

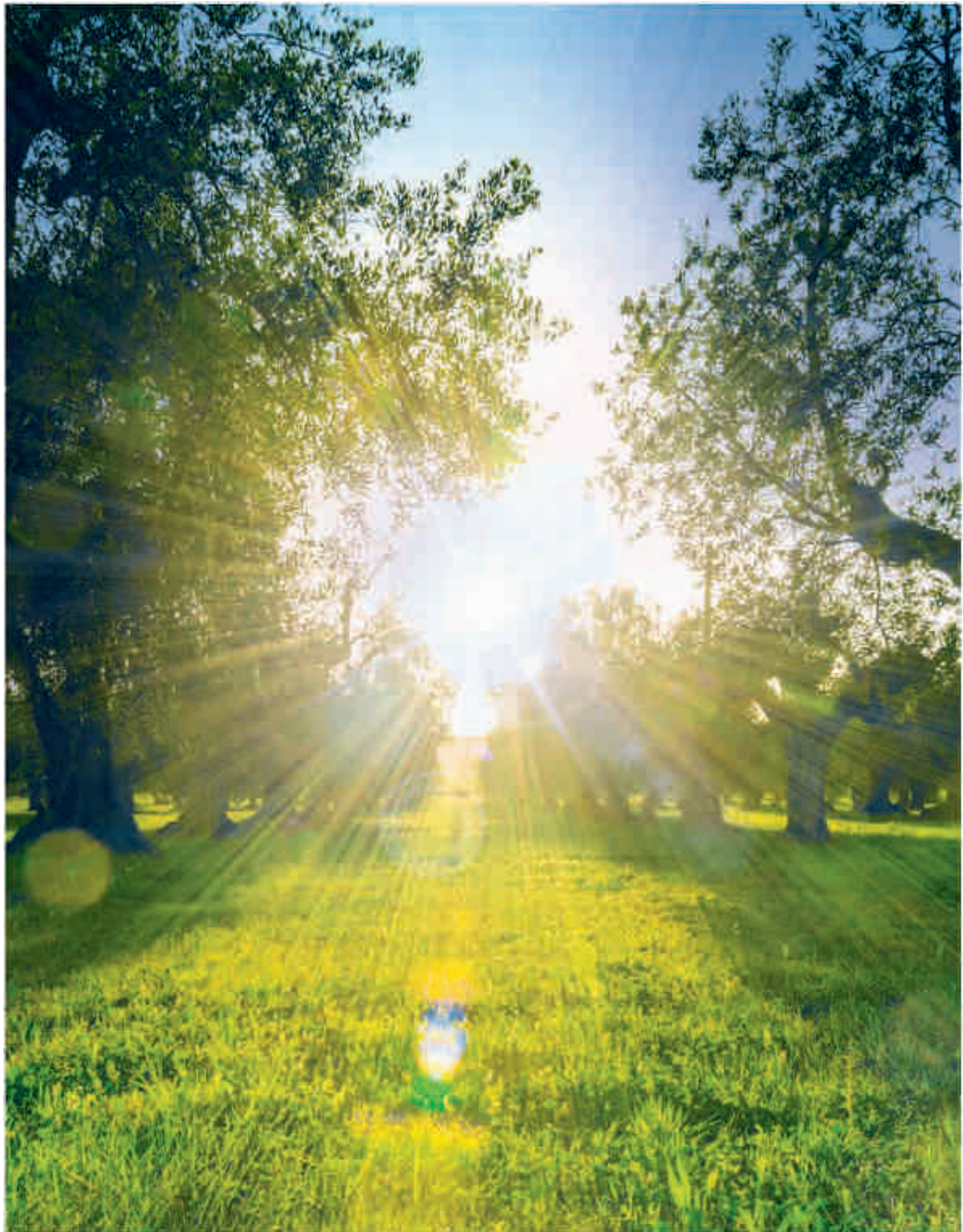
A NEW BEGINNING

Annual Report 2017



MALAYSIA BUILDING SOCIETY BERHAD (9417-K)
A Subsidiary of the EPF

Your Financial Provider





.....
www.mbsb.com.my

A NEW BEGINNING

MBSB is a dynamic and relevant financial institution catering to the nation's economic development. Since our transformation programme more than 8 years ago, we have achieved tremendous success and progressed significantly to create a solid industry position. Today, as we embark on a new beginning with the acquisition of Asian Finance Bank Berhad (now known as MBSB Bank Berhad), we will leverage on our achievements to further capture business opportunities, become more competitive and further expand our reach. The Group Business Plan will further help us achieve sustainable and healthy asset growth for the future as continue to deliver value to our shareholders.

To contact us, please refer to the Corporate Information on page 03 and the MBSB Bank Branches on page 49 to 51 of the Annual Report. The Financial Statements are available on page 155 to 293 of the Annual Report.

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OUR PROFILE

MBSB HISTORY IN BRIEF

The origin of Malaysia Building Society Berhad (MBSB) can be traced back to the Federal and Colonial Building Society Limited incorporated in 1950. In 1956, it changed its name to Malaya Borneo Building Society Limited (MBBS), with the Malaysian government as its major shareholder. MBBS was then listed on the Stock Exchange of Malaya and Singapore in August 1963.

The company became an incorporation in Malaysia under the Companies Act 1965 on 17 March 1970, before it was listed on the Kuala Lumpur Stock Exchange, now Bursa Malaysia on 14 March 1972. The Employees Provident Fund (EPF) is currently the holding entity of MBSB.

MBSB CORPORATE HIGHLIGHTS

MBSB has been granted with an exemption under Section 7(4) of the Borrowing Companies Act 1969 (BCA).

As a result of the change from BCA to Finance Companies Act (FCA), all references to borrowing business and borrowing company were to be construed respectively as finance business and finance company.

The FCA was later repealed by Banking and Financial Institutions Act 1989 (BAFIA).

The BAFIA has been repealed and replaced with FSA 2013.

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

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

Pursuant to the abovesaid approval and upon completion of the transfer of shares and the payment of the balance of the purchase consideration to the Vendors, AFB became a wholly owned subsidiary of MBSB on 7 February 2018. AFB undertook a rebranding exercise and on 2 April 2018 it changed its name to MBSB Bank Berhad ("MBSB Bank").

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Abdul Halim bin Ali

*Chairman/Non-Independent
Non-Executive Director*

Datuk Shahril Ridza bin Ridzuan

Non-Independent Non-Executive Director

Encik Lim Tian Huat

Independent Non-Executive Director

Ir. Moslim bin Othman

Independent Non-Executive Director

Puan Lynette Yeow Su-Yin

Independent Non-Executive Director

GROUP PRESIDENT AND CHIEF EXECUTIVE OFFICER

Datuk Seri Ahmad Zaini bin Othman

COMPANY SECRETARIES

Koh Ai Hoon

(MAICSA 7006997)

Tong Lee Mee

(MAICSA 7053445)

REGISTRAR

Tricor Investor & Issuing House
Services Sdn Bhd
Unit 32 - 01, Level 32, Tower A,
Vertical Business Suite,
Avenue 3, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur
Tel : 03 - 2783 9299
Fax : 03 - 2783 9222

AUDITORS

Ernst & Young
(Chartered Accountants)

REGISTERED OFFICE

11th Floor, Wisma MBSB
48 Jalan Dungun, Damansara Heights
50490 Kuala Lumpur
Tel : 03 - 2096 3000
Fax : 03 - 2096 3144
Website: www.mbsb.com.my

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia
Securities Berhad
(Listed since 14 March 1972)



