	Total RM'000
By rating agencies						
RAM						
AAA	-	-	127,456	-	-	127,456
AA1	-	-	350,346	-	-	350,346
AA2	-	-	363,227	-	-	363,227
AA3	-	-	195,160	-	-	195,160
MARC						
AAA	-	40,694	96,384	-	-	137,078
AA	-	-	25,678	-	-	25,678
Government backed	170,255	-	913,507	80,957	274,288	1,439,007
	170,255	40,694	2,071,758	80,957	274,288	2,637,952

2016	Cash and short term funds RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Statutory deposits with BNM RM'000	Total RM'000
By rating agencies						
RAM						
AAA	-	-	168,028	-	-	168,028
AA1	-	-	45,432	-	-	45,432
AA2	-	-	179,485	-	-	179,485
AA3	-	-	35,576	-	-	35,576
MARC						
AAA	-	-	121,837	-	-	121,837
AA-	-	-	25,599	-	-	25,599
Government backed	1,014,248	-	701,285	233,390	271,870	2,220,793
	1,014,248	-	1,277,242	233,390	271,870	2,796,750

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk

Market Risk is the risk of loss of earnings arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and in their implied volatilities.

The Bank has established a framework of approved risk policies, measurement methodologies and risk limits as approved by the Group Risk Management Committee to manage market risk. Market risk arising from the trading activities is controlled via position limits, sensitivity limits and regular revaluation of positions versus market prices, where available.

(i) Profit rate risk

As a subset of market risk, profit rate risk refers to the volatility in net profit income as a result of changes in profit rate of return and shifts in the composition of the assets and liabilities. Rate of return risk is managed through profit rate sensitivity analysis. The potential reduction in net profit income from an unfavourable profit rate movement is monitored and reported to Management. In addition to pre-scheduled meetings, Group Assets and Liabilities Management Committee ("GALCO") will also deliberate on revising the Bank's financing and deposit rates in response to changes in the benchmark rates set by the central bank.

The effects of changes in the levels of rates of return on the market value of securities are monitored closely and mark-to-market valuations are regularly reported to Management.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of profit rates on its financial position and cash flows. The effects of changes in the levels of rates of return on the market value of securities are monitored regularly and the outcome of mark-to-market valuations are escalated to Management regularly. The table below summarises the effective profit rates at the end of the reporting period and the periods in which the financial instruments will re-price or mature, whichever is the earlier.

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Profit rate risk (contd.)

2017	Non-Trading Book Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets									
Cash and short-term funds	125,000	-	-	-	-	-	45,255	-	170,255
Financial assets held-for-trading	-	-	-	-	-	-	-	40,694	40,694
Financial investment available-for-sale	429,403	308,161	49,444	30,014	684,556	555,508	14,672	-	2,071,758
Financial investment held-to-maturity	-	80,030	-	-	-	-	927	-	80,957
Financing and advances	4,985,642	262,277	81,187	21,055	818,556	1,088,332	(28,427)*	-	7,228,622
Other financial assets^	-	-	-	-	-	-	297,883	-	297,883
Total assets	5,540,045	650,468	130,631	51,069	1,503,112	1,643,840	330,310	40,694	9,890,169
Liabilities									
Deposits from customers	4,327,975	1,566,761	817,708	1,148,877	656,544	-	168,933	-	8,686,798
Deposits and placements of banks and other financial institutions	638	2,662	2,900	3,880	202,353	-	742	-	213,175
Other liabilities	-	-	-	-	-	-	137,332	-	137,332
Total liabilities	4,328,613	1,569,423	820,608	1,152,757	858,897	-	307,007	-	9,037,305
On-balance sheet interest sensitivity gap	1,211,432	(918,955)	(689,977)	(1,101,688)	644,215	1,643,840	23,303	40,694	852,864

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Profit rate risk (contd.)