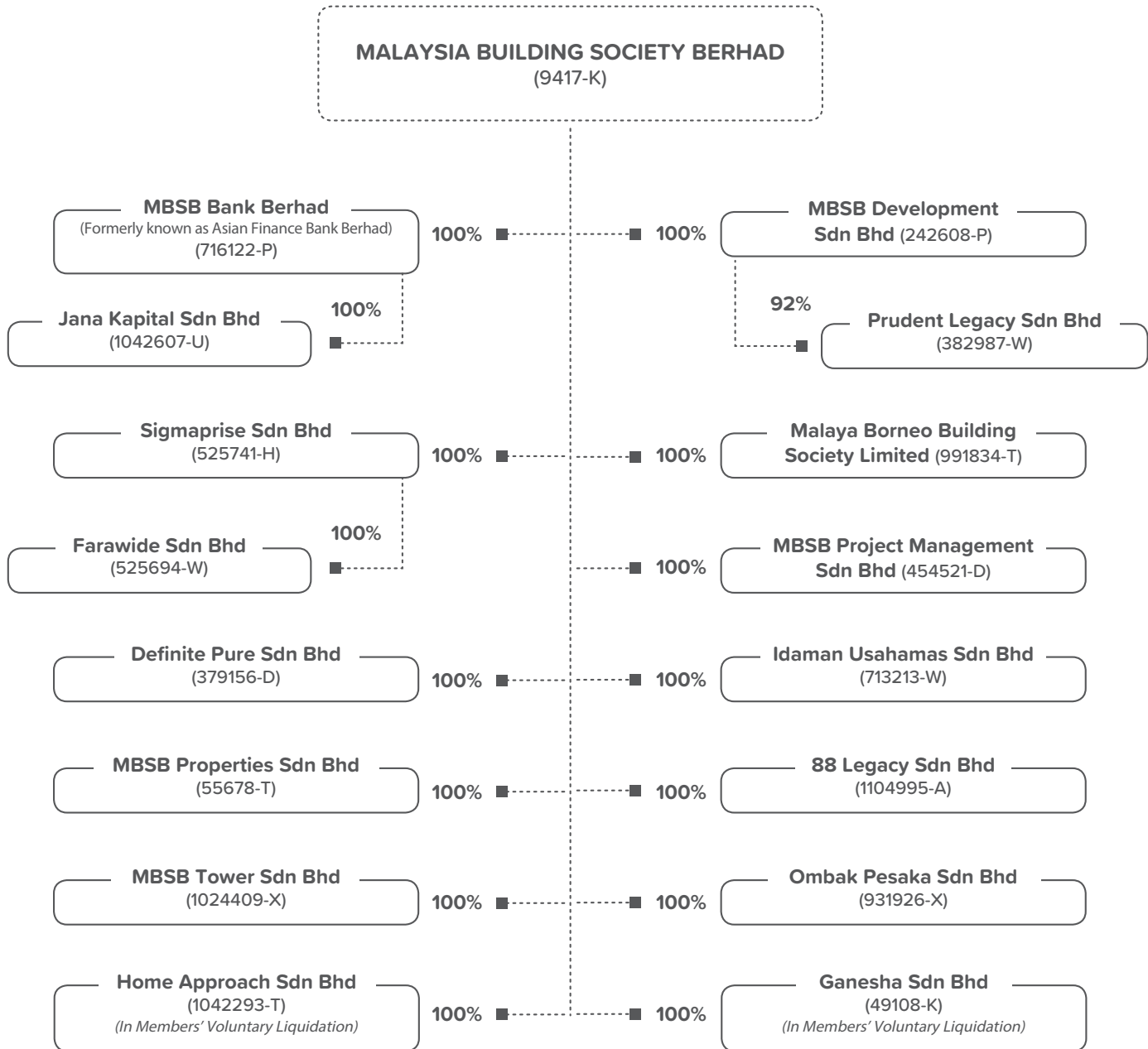
COMPANY SECRETARY

KOH AI HOON

(MAICSA 7006997)

- Chartered Secretary (ICSA)
- Bachelor of Law, University of London
- Associate member of The Malaysian Association of Chartered Secretaries & Administrators (MAICSA)
- Associate Qualification in Islamic Finance (AQIF) Islamic Banking and Finance Institute Malaysia (IBFIM)

CORPORATE STRUCTURE



AWARDS AND ACCOLADES



Malaysia HR Awards 2017
Employer of Choice Award (Bronze)



Collaborators Award 2017
The Jury Award



Top Achiever Awards 2017
Industry Excellence in Property
Financing Category



01

02

03

CALENDAR OF EVENTS

FEBRUARY

20 FEB

KEY HANDOVER CEREMONY FOR PROGRAM SEJAHTERA MBSB

Kuala Pilah, Negeri Sembilan

Puan Zuhaznim Izzuddin, Head of Corporate Communications handing over the mock key to Encik Mohd Ali bin Aziz for *Program Sejahtera* at Kuala Pilah, Negeri Sembilan.



22 FEB

MBSB 4TH QUARTER 2016, ANALYST BRIEFING

Hilton Hotel, Kuala Lumpur

MBSB announced its 2016 full year financial results which posted pre-tax profits of RM338.42 million at Hilton Hotel Kuala Lumpur.

MARCH

25 MAR

MBSB ZOO EXPLORER – EDUCATION TRIP

Zoo Negara, Kuala Lumpur

The children of MBSB's staff took the opportunity to join in during the animal show during MBSB's Zoo Explorer Educational Trip in Zoo Negara, Kuala Lumpur.



APRIL

06 APR

MOU SIGNING

CEREMONY BETWEEN SEGi UNIVERSITY, CORPORATE COMPANIES, GOVERNMENT AGENCIES AND OTHER EDUCATIONAL INSTITUTIONS

SEGi University

MBSB sponsored 50 students under B40 category to pursue a 3-year degree program at SEGi University. Representatives from corporate companies, government agencies and other educational institutions were present during the MoU signing ceremony held at SEGi University.



APRIL

08 APR

COMMUNITY PROGRAM: TREE PLANTING

FRIM, Kepong, Kuala Lumpur

MBSB volunteers planted 50 trees at FRIM, Kepong, Kuala Lumpur that demonstrated the company's commitment in preserving and sustaining the environment. This initiative saw the participation from 32 staff from various division in the company.



12 APR

CEO LECTURER SERIES, CEO FACULTY PROGRAM

Auditorium Wawasan, Wisma HRDF

Datuk Seri Ahmad Zaini Othman gave a lecture to University Utara Malaysia students during the CEO Lecture Series at Wisma HRDF, Kuala Lumpur.



19 APR

BLOOD DONATION DRIVE 2017

Menara MBSB

A blood donation drive programme was held at Menara MBSB and it received great support from the staff.

19 APR

MOU BETWEEN MBSB AND CENGALJATI SDN BHD

KL Convention Centre

MBSB signed a deal with Cengaljati Sdn Bhd for the financing of SUKE Expressway Project worth of RM156.0 Million witnessed by Prime Minister, YAB Dato' Sri Mohd Najib bin Tun Abdul Razak at *Majlis Memacu Agenda Bumiputera 2017*.



21 APR

COOKING FOR A CAUSE AT CENTRAL REGION

Bangunan Mustapha Kamal, Petaling Jaya

80 residents from *Rumah Anak Yatim Suci Rohani* (orphange), *Rumah Pengajian Xavier* (orphange), *Persatuan Kebajikan Tan Hsiang Miltra* (old folks) and PPR Ria (underprivileged) were invited to benefit from Cooking for a Cause (Central region) program in collaboration with Food Aid Foundation. Basic groceries were also being distributed during the event.



CALENDAR OF EVENTS

MAY



12 MAY

ANNUAL GENERAL MEETING

Grand Nexus Bangsar South

Datuk Seri Ahmad Zaini Othman and Mr Tang Yow Sai at MBSB's 47th AGM held at Grand Nexus, Bangsar South.



13 MAY

COOKING FOR A CAUSE AT NORTHERN REGION

Masjid At-Taufik, Kampung Telaga Batu, Sik, Kedah

40 volunteers from northern region prepared food for 450 underprivileged individuals at *Masjid At-Taufik, Kampung Telaga Batu, Sik, Kedah* Cooking for a Cause collaboration with Food Aid Foundation.

13 MAY

MBSB TREASURE HUNT 2017

President of MBSB's Sport Club, Encik Asrul Hazli Salleh flagged off MBSB's Treasure Hunt 2017.



24 MAY

ANALYST BRIEFING

Sime Darby Convention Centre

Datuk Seri Ahmad Zaini Othman and Mr Tang Yow Sai spoke to analysts on the Q1 '17 results.



JUNE



03 JUN

IFTAR BERSAMA MBSB

Aloft KL Sentral

MBSB brought Ramadhan cheer to 74 orphans and less fortunate children from *Pertubuhan Kebajikan Dan Bimbingan At-Taqwa* and *Rumah Kasih Pertiwi* by treating them iftar at Aloft Hotel, Kuala Lumpur.



08 JUN

JOM SHOPPING RAYA

AEON Shah Alam

MBSB took 80 children from *Rumah Aman Shah Alam* on a shopping spree at AEON Shah Alam during Ramadhan.

JULY

11 JUL

SAFETY AWARENESS CAMPAIGN

Kuala Lumpur

In conjunction with the Safety Awareness Campaign, MBSB had Hot FM Zoomers to join the crowd along Jalan Dungun for a Q&A session.



12 JUL

RUMAH TERBUKA AIDILFITRI MBSB 2017

Dorsett Grand Subang, Selangor

MBSB hosted its Annual *Rumah Terbuka Aidilfitri* 2017 at Dorsett Grand, Subang. Approximately 2,000 corporate clients and guest attended the *rumah terbuka* event this year.



29 JUL

BH DIDIK TOUR

SK Senibai

MBSB 'over the top' *Pintar School-Klinik UPSR Jelajah Didik 2017* with MBSB at *Sekolah Kebangsaan Senibai* in Negeri Sembilan.

AUGUST

12 AUG

MBSB ANNUAL DINNER CENTRAL REGION THE NIGHT OF THE CARNIVAL

Mandarin Oriental Hotel

MBSB Sports Club held its Annual Dinner at Mandarin Oriental Hotel, Kuala Lumpur. Approximately 750 staff from HQ and central region attended the event.



21 AUG

MBSB 2ND QUARTER 2017 ANALYST BRIEFING

Sime Darby Convention Centre

Datuk Seri Ahmad Zaini Othman and Mr Tang Yow Sai presenting Q2 '17 financial results to analysts.



CALENDAR OF EVENTS

SEPTEMBER

23 SEP

COOKING FOR A CAUSE AT EAST COAST REGION

Kuala Terengganu

East Coast Regional Manager, Encik Zamzuri Izani handed the assist kit to villagers from Kampung Che Kundur, in Batu Buruk, Terengganu.



OCTOBER

13 OCT

MBSB MEDIA APPRECIATION NIGHT

Hilton Hotel, Kuala Lumpur

MBSB held its Media Appreciation Night 2017 at Hilton Kuala Lumpur and was graced by the presence of Datuk Seri Ahmad Zaini Othman. Over 150 members of the media attended the event themed 'Awesome 80's'.



NOVEMBER



06 NOV

SHARE AND PURCHASE AGREEMENT SIGNING CEREMONY BETWEEN MBSB AND AFB

Hilton Hotel, Kuala Lumpur

Share and purchase agreement signing ceremony between MBSB and AFB held at Hilton Hotel Kuala Lumpur.

07 NOV

TOWN HALL MEETING

Penthouse, Wisma MBSB

Datuk Seri Ahmad Zaini Othman updating on progress of the acquisition of Asian Finance Bank Berhad to MBSB staff.



11 NOV

COOKING FOR A CAUSE (SOUTHERN REGION)

Balai Raya Kampung Parit Bakong, Senggarang, Batu Pahat, Johor

30 MBSB volunteers from Southern Region prepared food for 100 underprivileged individuals at balai raya Kampung Parit Bakong, Senggarang, Batu Pahat, Johor. Basic groceries were also being distributed during the event.



DECEMBER

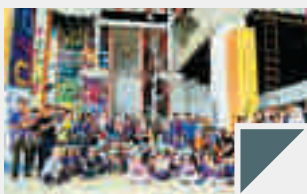


20 NOV

FLOOD RELIEF CHEQUE HANDOVER

Wisma MBSB

Puan Azlina Mohd Rashad presented MBSB's contribution to Food Aid Foundation to assist flood victims in the Northern region.



25 NOV

FAMILY FUN DAY OUT @ FUNTOPIA COURTYARD

Subang Jaya, Selangor

Kids having fun during the Family Fun Day Out @ Funtopia Courtyard in Subang Jaya, Selangor.

28 NOV

SIGNING CEREMONY BETWEEN MBSB AND SOLAR MANAGEMENT (SEREMBAN) SDN BHD

Sofitel Kuala Lumpur

Signing ceremony between MBSB and Solar Management (Seremban) Sdn Bhd (SMS) for its Solar Farm Project. MBSB will be financing up to RM247 million to partly finance the engineering, procurement, construction and commissioning of the solar farm project.



30 NOV

SIGNING CEREMONY BETWEEN MBSB AND TELEKOM

Pullman Hotel, Bangsar

MBSB inked an agreement with Telekom Malaysia Berhad for MBSB to offer Islamic financing facilities under the 'TM Vendor Financing Scheme'.



05 DEC

MAJLIS MENANDATANGANI IKRAR BEBAS RASUAH

Malaysian RE

A total of 150 MBSB's employees were present at the Malaysian RE Building's auditorium for the Corruption Free Pledge (*Ikrar Bebas Rasuah*) event.



12 DEC

LAUNCHING OF PEOPLE WEEK 2017

Menara MBSB

Datuk Seri Ahmad Zaini Othman officiated the launching of People Week 2017 organised by Human Capital Department (HCD) with the theme 'For Everyone's Benefit'.

BOARD OF DIRECTORS : MBSB

From left to right:

- 01.** Tan Sri Abdul Halim Bin Ali **02.** Datuk Shahril Ridza Bin Ridzuan
03. Encik Lim Tian Huat **04.** Ir. Moslim Bin Othman
05. Puan Lynette Yeow Su-Yin





PROFILE OF BOARD OF DIRECTORS : MBSB

Tan Sri Abdul Halim Bin Ali

Chairman, Non-Independent Non-Executive Director

Datuk Shahril Ridza Bin Ridzuan

Non-Independent Non-Executive Director

Encik Lim Tian Huat

Independent Non-Executive Director

Ir. Moslim Bin Othman

Independent Non-Executive Director

Puan Lynette Yeow Su-Yin

Independent Non-Executive Director



01 Tan Sri Abdul Halim Bin Ali
Chairman, Non-Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 74/Male
Date of Appointment	: 22 June 2001
Academic/ Professional Qualification(s)	: Bachelor of Arts (Hons) in History, University of Malaya

Working Experience and Occupation

Present Directorship(s)

Listed Entity:

- IJM Corporation Berhad
- Sedania Innovator Berhad

Other Public Companies:

- MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad)

Present Appointment(s)

- Chairman, Universiti Teknologi Malaysia

Past Directorship(s) and/or Appointment(s)

- Chairman of the Employees Provident Fund (2001 - 2007)
- Chief Secretary of the Government (1996 - 2001)
- Secretary General of the Ministry of Foreign Affairs (1996)
- Deputy Secretary General I (Political Affairs) (1991 - 1996)
- Malaysian Ambassador to Austria (1988 - 1991)
- Deputy Secretary General III (Administration) of the Ministry of Foreign Affairs (1985 - 1988)
- Malaysian Ambassador to Vietnam (1982 - 1985)
- Malaysia Deputy Permanent Representative to the United Nations (1979 - 1982)

Current Membership of Board Committee(s) in MBSB

- Nil

Attendance in 2017

- All 21 Board Meetings held in the financial year

Declaration

- No family relationship with any director and major shareholders of MBSB
- Nominee of Employees Provident Fund Board (EPF)
- No conflict of interest with MBSB
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

PROFILE OF BOARD OF DIRECTORS : MBSB



02 **Datuk Shahril Ridza Bin Ridzuan**
Non-Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 47/Male
Date of Appointment	: 30 November 2011
Academic/ Professional Qualification(s)	: Called to the Malaysian Bar and the Bar of England and Wales Master of Arts (1 st Class), Cambridge University, England Bachelor of Civil Law (1 st Class), Oxford University, England

Working Experience and Occupation

Present Directorship(s)

Listed Entity:

- Media Prima Berhad
- Malaysian Resources Corporation Berhad

Other Public Companies:

- Pengurusan Danaharta Nasional Berhad

Other Private Companies:

- IJN Holdings Sdn Bhd

Present Appointment(s)

- Chief Executive Officer of the Employees Provident Fund

Past Directorship(s) and/or Appointment(s)

- Group Managing Director of Malaysian Resources Corporation Berhad (2003 - 2009)
- Executive Director of Malaysia Resources Corporation Berhad (2001 - 2003)
- Executive Director of SSR Associates Sdn Bhd (1999 - 2001)
- Special Assistant to the Executive Chairman, Trenergy (M) Berhad/Turnaround Managers Inc. (M) Sdn Bhd (1997)
- Legal Assistant, Messrs Zain & Co (1994 - 1996)

Current Membership of Board Committee(s) in MBSB

- Nil

Attendance in 2017

- All 21 Board Meetings held in the financial year

Declaration

- No family relationship with any director and major shareholders of MBSB
- Nominee of Employees Provident Fund Board (EPF)
- No conflict of interest with MBSB
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017



03

Encik Lim Tian Huat

Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 63/Male
Date of Appointment	: 4 April 2011
Academic/ Professional Qualification(s)	: Council Member, Insolvency Practitioners Association of Malaysia Fellow, Association of Chartered Certified Accountants Member, Malaysian Institute of Accountants (MIA) Member, Malaysia Institute of Certified Public Accountant (MICPA) Degree in BA (Honours) in Economics

Working Experience and Occupation**Present Directorship(s)****Listed Entity:**

- UEM Sunrise Berhad (listed in Bursa Malaysia)
- Anglo-Eastern Plantation PLC (listed in London Stock Exchange)

Other Public Companies:

- PLUS Malaysia Berhad

Present Appointment(s)

- Managing Director of Andersen Corporate Restructuring Sdn Bhd
- Managing Partner of Rodgers Reidy & Co

Past Directorship(s) and/or Appointment(s)

- Member, Corporate Law Reform Committee (CLRC) under the purview of the Companies Commission of Malaysia
- Director, Bank of Yingkou, China (2011 - 2017)
- Director, Perbadanan Insurans Deposit Malaysia (2010 - 2016)
- Founding President, Insolvency Practitioners Association of Malaysia (IPAM) (2010 - 2013)
- Partner, Ernst & Young (2002 - 2009)
- Commissioner, United Nations Compensations Commission (1998 - 2002)
- Partner, Arthur Andersen & Co. (1990 - 2002)

Current Membership of Board Committee(s) in MBSB

- Chairman, Risk Management Committee
- Chairman, Audit Committee
- Member, Nominating & Remuneration Committee

Attendance in 2017

- 18 out of 21 Board Meetings held in the financial year

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

PROFILE OF BOARD OF DIRECTORS : MBSB



04 Ir. Moslim Bin Othman
Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 63/Male
Date of Appointment	: 21 September 2015
Academic/ Professional Qualification(s)	: Bachelor of Engineering (Civil), University of Melbourne Master of Science (Building Services), Brunel University, London Registered Professional Engineer with the Board of Engineers Malaysia Member, Institution of Engineers Malaysia

Working Experience and Occupation

Present Directorship(s)

Listed Entity:

- Nil

Other Public Companies:

- Nil

Present Appointment(s)

- Sole proprietor of Sejagat Consultant.
- Executive Director, Haluan Fokus Sdn Bhd

Past Directorship(s) and/or Appointment(s)