2016	Non-Trading Book							
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Total RM'000
Assets								
Cash and short-term funds	950,000	-	-	-	-	-	64,248	1,014,248
Financial investment available-for-sale	99,806	79,680	-	55,103	702,851	328,255	11,547	1,277,242
Financial investment held-to-maturity	-	-	-	150,110	80,177	-	3,103	233,390
Financing and advances	4,824,867	252,226	76,356	26,370	699,339	1,084,840	32,334*	6,996,332
Other financial assets^	-	-	-	-	-	-	274,277	274,277
Total assets	5,874,673	331,906	76,356	231,583	1,482,367	1,413,095	385,509	9,795,489
Liabilities								
Deposits from customers	4,444,817	1,259,959	1,166,802	1,214,440	524,393	-	103,601	8,714,012
Deposits and placements of banks and other financial institutions	828	1,545	990	7,323	128,649	-	483	139,818
Other liabilities	-	-	-	-	-	-	130,712	130,712
Total liabilities	4,445,645	1,261,504	1,167,792	1,221,763	653,042	-	234,796	8,984,542
On-balance sheet interest sensitivity gap	1,429,028	(929,598)	(1,091,436)	(990,180)	829,325	1,413,095	150,713	810,947

* Impaired financing, individual assessment allowance and collective assessment allowance of the Bank are classified under the non-profit sensitive column.
^ Includes statutory deposits and other assets

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(ii) Value at risk ('VaR')

Value-at-risk ("VaR") reflects the maximum potential loss of value of a portfolio resulting from market movements within a specified probability of occurrence (level of confidence); for a specific period of time (holding period). For the Bank, VaR is computed based on the historical simulation approach with parameters in accordance with BNM and Basel requirements. Backtesting is performed daily to validate and reassess the accuracy of the VaR model. This involves the comparison of the daily VaR values against the hypothethical profit and loss over the corresponding period.

The table below sets out a summary of the Bank's VaR profile by financial instrument types for the Trading Portfolio:

	Balance RM'000	Average for the year RM'000	Minimum RM'000	Maximum RM'000
2017				
Instruments:				
Government securities	(4,663)	(3,274)	(1,301)	(5,025)
Private debt securities	(6,994)	(5,054)	(2,514)	(7,200)
2016				
Instruments:				
Government securities	(1,393)	(1,520)	(1,383)	(2,173)
Private debt securities	(2,547)	(1,587)	(694)	(2,573)

(iii) Rate of Return Risk in the banking book

The following tables present the Bank's projected sensitivity to a 100 basis point parallel shock to profit rates across all maturities applied on the Bank's profit sensitivity gap as at reporting date.

	2017 - 100 bps Increase/(decrease) RM'000	2017 + 100 bps Increase/(decrease) RM'000
Impact on net profit income	(9,740)	9,740
Impact on equity	40,032	(37,723)

	2016 - 100 bps Increase/(decrease) RM'000	2016 + 100 bps Increase/(decrease) RM'000
Impact on net profit income	(8,982)	8,982
Impact on equity	32,904	(31,049)

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

Other risk measures

(iv) Stress test

Stress testing is normally used by banks to gauge their potential vulnerability to exceptional but plausible events. The Bank performs stress testing regularly to measure and alert management on the effects of potential political, economic or other disruptive events on our exposures. The Bank's stress testing process is governed by the Stress Testing Framework as approved by the Board. Stress testing is conducted on a bank-wide basis as well as on specific portfolios. The Bank's bank-wide stress testing exercise uses a variety of broad macroeconomic indicators that are then translated into stress impacts on the various business units. The results are then consolidated to provide an overall impact on the Bank's financial results and capital requirements. Stress testing results are reported to Management to provide them with an assessment of the financial impact of such events would have on the Bank's profitability and capital levels.

(v) Sensitivity analysis

Sensitivity analysis is used to measure the impact of changes in individual stress factors such as profit rates or foreign exchange rates. It is normally designed to isolate and quantify exposure to the underlying risk. The Bank performs sensitivity analysis such as parallel shifts of profit rates on its exposures, primarily on the banking and trading book positions.

(c) Liquidity Risk

Liquidity risk is the inability of the Bank to meet financial commitments when due.

The Bank's liquidity risk profile is managed using Bank Negara Malaysia's Liquidity Coverage Ratio Guideline, other internal policies and GALCO benchmarks. A contingency funding plan is also established by the Bank as a forward-looking measure to ensure that liquidity risk can be addressed according to the degrees of key risk indicators, and which incorporates alternative funding strategies which are ready to be implemented on a timely basis to mitigate the impact of unforeseen adverse changes in liquidity in the market place.

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

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

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Bank. The table below provides analysis of assets and liabilities into relevant maturity terms based on remaining contractual maturities:

2017	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	170,255	-	-	-	-	170,255
Financial investments	436,776	394,643	51,793	30,014	1,280,183	2,193,409
Financing and advances	944,489	302,108	121,939	17,831	5,842,255	7,228,622
Other financial and non financial assets	22,252	933	29	150	277,701	301,065
Total assets	1,573,772	697,684	173,761	47,995	7,400,139	9,893,351
Liabilities						
Deposits from customers	4,463,292	1,578,504	832,503	1,155,955	656,544	8,686,798
Deposits and placements of banks and other financial institutions	638	3,405	2,900	3,880	202,352	213,175
Other financial and non financial liabilities	92,217	8,446	1,440	-	40,555	142,658
Total liabilities	4,556,147	1,590,355	836,843	1,159,835	899,451	9,042,631
Equity	-	-	-	-	850,720	850,720
Total liabilities and equity	4,556,147	1,590,355	836,843	1,159,835	1,750,171	9,893,351
Net maturity mismatch	(2,982,375)	(892,671)	(663,082)	(1,111,840)	5,649,968	-

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(i) Liquidity risk for assets and liabilities based on remaining contractual maturities (contd.)

2016	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	1,014,248	-	-	-	-	1,014,248
Financial investments	104,982	87,859	1,294	205,213	1,111,284	1,510,632
Financing and advances	1,155,970	370,958	241,656	234,055	4,993,693	6,996,332
Other financial and non financial assets	1,243	237	356	712	275,500	278,048
Total assets	2,276,443	459,054	243,306	439,980	6,380,477	9,799,260
Liabilities						
Deposits from customers	4,507,828	1,276,054	1,188,739	1,216,998	524,393	8,714,012
Deposits and placements of banks and other financial institutions	828	2,028	990	7,323	128,649	139,818
Other financial and non financial liabilities	94,695	301	469	866	35,532	131,863
Total liabilities	4,603,351	1,278,383	1,190,198	1,225,187	688,574	8,985,693
Equity	-	-	-	-	813,567	813,567
Total liabilities and equity	4,603,351	1,278,383	1,190,198	1,225,187	1,502,141	9,799,260
Net maturity mismatch	(2,326,908)	(819,329)	(946,892)	(785,207)	4,878,336	-

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amount disclosed in the table are the contractual undiscounted cash flows of all financial liabilities.

2017	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Deposits from customers	4,465,969	1,587,489	851,493	1,190,135	711,931	-	8,807,017
Deposits and placements with banks and other financial institutions	638	4,251	2,900	5,427	210,495	-	223,711
Other financial liabilities	89,196	8,446	1,440	-	38,250	-	137,332
	4,555,803	1,600,186	855,833	1,195,562	960,676	-	9,168,060
Items not recognised in the statement of financial position							
Financial guarantees	9,539	20,948	10,689	82,573	8,600	24	132,373
Credit related commitments and contingencies	1,458,916	2,942	2,846	6,623	28,372	3,684	1,503,383
Total financial liabilities	6,024,258	1,624,076	869,368	1,284,758	997,648	3,708	10,803,816

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis (contd.)

2016	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Deposits from customers	4,510,251	1,286,191	1,210,314	1,254,286	572,067	-	8,833,109
Deposits and placements of banks and other financial institutions	828	2,584	990	8,343	134,089	-	146,834
Other financial liabilities	94,695	301	469	866	34,381	-	130,712
	4,605,774	1,289,076	1,211,773	1,263,495	740,537	-	9,110,655
Items not recognised in the statement of financial position							
Financial guarantees	20,557	11,511	11,695	31,765	40,013	22	115,563
Credit related commitments and contingencies	1,587,740	3,479	13,556	5,906	24,518	-	1,635,199
Total financial liabilities	6,214,071	1,304,066	1,237,024	1,301,166	805,068	22	10,861,417

30. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(d) Operational and Shariah Compliance Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk, but excludes strategic and reputational risk. Operational risk includes Shariah non-compliance risk which arises from the Bank's failure to comply with the Shariah rules and principles determined by the relevant Shariah advisory councils.

Bank Operational Risk Management Department formulates and implements operational risk framework within the Bank while the line of businesses are responsible for the management of their day to day operational and Shariah non-compliance risks.