- Chief Operating Officer, Infra Desa Johor Sdn Bhd, an associate company of Bumi Hiway (1999 - 2000)
- Chief Operating Officer, Bumi Hiway Group of Companies (now known as Selia Group) (1996 - 1999)
- Civil engineer with Public Works Department (PWD) (1978 - 1995)

Current Membership of Board Committee(s) in MBSB

- Chairman, Nominating & Remuneration Committee
- Member, Risk Management Committee
- Member, Audit Committee

Attendance in 2017

- All 21 Board Meetings held in the financial year

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017



05 Puan Lynette Yeow Su-Yin
Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 48/Female
Date of Appointment	: 22 March 2017
Academic/ Professional Qualification(s)	: Member, Malaysian Bar Member, Bar Council Malaysian Mediation Centre Master of Arts, University of Cambridge Bachelor of Arts (Hons), University of Cambridge

Working Experience and Occupation

Present Directorship(s)

Listed Entity:

- Nil

Other Public Companies:

- MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad)

Present Appointment(s)

- Consultant, Chua Associates, Advocates & Solicitors
- Director, Themed Attractions Resorts and Hotels Sdn Bhd
- Panel of Mediators, Securities Industry Dispute Resolution Center (SIDREC)

Past Directorship(s) and/or Appointment(s)

- Partner, Chua Associates, Advocates & Solicitors (2015 - 2018)
- Partner, Kadir Andri & Partners (2011 - 2012, 2014 - 2015)
- Partner, Zaid Ibrahim & Co (2002 - 2011)
- Partner, Raslan Loong (2000 - 2002)

Current Membership of Board Committee(s) in MBSB

- Member, Nominating & Remuneration Committee
- Member, Risk Management Committee
- Member, Audit Committee

Attendance in 2017

- 16 out of 17 Board Meetings held after the appointment date

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB
- She has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

BOARD OF DIRECTORS : MBSB BANK

From left to right:

01. Tan Sri Abdul Halim Bin Ali 02. Encik Szaliza Bin Zainuddin
03. Encik Aw Hong Boo 04. Datuk Johar Bin Che Mat
05. Puan Lynette Yeow Su-Yin 06. Tunku Alina Binti Raja Muhd Alias
07. Datuk Azrulnizam Bin Abdul Aziz





PROFILE OF BOARD OF DIRECTORS : MBSB BANK

Tan Sri Abdul Halim Bin Ali

Chairman, Non-Independent Non-Executive Director

Encik Sazaliza Bin Zainuddin

Non-Independent Non-Executive Director

Encik Aw Hong Boo

Independent Non-Executive Director

Datuk Johar Bin Che Mat

Independent Non-Executive Director

Puan Lynette Yeow Su-Yin

Independent Non-Executive Director

Tunku Alina Binti Raja Muhd Alias

Independent Non-Executive Director

Datuk Azrulnizam Bin Abdul Aziz

Independent Non-Executive Director



01

Tan Sri Abdul Halim Bin Ali

Chairman, Non-Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 74/Male
Date of Appointment	: 7 February 2018
Academic/ Professional Qualification(s)	: Bachelor of Arts (Hons) in History, University of Malaya

Working Experience and Occupation

Present Directorship(s) and/or Appointment(s)

- Chairman, Malaysia Building Society Berhad
- Chairman, IJM Corporation Berhad
- Chairman, Sedania Innovator Berhad
- Chairman, Universiti Teknologi Malaysia

Past Directorship(s) and/or Appointment(s)

- Chairman of the Employees Provident Fund (2001 - 2007)
- Chief Secretary of the Government (1996 - 2001)
- Secretary General of the Ministry of Foreign Affairs (1996)
- Deputy Secretary General I (Political Affairs) (1991 - 1996)
- Malaysian Ambassador to Austria (1988 - 1991)
- Deputy Secretary General III (Administration) of the Ministry of Foreign Affairs (1985 - 1988)
- Malaysian Ambassador to Vietnam (1982 - 1985)
- Malaysia Deputy Permanent Representative to the United Nations (1979 - 1982)

Current Membership of Board Committee(s) in MBSB Bank

- Nil

PROFILE OF BOARD OF DIRECTORS : MBSB BANK



02 Encik Szaliza Bin Zainuddin
Non-Independent Non-Executive Director

Working Experience and Occupation

Present Directorship(s) and/or Appointment(s)

- Chief Financial Officer of the Employees Provident Fund

Past Directorship(s) and/or Appointment(s)

- Director, Malaysia Building Society Berhad (2017 - 2018)
- Director, HSBC Amanah Takaful (Malaysia) Berhad (2013 - 2017)
- Senior Manager (Assurance), Pricewaterhouse Coopers (1997 - 2006)

Current Membership of Board Committee(s) in MBSB Bank

- Member, Board Investment & Credit Committee

Nationality	: Malaysian
Age/Gender	: 45/Male
Date of Appointment	: 7 February 2018
Academic/ Professional Qualification(s)	: ACCA (UK) Bachelor (Hons) in Accounting & Finance, Southbank University, United Kingdom Diploma in Accountancy, UiTM



03 **Encik Aw Hong Boo**
Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 68/Male
Date of Appointment	: 7 February 2018
Academic/ Professional Qualification(s)	: Member, Malaysian Institute of Accountants (MIA) Member, Malaysian Institute of Certified Public Accountant (MICPA) Fellow, Institute of Chartered Accountants in England & Wales (ICAEW)

Working Experience and Occupation

Past Directorship(s) and/or Appointment(s)

- Director, Malaysia Building Society Berhad (2005 - 2018)
- Director, Quill Capita Management Sdn Bhd (2006 - 2015)
- Corporate Advisor, Quill Group of Companies (2004 - 2010)
- Director, KP Keningau Berhad (2000 - 2006)
- Director, RHB Finance Berhad (1995 - 1999)
- Director, RHB Leasing Sdn Bhd (1990 - 1999)
- Director, RHB Nominees Sdn Bhd (1983 - 1999)
- Senior General Manager, Branch Network/Risk Management, RHB Bank Berhad (1978 - 1999)
- Audit Senior/Manager, Ernst & Whinney (1974 - 1977)

Current Membership of Board Committee(s) in MBSB Bank

- Chairman, Board Audit Committee
- Member, Board Risk Management & Compliance Committee
- Member, Board Nominating & Remuneration Committee

PROFILE OF BOARD OF DIRECTORS : MBSB BANK



04 **Datuk Johar Bin Che Mat**
Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 65/Male
Date of Appointment	: 19 December 2017
Academic/ Professional Qualification(s)	: Bachelor of Economics, University of Malaya

Working Experience and Occupation

Present Directorship(s) and/or Appointment(s)

- Director, GETS Global Berhad
- Director, MNRB Holdings Berhad
- Director, Rural Capital Berhad
- Director, Dagang NeXchange Berhad

Past Directorship(s) and/or Appointment(s)

- Director, Malaysia Building Society Berhad (2017 - 2018)
- Director, EDRA Global Energy Berhad (2014 - 2016)
- Director, Bank Pertanian Malaysia Berhad (Agro Bank) (2010 - 2016)
- Director, Amanah Raya Group (2010 - 2016)
- Director, Aseambankers (2000 - 2002)
- Director, Etiqa Insurance (2004 - 2010)
- Director, Maybank Trustee Berhad (2007 - 2010)
- Director, Maybank Islamic Berhad (2006 - 2010)
- Director, Proton Holdings Berhad
- Director, Proton UK
- Director, Lotus Pension Trustees Limited, UK
- Various Senior positions in Maybank Group (1976 - 2010)
- Officer at Jabatan Perdana Menteri Malaysia (1975 - 1976)

Current Membership of Board Committee(s) in MBSB Bank

- Chairman, Board Investment & Credit Committee
- Chairman, Board Nominating & Remuneration Committee



05 Puan Lynette Yeow Su-Yin
Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 48/Female
Date of Appointment	: 7 February 2018
Academic/ Professional Qualification(s)	: Member, Malaysian Bar Member, Bar Council Malaysian Mediation Centre Master of Arts, University of Cambridge Bachelor of Arts (Hons), University of Cambridge

Working Experience and Occupation

Present Directorship(s) and/or Appointment(s)

- Director, Malaysia Building Society Berhad
- Consultant, Chua Associates, Advocates & Solicitors
- Director, Themed Attractions Resorts and Hotels Sdn Bhd
- Panel of Mediators, Securities Industry Dispute Resolution Center (SIDREC)

Past Directorship(s) and/or Appointment(s)

- Partner, Chua Associates, Advocates & Solicitors (2015 - 2018)
- Partner, Kadir Andri & Partners (2011 - 2012, 2014 - 2015)
- Partner, Zaid Ibrahim & Co (2002 - 2011)
- Partner, Raslan Loong (2000 - 2002)

Current Membership of Board Committee(s) in MBSB Bank

- Member, Board Investment & Credit Committee
- Member, Board Nominating & Remuneration Committee

PROFILE OF BOARD OF DIRECTORS : MBSB BANK



06 **Tunku Alina Binti Raja Muhd Alias**
Independent Non-Executive Director

Working Experience and Occupation

Present Directorship(s) and/or Appointment(s)

- Director, Malaysian Pacific Industries Berhad
- Director, IJM Corporation Berhad
- Director, Joyous Waves Sdn Bhd
- Director, Preci Horizon Sdn Bhd
- Trustee, Raja Alias Foundation