Operational and Shariah non-compliance risk management is a continual cyclic process which includes risk identification, assessment, control, mitigation and monitoring. This includes analysing the risk profile of the Bank, determining control gaps, assessing potential loss and enhancing controls to mitigate the risks.

The main activities undertaken by the Bank in managing operational and Shariah non-compliance risks include the identification of risks and controls, monitoring of key risk indicators, reviews of policies and procedures, operational risk and Shariah non-compliance risk awareness training, and business continuity management.

The Bank applies the Basic Indicator Approach for operational risk capital charge computation.

31. LEASE COMMITMENTS

The Bank has lease commitments in respect of equipment on hire and premises, all of which are classified as operating leases. A summary of the non-cancellable long term commitments are as follows:

	2017 RM'000	2016 RM'000
Within one year	129	259
Between one year to five years	-	129
	129	388

The operating leases of the Bank's other premises typically cover for an initial period of two years with options for renewal. These leases are cancellable but are usually renewed upon expiry or replaced by leases on other properties.

32. HOLDING AND RELATED COMPANIES

The immediate holding company of the Bank is Alliance Bank Malaysia Berhad, a bank incorporated in Malaysia. The ultimate holding company of the Bank is Alliance Financial Group Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Related companies in these financial statements refer to member companies in Alliance Financial Group Berhad.

33. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks. The Framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which banking institutions are required to operate. The framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. The risk-weighted assets of the Bank are computed using the Standardised Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

(a) The capital adequacy ratios of the Bank are as follows:

	2017	2016
Before deducting proposed dividends		
CET I/Tier I capital ratio	13.430%	13.375%
Total capital ratio	14.509%	14.399%
After deducting proposed dividends		
CET I/Tier I capital ratio	13.430%	13.044%
Total capital ratio	14.509%	14.068%

	2017 RM'000	2016 RM'000
CET I Capital		
Paid-up share capital	345,045	345,045
Share premium	54,955	54,955
Retained profits	215,766	187,800
Statutory reserves	224,720	205,558
Revaluation reserves	151	5,380
	840,637	798,738
Less: Regulatory adjustments		
- Goodwill and other intangibles	(914)	(510)
- Deferred tax assets	(2,083)	-
- 55% of revaluation reserves	(83)	(2,959)
Total CET I Capital/Total Tier I Capital	837,557	795,269
Tier II Capital		
Collective assessment allowance and regulatory reserves	67,243	60,853
Total Tier II Capital	67,243	60,853
Total Capital	904,800	856,122

33. CAPITAL ADEQUACY (CONTD.)

(b) The breakdown of risk-weighted assets ("RWA") by exposure in each major risk category are as follows:

	2017 RM'000	2016 RM'000
Credit risk	5,775,795	5,556,133
Market risk	19,590	-
Operational risk	440,869	389,682
Total RWA and capital requirements	6,236,254	5,945,815

Detailed information on the above risk exposure, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3) is presented in the Pillar 3 Disclosure Report.

34. CAPITAL

The capital management of Alliance Islamic Bank Berhad is under the purview of Alliance Bank Group's ("the Group") capital management with the objectives:

- to maintain sufficient capital resources to meet the regulatory capital requirements as set forth by Bank Negara Malaysia;
- to maintain sufficient capital resources to support the Group's risk appetite and to enable future business growth; and
- to meet the expectations of key stakeholders, including shareholders, investors, regulators and rating agencies.

In line with this, the Bank aims to maintain capital adequacy ratios that are comfortably above the regulatory requirement, while balancing shareholders' desire for sustainable returns and high standards of prudence.

The Bank carries out stress testing to estimate the potential impact of extreme, but plausible, events on the Bank's earnings, balance sheet and capital. The results of the stress test are to facilitate the formation of action plan(s) in advance if the stress test reveals that the Group's capital will be adversely affected. The results of the stress test are tabled to the Group Risk Management Committee for approval.

The Bank's regulatory capital is determined under Bank Negara Malaysia's Capital Adequacy Framework and their capital ratio complied with the prescribed capital adequacy ratios.

35. COMMITMENTS AND CONTINGENCIES

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

The notional amounts of the commitments and contingencies of the Bank are as follows:

	2017 RM'000	2016 RM'000
Credit-related exposures		
Direct credit substitutes	108,034	91,683
Transaction-related contingent items	45,963	48,841
Short-term self-liquidating trade-related contingencies	24,339	23,902
Irrevocable commitments to extend credit:		
- maturity exceeding one year	157,730	309,451
- maturity not exceeding one year	1,299,690	1,276,885
	1,635,756	1,750,762

Included in direct credit substitutes and transaction-related contingent items are financial guarantee contract of RM132,373,000 (2016: RM115,563,000) of which the fair value at the time of issuance is RM Nil (2016: RM Nil).

36. FAIR VALUE MEASUREMENTS

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

MFRS 13 Fair Value Measurement requires disclosure of financial instruments measured at fair value to be categorised according to a hierarchy of valuation techniques, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of the financial instruments:

(i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

The Bank recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis. This includes listed equities and corporate debt securities which are actively traded.

(ii) Financial instruments in Level 2

Where fair value is determined using quoted prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include government securities, corporate private debt securities, corporate notes and repurchase agreements.

(iii) Financial instruments in Level 3

The Bank classifies financial instruments as Level 3 when there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The valuation techniques and inputs used generally depend on the contractual terms and the risks inherent in the instrument as well as the availability of pricing information in the market. Principal techniques used include discounted cash flows, and other appropriate valuation models.

36. FAIR VALUE MEASUREMENTS (CONTD.)

(b) Financial instruments measured at fair value and the fair value hierarchy

The following tables show the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial assets held-for-trading				
- Unquoted Securities	-	40,694	-	40,694
Financial investments available-for-sale				
- Money Market Instruments	-	1,268,175	-	1,268,175
- Unquoted Securities	-	803,583	-	803,583
2016				
Financial assets				
Financial investments available-for-sale				
- Money Market Instruments	-	641,596	-	641,596
- Unquoted Securities	-	635,646	-	635,646

There were no transfers between levels 1 and 2 of the fair value hierarchy for the Bank during the financial year ended 31 March 2017 and 31 March 2016.

(c) Fair values of financial instruments not carried at fair value

The following table summarises the carrying amounts and the fair values of financial instruments of the Bank which are not carried at fair value in the statement of financial position. It does not include those short term/on demand financial assets and liabilities where the carrying amounts are reasonable approximate to their fair values.

	Fair value				Carrying
2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	amount RM'000
Financial assets					
Financial investments held-to-maturity	-	81,972	-	81,972	80,957
Financing and advances	-	-	7,427,198	7,427,198	7,228,622
Financial liabilities					
Deposits from customers	-	8,688,368	-	8,688,368	8,686,798
Deposits and placements of banks and other financial institutions	-	202,405	-	202,405	213,175
2016					
Financial assets					
Financial investments held-to-maturity	-	237,946	-	237,946	233,390
Financing and advances	-	-	7,102,870	7,102,870	6,996,332
Financial liabilities					
Deposits from customers	-	8,715,929	-	8,715,929	8,714,012
Deposits and placements of banks and other financial institutions	-	132,338	-	132,338	139,818

36. FAIR VALUE MEASUREMENTS (CONTD.)

(c) Comparison of carrying amount and fair value (contd.)

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(i) Financial investments held-to-maturity

The fair values are estimated based on quoted or observable market prices at the end of the reporting period. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for a similar instrument at the end of the reporting period.

(ii) Financing and advances

The fair values of fixed rate financing with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate financing with remaining maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at applicable prevailing rates at end of reporting period offered to new borrowers with similar credit profiles. In respect of impaired financing, the fair values represented by their carrying values, net of impairment allowances, being the expected recoverable amount.

(iii) Deposits from customers, deposits and placements of banks and other financial institutions

The fair values of deposit liabilities payable on demand (demand and savings deposits), or deposits with maturity of less than one year are estimated to approximate their carrying amounts. The fair values of investment accounts with remaining maturities of more than one year are estimated based on expected future cash flows discounted at applicaloan ble prevailing rates offered for deposits of similar remaining maturities. For negotiable islamic debt certificate, the fair values are estimated based on quoted or observable market prices as at the end of the reporting period. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposits are estimated using the discounted cash flow technique.

37. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the financial year ended 31 March 2017.

38. SUBSEQUENT EVENTS

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