Past Directorship(s) and/or Appointment(s)

- Director, Malaysia Building Society Berhad (2017 - 2018)
- Partner, Wong Lu Peen & Tunku Alina, Advocates & Solicitors (1992 - 2011)

Current Membership of Board Committee(s) in MBSB Bank

- Chairman, Board Risk Management & Compliance Committee
- Member, Board Audit Committee

Nationality	: Malaysian
Age/Gender	: 54/Female
Date of Appointment	: 7 February 2018
Academic/ Professional Qualification(s)	: Doctorate in Islamic Finance, International Centre for Education in Islamic Finance, Malaysia Green Templeton College – Advanced Management Programme, Oxford University Masters in Law (Corporate and Commercial Law), King's College, London Bachelor of Laws, University Malaya



07 **Datuk Azrulnizam Bin Abdul Aziz**
Independent Non-Executive Director

Nationality	: Malaysian
Age/Gender	: 48/Male
Date of Appointment	: 1 March 2017
Academic/ Professional Qualification(s)	: Leadership Programme, Oxford University MBA, International Business, University of Hartford, Connecticut, USA BBA Marketing, Wichita State University, USA Diploma in Business Studies, UiTM Malaysia

Working Experience and Occupation

Present Directorship(s) and/or Appointment(s)

- Group Strategic Financial Advisor, Syarikat Perumahan Negara Berhad (SPNB)
- Director, AmMetlife Takaful Berhad
- Executive Director, OCR Group Berhad
- Executive Director, CR FinaCapital Sdn Bhd
- Director, Bintai KA Development Sdn Bhd
- Director, Petrowangsa Sdn Bhd

Past Directorship(s) and/or Appointment(s)

- Chief Executive Officer, Al Rajhi Banking & Investment Corporation Malaysia Berhad (2012 - 2014)
- Chief Executive Officer, Standard Chartered Sa'adiq Berhad (2008 - 2011)
- Director & Head of Islamic Banking Division, Standard Chartered Bank Malaysia Berhad (2005 - 2008)
- Vice President, Citibank Malaysia Berhad (1996 - 2005)

Current Membership of Board Committee(s) in MBSB Bank

- Member, Board Audit Committee
- Member, Board Risk Management & Compliance Committee

PROFILE OF SHARIAH ADVISORY COMMITTEE (SAC)

**Assistant Professor Dr. Akhtarzaite
Binti Abdul Aziz**
Chairperson, Shariah Advisory Committee

**Professor Dr. Abdul Rahim
Bin Abdul Rahman**
Member, Shariah Advisory Committee

**Dato' Professor Dr. Noor Inayah
Binti Ya'akub (DSPN)**
Member, Shariah Advisory Committee

En. Nushi Bin Mahfodz
Member, Shariah Advisory Committee

**En. Mohd Nasiruddin
Bin Mohd Kamaruddin**
Member, Shariah Advisory Committee



**01 Assistant Professor Dr. Akhtarzaite
Binti Abdul Aziz**
Chairperson, Shariah Advisory Committee

Dr. Akhtarzaite Binti Abdul Aziz, born in 1972, currently serves as an Assistant Professor for Department of Fiqh and Usul al Fiqh at International Islamic University Malaysia (IIUM). She obtained her Doctoral Degree (Ph.D) and Master in Fiqh and Usul al Fiqh in 2000 and 2005, respectively, and also Degree in LLB and LLB (S) from the same university in 1995. Her areas of specialisation are Islamic Banking and Finance, Fiqh and Usul al Fiqh and Halal & Shariah Compliance. She has been involved in various professional membership and trainings on Islamic Finance apart from actively involved in writing books and articles as well as presenting papers at various conferences at both international and national levels. She is a member of Association of Shariah Advisor in Islamic Finance Malaysia (ASAS).

PROFILE OF SHARIAH ADVISORY COMMITTEE (SAC)



02 **Professor Dr. Abdul Rahim Bin Abdul Rahman** Member, Shariah Advisory Committee

Dr. Abdul Rahim is currently a Professor at the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM). Apart from a member of the Shariah Advisory Committee of MBSB Bank Berhad, he serves as a member of Shariah Committee for Etiqa Takaful Berhad and Amanah Ikhtiar Malaysia. He is also panel member of Muamalat experts for the Department of Islamic Development Malaysia (JAKIM), and also a working committee member of the Economics and Management Cluster of Majlis Professor Negara (MPN). Professor Abdul Rahim obtained his Bachelor's degree in Finance and Accounting from University of East London, United Kingdom. Later, he obtained his Master's degree in Accounting and Management Sciences, and PhD in Accounting and Finance from the University of Southampton, United Kingdom. Professor Abdul Rahim to date has produced 3 books and more than 40 publications in journals, and has presented several conference papers at various national and international events.



**03 Dato' Professor Dr. Noor Inayah
Binti Ya'akub (DSPN)**
Member, Shariah Advisory Committee

Dato' Professor Dr. Noor Inayah Yaakub is a Professor of Islamic Finance and comparative business law at Putra Business School, University Putra Malaysia. She is also a General Manager, Global Movements of Moderates, Foundation. She was admitted to the Malaysian Bar as a qualified Advocate & Solicitor of the High Court of Malaya in 1996 and also a qualified Shariah lawyer of Negeri Sembilan in the same year. She has more than 20 years of experience in teaching Islamic Law, Syariah & Conventional Banking Law, Takaful and Insurance Law, Equity & Trust Law, Business Law and Ethics and leadership and principles of Islamic management. She serves as Member of the Board Shariah Committee at financial institutions such as Sun-life Takaful and Trustee Council of Majlis Amanah Raya. She received double degrees of a Bachelor of Law (Hons) and Bachelor of Islamic Law (Hons) from the International Islamic University Malaysia. She received her LLM (Master of Comparative Civil & Banking Law) from the school of Law, University of Bristol, United Kingdom and a PhD in Comparative Civil & Islamic Banking Law of Guarantee from the law Faculty, University of Manchester, United Kingdom. She has demonstrated an excellent record of teaching and supervision for more than 20 years in the academic field, both undergraduate and postgraduate levels. She has shown excellent records of impactful research and publications and secured several competitive national grants and research awards. She holds a professional certificate of a Project Management from Innovation Centre, University of Oxford and University Performance management advanced certificate from United Nation. Her notable contributions are recognised locally and internationally as proven by invitation as invited speaker, reviewer, and editor in journals, external assessor, internal and external examiner in the field of business law, governance, leadership, Islamic finance and management across disciplines. She has had vast experiences as Dean Faculty of Business and accountancy, Director for University Corporate Planning, Director for Research and Board of Director's member for Professional Institute of Baitul Mal, Wilayah Persekutuan Religious Authority.

PROFILE OF SHARIAH ADVISORY COMMITTEE (SAC)



04 Nushi Bin Mahfodz Member, Shariah Advisory Committee

En. Nushi Bin Mahfodz is currently a lecturer in Faculty Syariah and Law, Selangor International Islamic University College (KUIS) and also serves as Deputy Chief Operating Officer, KUISCELL Sdn Bhd. He obtained his degree in Shariah and Islamic Studies, Yarmouk University, Jordan. He holds Masters in Shariah (Islamic Law) majoring in Usul al-Fiqh from Aly Al-Bayt University, Jordan. Apart of that, he is also a presenter for many organisations and events such as Institut Latihan Dakwah Selangor (ILDAS), Islamic talks in universities and colleges as well as in various government departments and bodies.



**05 Mohd Nasiruddin
Bin Mohd Kamaruddin**
Member, Shariah Advisory Committee

En. Mohd Nasiruddin, a seasoned banker, began his banking career with Chung Khiaw Bank Limited in 1987. He then served Standard Chartered Bank Malaysia Berhad from 1989 until 2017. During his 28 year career with the bank, he held various management positions, the last being the Head of Shariah and Chief Operating Officer of the Islamic Banking subsidiary. He was responsible for the setting up of the subsidiary in 2008 and was responsible for building the infrastructure to prepare the Bank to fully comply with BNM's Shariah Governance Framework and the requirements laid down in IFSA 2013. He is an expert in Islamic banking products and operational requirements. He holds a B.Sc. Finance and MBA (Finance), both from California State University Fresno, USA. In addition, he also obtained a Certificate in Islamic Law, IIUM in 2009. Currently, En. Mohd Nasiruddin is pursuing his doctoral degree in Islamic banking.

PROFILE OF GROUP PRESIDENT AND CEO



**Datuk Seri Ahmad
Zaini bin Othman**

Group President and
Chief Executive Officer

Nationality	: Malaysian
Age/Gender	: 61/Male
Date of Appointment	: 26 February 2009
Academic/ Professional Qualification(s)	: Member, CEO Faculty Program, emplaced by Ministry of Higher Education (2016) Faculty member (Industry expert), International Centre for Education in Islamic Finance (INCEIF) Accreditation Panel Member, Asian Institute of Finance for the year (2011) Member, Chartered Institute of Islamic Finance Professionals (CIIF) MBA (Finance), University of St. Louis, USA BSc in Finance, University of Southern Illinois, USA Higher National Diploma (HND) in Accounting, Manchester, England

Working Experience and Occupation

Present Directorship(s)

Listed Entity:

- Nil

Other Public Companies:

- Nil

Present Appointment(s)

- Adjunct Professor, School of Economics, Finance and Banking, UUM College of Business, Universiti Utara Malaysia

Past Directorship(s) and/or Appointment(s)

- CEO of Amlslamic Bank (2004 - 2008)
- Head/Senior General Manager, Corporate Banking for Ambank (1995 - 2004)
- Corporate Director/Senior Group General Manager, Banking & Finance, Perwaja Steel (1993 - 1995)
- Head of Corporate Finance, Intradagang Merchant Bankers (1988 - 1993)
- Head of Corporate Banking, Syndications and Project Finance, Bumiputra Merchant Bankers (1984 - 1988)

Achievement

- Asia Pacific Outstanding Entrepreneurship Award 2014 from the Enterprise Asia

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB
- He has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

MANAGEMENT TEAM : MBSB

01. Tang Yow Sai 02. Datuk Seri Ahmad Zaini bin Othman 03. Lim Seong Soon



04. Tengku Khalizul Bin Tengku Khalid 05. Aniza Binti Zakaria



MANAGEMENT TEAM : MBSB BANK

01. Risham Akashah Kamaruzaman 02. Datuk Nor Azam Bin M. Taib
03. Asrul Hazli Bin Salleh 04. Lim Seong Soon 05. Azlina Binti Mohd Rashad



01. Mohd Azri Bin Mohd Nawi 02. Tengku Khalizul Bin Tengku Khalid
03. Ho Sin Kheong 04. Aniza Binti Zakaria 05. Tang Yow Sai



PROFILE OF MANAGEMENT TEAM : MBSB BANK

Datuk Nor Azam Bin M. Taib
Chief Business Officer, Business Division

Asrul Hazli Bin Salleh
Chief Operations Officer, Operations Division

Tang Yow Sai
Chief Financial Officer, Finance Division

Ho Sin Kheong
Chief Information Officer, Information Technology Division

Azlina Binti Mohd Rashad
Chief Corporate Officer, Corporate Services Division

Lim Seong Soon
Chief Risk Officer, Risk Management Division

Tengku Khalizul Bin Tengku Khalid
Chief Compliance Officer, Compliance Division

Aniza Binti Zakaria
Chief Internal Auditor, Internal Audit Division

Risham Akashah Bin Kamaruzaman
Chief Digital Officer, Digital Initiatives Division

Mohd Azri Bin Mohd Nawi
Chief People Officer, People Operations Division

01 Datuk Nor Azam Bin M. Taib

Aged 50, Malaysian
Chief Business Officer, Business Division

Appointment to current position

7 February 2018

Committee memberships

- Management Committee (MANCO)
- Asset and Liability Committee (ALCO)
- IT Steering Committee (ITSC)
- Initial Alert Report Committee (IAR)

Qualifications

- Master of Business Administration, Charles Stuart University, Australia
- Bachelor of Science in Accounting, University of Wyoming, USA
- Certified Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)
- Intermediate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)
- Associate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)

Skills and experience

Datuk Nor Azam has more than 25 years of experience in banking and finance sector in the areas of auditing, structured lending, business banking and corporate business. He joined MBSB on 8 November 2010 as General Manager, heading the Corporate Business Division which main function is to provide a comprehensive financial solution to corporate and institutional clients. The team is tasked to capitalise on business opportunities in property development, plantation and equipment financing, as well as corporate cash management.

Datuk Nor Azam held the position of General Manager, Head of Business Banking in Bank Islam (M) Berhad before joining MBSB.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

02 Asrul Hazli Bin Salleh

Aged 40, Malaysian
Chief Operations Officer, Operations Division

Appointment to current position

7 February 2018

Committee memberships

- Credit and Rehabilitation Assessment committee/Management Investment & Credit Committee (CARAC/MICC)
- Management Committee (MANCO)
- Asset and Liability Committee (ALCO)
- Initial Alert Report Committee (IAR)
- IT Steering Committee (ITSC)

Qualifications

- Bachelor of Business Administration (Hons) Finance, University of Technology MARA (UiTM)
- American Degree Program (ADP) Centre of Preparatory Education, University of Technology MARA (UiTM)
- Intermediate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)
- Associate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)

Skills and experience

Asrul Hazli joined MBSB on 1 October 2010 as the Assistant General Manager of Treasury Division bringing with him years of experience and knowledge on treasury and capital market, specialising in liquidity, asset liability and balance sheet management from several financial institutions.

Prior to joining MBSB, Asrul Hazli was the Senior Dealer and Head of ALM & Funding Desk of Treasury and Capital Market Department at Bank Muamalat Malaysia Berhad. He is also a member of Persatuan Pasaran Kewangan Malaysia (PPKM) since 2001.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

PROFILE OF MANAGEMENT TEAM : MBSB BANK

03 Tang Yow Sai
Aged 54, Malaysian
Chief Financial Officer, Finance Division

Appointment to current position

1 October 2010

Committee memberships

- Credit and Rehabilitation Assessment Committee/Management Investment & Credit Committee (CARAC/MICC)
- Management Committee (MANCO)
- Assets and Liabilities Committee (ALCO)
- IT Steering Committee (ITSC)
- Initial Alert Report Committee (IAR)
- Project Steering Committee MFRS 9 (PSC-MFRS 9)
- Sigmaprise Consultative Committee

Qualifications

- Certified Public Accountant from Malaysian Institute of Certified Public Accountants (MICPA)
- Intermediate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)
- Associate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)

Skills and experience

Tang Yow Sai was appointed as MBSB's Chief Financial Officer (CFO) on 1 October 2010. Prior to that, he was the Group Financial Controller, heading the Finance and Information Technology Department. He joined MBSB on 20 December 2004. He has more than 33 years of working experience, where he has held various positions in auditing, corporate finance, finance, business management, strategic planning and consulting services. He is a member of the Malaysian Institute of Certified Public Accountants (MICPA).

Prior to joining MBSB, Tang Yow Sai was the Financial Controller at Tebrau Teguh Berhad and before that, the General Manager, Corporate Finance at Ekran Berhad.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

04 Ho Sin Kheong
Aged 63, Malaysian
Chief Information Officer, Information Technology Division

Appointment to current position

24 January 2017

Committee memberships

- Management Committee (MANCO)
- IT Steering Committee (ITSC)

Qualifications

- Master of Science in Computer Science, University Sains Malaysia
- Bachelor of Science with Education (Hons), Universiti Pertanian Malaysia

Skills and experience

Ho Sin Kheong holds a solid career track record in the field of Information Technology (IT). With over 30 years of experience, specialising in the banking and financial institution sector, his responsibilities as Chief Information Officer include designing and implementing MBSB's IT strategic plans, developing the internal capabilities as well as upgrading the technology infrastructure to its optimal performance.

His previous employment was as Group Chief Information Officer at RHB Banking Group for 6 years. In 2011 he received the CIO Asean Award in Hanoi for his contribution to the "Easy by RHB" project.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

05 Azlina Binti Mohd Rashad

Aged 45, Malaysian
Chief Corporate Officer, Corporate Services Division

Appointment to current position

7 February 2018

Committee memberships

- Credit and Rehabilitation Assessment Committee/Management Investment & Credit Committee (CARAC/MICC)
- Management Committee (MANCO)
- Asset and Liability Committee (ALCO)
- IT Steering Committee (ITSC)
- Project Steering Committee MFRS 9 (PSC-MFRS 9)

Qualifications

- Bachelor in Accountancy (Hons), University of Northumbria, Newcastle, England
- Diploma in Accountancy, University of Technology MARA (UiTM)
- Certified Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)
- Intermediate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)
- Associate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)

Skills and experience

Azlina joined MBSB on 6 April 2009 as Senior Manager, Transformation Management Office as part of the CEO's Office. Amongst her primary responsibilities then were to develop strategic priorities towards achieving company's goals and ensuring the successful implementation of MBSB's transformation program.

Her attachment in the financial sector spanned over 17 years with previous employment at Amlslamic Bank, heading Business Management function. Azlina also plays a key role in establishing MBSB's brand and image as a full fledged Islamic financial institution in the industry.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, she has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

06 Lim Seong Soon

Aged 56, Malaysian
Chief Risk Officer, Risk Management Division

Appointment to current position

20 May 2013

Committee memberships

- Asset and Liability Committee (ALCO)
- Initial Alert Report Committee (IAR)
- IT Steering Committee (ITSC)
- Project Steering Committee MFRS 9 (PSC-MFRS 9)

Qualifications

- Master of Business Administration (Finance), University of Kansas, USA
- Bachelor of Business Administration (Finance), University of Oklahoma, USA
- Associate Qualification in Islamic Finance, Islamic Banking and Finance Institute Malaysia (IBFIM)

Skills and experience

Lim Seong Soon joined MBSB on 20 May 2013 as the Chief Risk Officer, in charge of the management, supervision and direction of MBSB's risk management activities. He has 29 years of extensive experience in the banking industry and was previously attached with major financial institutions in Malaysia.

Lim Seong Soon was the General Manager/Head of Risk Management at Bank of China (Malaysia) Berhad before joining MBSB where he held various positions within the bank including Chairman for the Credit & Loans Committee (C&LC), Vice Chairman of the Risk Management and Internal Control Committee (RMICC), Secretary of the Board Risk Committee and Coordinator of the Business Continuity Management.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

PROFILE OF MANAGEMENT TEAM : MBSB BANK

07 **Tengku Khalizul Bin Tengku Khalid** Aged 43, Malaysian *Chief Compliance Officer, Compliance Division*

Appointment to current position

7 February 2018

Committee memberships

Project Steering Committee MFRS 9 (PSC-MFRS 9)

Qualifications

- Bachelor of Science in Business Administration (Finance), Northern Arizona University, USA
- Certificate in Internal Auditing for Financial Institutions (CIAFIN), Asian Institute of Chartered Bankers (AICB)
- Certificate in Regulatory Compliance, Asian Institute of Chartered Bankers (AICB)
- Associate Qualification in Islamic Finance (AQIF), Islamic Banking and Finance Institute Malaysia (IBFIM)

Skills and experience

Tengku Khalizul joined MBSB as Senior Manager on 5 May 2014. Heading the Compliance Division, he is responsible in coordinating the identification and management of compliance risk in the organisation.

Tengku Khalizul's statutory responsibilities in MBSB include AML/CFT Compliance Officer, FATCA Officer and PDPA Officer. Previously he was Manager, Internal Audit Department at Kuwait Finance House (Malaysia) Berhad.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

08 **Aniza Binti Zakaria** Aged 44, Malaysian *Chief Internal Auditor, Internal Audit Division*

Appointment to current position

1 January 2017

Committee memberships

Secretary for Audit Committee

Qualifications

- Bachelor of Science in Finance & Management, University of Oregon, USA
- Professional Certificate in Islamic Banking, INCEIF – The Global University of Islamic Finance
- Shariah Audit Certificate – Universiti Sains Islam Malaysia (USIM)
- Certificate in Internal Auditing for Financial Institutions – Asian Institute of Chartered Bankers

Skills and experience

Aniza began her employment at MBSB on 13 August 2014 as Assistant Vice President, Internal Audit Division. She has acquired 19 years of industry experience from several banking institutions in Malaysia. On 1 January 2017, she was then appointed as Chief Internal Auditor for MBSB. Her major responsibilities are to develop, establish and administer the organisation's overall risk-based audit plan and provide independent and objective assurance to value-add and improve MBSB's risk management, internal control and governance processes.

Prior to joining MBSB, Aniza was a Senior Manager of Internal Audit Division at Kuwait Finance House Malaysia Berhad. Aniza is also an Associate Member of The Institute of Internal Auditors Malaysia (IIAM) and Senior Associate Member of Chartered Institute of Islamic Finance Professionals.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, she has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

09 Risham Akashah Bin Kamaruzaman

Aged 45, Malaysian
Chief Digital Officer, Digital Initiatives Division

Appointment to current position

8 January 2018

Committee memberships

- Credit and Rehabilitation Assessment Committee/Management Investment & Credit Committee (CARAC/MICC)
- Management Committee (MANCO)
- Asset and Liability Committee (ALCO)
- IT Steering Committee (ITSC)

Qualifications

- Bachelor in Electrical and Electronics Engineering, California State University-Chico, USA
- American Degree Program, University of Technology MARA (UiTM), Kuantan

Skills and experience

Risham Akashah joined MBSB on 8 January 2018 as Chief Digital Officer, Digital Initiatives Division. A trained Electrical/Electronics engineer, Risham Akashah's working experience ranges from software development to managing IT teams across industries, including oil & gas, broadcasting, telecommunications and banking. Prior to joining MBSB, Risham Akashah has held various positions in Maybank Group since 2010 with postings to Indonesia and the Philippines. In 2017, his team won awards for best IT team and IT manager for local private bank sector segment in Indonesia. With over 20 years of related working experience, he is now spearheading this newly established division which focuses on areas such as digital customer experience, innovation, FinTech, data & analytics.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

10 Mohd Azri Bin Mohd Nawi

Aged 44, Malaysian
Chief People Officer, People Operations Division

Appointment to current position

27 February 2018

Committee memberships

Management Committee (MANCO)

Qualifications

- Bachelor of Economics with Minor in Business Administration (Hons), International Islamic University Malaysia
- HR Leadership Program, IMD Business School

Skills and experience

Mohd Azri is a Human Resources practitioner with over 20 years' experience across a spectrum of industries, specialisations, coverage and geographies. He joined MBSB on 28 August 2017 as the Vice President of People Operations Division. Prior to joining MBSB, his experience in Colgate-Palmolive, Royal Dutch Shell, General Electric and CIMB included a broad coverage in the areas of compensation and benefits, talent and performance management, learning and development, industrial & employee relations, organisational design and HR Business Partnering. At MBSB, Mohd Azri drives the overall strategic people agenda of the Company, whilst advocating the adoption of industry HR best practices.

Declaration

- No family relationship with any director and major shareholders of MBSB
- No conflict of interest with MBSB and its subsidiaries
- Other than traffic offences, he has not been convicted for any offences within the past 5 years and has not been imposed of any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 December 2017

MBSB BANK VALUES AND VISION



OUR CORE VALUES

- Humility
- Ethics
- Passion
- Professionalism
- Empathy



OUR VISION

To be a top progressive
Islamic Bank

MBSB BANK BRANCHES

CENTRAL REGION

DAMANSARA

Ground Floor, Wisma MBSB,
48, Jalan Dungun,
Damansara Heights,
50490 Kuala Lumpur.
Tel. No. 03-20963333
Fax No. 03-20963376

KUALA LUMPUR

No. 8, Wisma RKT,
Jalan Raja Abdullah,
Off Jalan Sultan Ismail,
50300 Kuala Lumpur.
Tel. No. 03-26912689
Fax No. 03-26912830

PETALING JAYA

No. 3, Jalan 52/16,
46200 Petaling Jaya,
Selangor.
Tel. No. 03-79569200
Fax No. 03-79569627

KLANG

33, Jalan Tiara 3,
Bandar Baru Klang,
41150 Klang, Selangor.
Tel. No. 03-33426822
Fax No. 03-33411410

BATU CAVES

Lot 1-0, Jalan SM1,
Taman Sunway Batu Caves,
68100 Batu Caves, Selangor.
Tel. No. 03-61777956
Fax No. 03-61772404

CHERAS

185, Jalan Sarjana,
Taman Connaught,
56000 Cheras, Kuala Lumpur.
Tel. No. 03-91322955
Fax No. 03-91322954

BANDAR BARU BANGI

No. 49, Jalan Medan Pusat 2D,
Seksyen 9,
43650 Bandar Baru Bangi,
Selangor.
Tel. No. 03-89257584
Fax No. 03-89257708

PUCHONG

1-G-1, Ground Floor,
Tower 1 @ PFCC,
Jalan Puteri 1/2, Bandar Puteri,
47100 Puchong, Selangor.
Tel. No. 03-80635208
Fax No. 03-80635867

SHAH ALAM

No. 21, Jalan Plumbum R7/R,
Seksyen 7,
40000 Shah Alam, Selangor.
Tel. No. 03-55105075
Fax No. 03-55104144

KELANA JAYA

A-11-1 & A-11-2, Blok A,
Plaza Glomac,
Jalan SS7/19, Kelana Jaya,
47301 Petaling Jaya, Selangor.
Tel. No. 03-78830089
Fax No. 03-78830120

PUTRAJAYA

No. 30, Jalan Diplomatik 3/1,
Presint 15,
62000 Putrajaya.
Tel. No. 03-88810569
Fax No. 03-88810572

WANGSA MAJU

Ground Floor,
No. 52, Jalan Wangsa Delima 6,
Pusat Bandar Wangsa Maju,
53300 Kuala Lumpur.
Tel. No. 03-41421292
Fax No. 03-41421269

KAJANG

No. 2A-G, Jalan Semenyih,
Pekan Kajang,
43000 Kajang, Selangor.
Tel. No. 03-87301521
Fax No. 03-87401436

JALAN SULTAN ISMAIL

Ground Floor, Podium Block,
Kenanga International,
Jalan Sultan Ismail,
50250 Kuala Lumpur.
Tel. No. 03-20791144
Fax No. 03-20791100

NORTHERN REGION

PENANG

No. W-00 Ground Floor,
Wisma Penang Garden,
No. 42, Jalan Sultan Ahmad Shah,
10050 Pulau Pinang.
Tel. No. 04-2266275
Fax No. 04-2286275

ALOR SETAR

1578, Jalan Kota,
05000 Alor Setar, Kedah.
Tel. No. 04-7314655
Fax No. 04-7317996

KANGAR

No. 35, Jalan Seruling,
01000 Kangar, Perlis.
Tel. No. 04-9766400
Fax No. 04-9774141

MBSB BANK BRANCHES

SUNGAI PETANI

No. 114, Jalan Pengkalan,
Taman Pekan Baru,
08000 Sungai Petani, Kedah.
Tel. No. 04-4229302
Fax No. 04-4212046

BUTTERWORTH

No. 2783, Jalan Chain Ferry,
Taman Inderawasih,
13600 Perai, Pulau Pinang.
Tel. No. 04-3980145
Fax No. 04-3980898

KULIM

No. 26, Jalan Raya,
09000 Kulim, Kedah.
Tel. No. 04-4951400
Fax No. 04-4904400

LANGKAWI

No. 26 & 28,
Jalan Pandak Mayah 4,
Pusat Bandar Kuah,
07000 Langkawi, Kedah.
Tel. No. 04-9666055
Fax No. 04-9669055

PERAK REGION

IPOH

No. 45, Persiaran Greenhill,
30450 Ipoh, Perak.
Tel. No. 05-2545659
Fax No. 05-2544748

TAIPING

No. 1, Lot 10958,
Jalan Saujana,
Taman Saujana 3,
34600 Kamunting, Perak.
Tel. No. 05-8074000
Fax No. 05-8041444

SITIAWAN

Ground Floor,
No. 35, Persiaran PM 3/2,
Pusat Bandar Sri Manjung,
Seksyen 3,
32040 Sri Manjung, Perak.
Tel. No. 05-6882700
Fax No. 05-6882703

SOUTHERN REGION

MELAKA

No. 203 & 204,
Jalan Melaka Raya 1,
Taman Melaka Raya,
75000 Melaka.
Tel. No. 06-2828255
Fax No. 06-2847270

JOHOR BAHRU

1st & 2nd Floor, Bangunan KWSP,
Jalan Dato' Dalam,
80000 Johor Bahru, Johor.
Tel. No. 07-2238977
Fax No. 07-2240143

SEREMBAN

No. S-1, Kompleks Negeri,
Jalan Dato' Bandar Tunggal,
70000 Seremban,
Negeri Sembilan.
Tel. No. 06-7638455
Fax No. 06-7630701

TEBRAU

No. 17 & 17-1,
Jalan Mutiara Emas 9/3,
Austin Boulevard,
Taman Mount Austin,
81100 Johor Bahru, Johor.
Tel. No. 07-3581700
Fax No. 07-3581703

BATU PAHAT

No. 28 & 29,
Jalan Persiaran Flora Utama,
Taman Flora Utama,
83000 Batu Pahat, Johor.
Tel. No. 07-4316614
Fax No. 07-4317382

MUAR

No. 30A-2,
Jalan Arab,
84000 Muar, Johor.
Tel. No. 06-9532000
Fax No. 06-9533200

KLUANG

No. 6, Lot 9053,
Jalan Hj Manan,
86000 Kluang, Johor.
Tel. No. 07-7717585
Fax No. 07-7726572

KULAI

19, Jalan Sri Putra,
Bandar Putra,
81000 Kulai, Johor.
Tel. No. 07-6633458
Fax No. 07-6633284

TAMAN MOLEK

No. 65 & 65A,
Jalan Molek 2/4,
Taman Molek,
81100 Johor Bahru, Johor.
Tel. No. 07-3542240
Fax No. 07-3542241

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EAST COAST REGION

KEMAMAN

K-10723, Taman Chukai Utama,
 Fasa 4, Jalan Kubang Kurus,
 24000 Kemaman,
 Terengganu.
 Tel. No. 09-8589486
 Fax No. 09-8589291

KUALA TERENGGANU

No. 1A, Jalan Air Jernih,
 20300 Kuala Terengganu,
 Terengganu.
 Tel. No. 09-6227844
 Fax No. 09-6220744

KUANTAN

No. A157 & A159, Sri Dagangan,
 Jalan Tun Ismail,
 25000 Kuantan, Pahang.
 Tel. No. 09-5157677
 Fax No. 09-5145060

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SABAH REGION

KOTA KINABALU

Lot 11 & 12, Ground Floor,
 Block C, Lintasjaya Uptownship,
 88300 Kota Kinabalu, Sabah.
 Tel. No. 088-722500
 Fax No. 088-713503

SANDAKAN

Lot 201,
 Prima Square,
 Phase 3, Jalan Utara,
 90000 Sandakan, Sabah.
 Tel. No. 089-223400
 Fax No. 088-223544

TAWAU

Ground Floor,
 TB 15590, Block B,
 Lot 45, Kubota Square,
 91000 Tawau, Sabah.
 Tel. No. 089-755400
 Fax No. 089-749400

KENINGAU

Ground Floor, Lot No. 7,
 Block A, Keningau Plaza,
 89000 Keningau, Sabah.
 Tel. No. 087-337611
 Fax No. 087-337617

KOTA KINABALU MAIN

Lot 144, Q6 Block Q,
 Lorong Plaza Permai 1,
 Alamesra-Sulaman Coastal Highway,
 88450 Kota Kinabalu, Sabah.
 Tel. No. 088-485680
 Fax No. 088-485620

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SARAWAK REGION

KUCHING

Tingkat Bawah & Satu,
 Bangunan Tunku Muhammad Al-Idrus,
 439, Jalan Kulas Utara 1,
 93400 Kuching, Sarawak.
 Tel. No. 082-248240
 Fax No. 082-248611

MIRI

No. 1115, Ground Floor,
 Pelita Commercial Centre,
 98000 Miri, Sarawak.
 Tel. No. 085-424400
 Fax No. 085-424141

SIBU

Ground Floor,
 SL 166 Lorong Pahlawan 7B3,
 Jalan Pahlawan,
 96000 Sibu, Sarawak.
 Tel. No. 084-210703
 Fax No. 084-210714

BINTULU

No. 1, Ground Floor,
 Jalan Tun Ahmad Zaidi/Jalan Kamar
 Bubin,
 97000 Bintulu, Sarawak.
 Tel. No. 086-336400
 Fax No. 086-339400

MUKAH

Ground Floor,
 Sub Lot 77, Lot 927,
 New Mukah Town Centre,
 Jalan Green, Block 68,
 96400 Mukah, Sarawak.
 Tel. No. 084-874262
 Fax No. 084-874259

MANAGEMENT DISCUSSION AND ANALYSIS



STRATEGIC REVIEW

“THROUGH THE YEARS, WE’VE ESTABLISHED OURSELVES AS A TRUSTED FINANCIAL PARTNER TO OUR CUSTOMERS. THE NEXT STEP OF GROWTH WOULD BE TO SECURE A BANKING LICENSE AND BECOME A FULL-FLEDGED ISLAMIC BANK.”

OUR JOURNEY IN 2017 TOWARDS BECOMING A PROGRESSIVE ISLAMIC BANK

BECOMING A FULL-FLEDGED ISLAMIC BANK

Starting its life as the Federal and Colonial Building Society Limited in 1950, MBSB has successfully grown from an exempt finance company to a Financial Holding Company of a full fledged islamic bank in Malaysia. Through the years, we’ve established ourselves as a trusted financial partner to our customers. The next step of growth would be to secure a banking license and become a full-fledged islamic bank, enabling us to provide new financial services and to access new customer segments.

In line with this, MBSB has successfully acquired Asian Finance Bank (AFB) for RM644.95 million through a combination of cash and new MBSB shares. This follows two series of merger talks in the past four years. Talks for a possible CIMB, RHB and MBSB merger were called off in January 2015 due to unfavourable economic conditions and the inability to arrive at a value-creating transaction for all stakeholders. In February 2016, negotiations for a possible merger with Bank Muamalat was ended as an agreement on terms and conditions was not reached.

The acquisition of AFB has resulted in MBSB becoming the Financial Holding Company of AFB, which entailed for an acquisition of 532,530,020 AFB shares, representing 100% equity interest in AFB for an aggregate purchase consideration of RM644,952,807.66 to be satisfied through a combination of the Cash Consideration and Consideration Shares. This acquisition has enabled AFB to emerge as the second largest full-fledged Islamic bank in Malaysia.

STRATEGIC REVIEW

AFB was rebranded as MBSB Bank on 2 April 2018 and is now in the position to offer an end to end proposition of Islamic banking products and services such as trade facilities, investment advisory services and wealth management products as well as expand our banking services to small and medium enterprises.

Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
<p>Q1 net profit nearly tripled to RM101.32 million from RM34.84 million a year ago, owing to higher gross loans and lower cost of funds</p> <p>Quarterly revenue came in with a 0.17% drop to RM811.2 million from RM812.63 million a year ago, due to lower financing income from the retail segment and lower income from investments in liquid assets</p> <p>Cost-to-income ratio improved to 19.72% from 22.15% previously, noted to be considerably better than the industry's average of 49.5%</p> <p>NPL continued to show a positive trend, mainly due to efforts in early detection and effective monitoring of accounts</p>	<p>Submitted an application to Bank Negara Malaysia for approval of proposed merger with Asian Finance Bank, within stipulated 6 months</p> <p>Net profit for Q2 rose 44.55% to RM91.08 million, from RM63.01 million in the same period last year. This was mainly due to higher net operating income and lower allowances for impairment losses on loans, advances and financing</p> <p>Group revenue increased 0.11% to RM813.42 million from RM812.52 million a year ago</p>	<p>Received Bank Negara Malaysia and the Finance Ministry's approval for proposed merger with Asian Finance Bank</p> <p>Net profit surged 73.9% to RM100.74 million in Q3 from RM57.93 million a year ago, on lower allowance for loan impairment and lower cost of funds</p> <p>Quarterly revenue slipped 1.6% to RM816.87 million from RM830.25 million</p> <p>Earnings per share rose to 1.7 sen from 1.18 sen</p> <p>Upward trend in gross financing, loans and advances attributed to the expansion in corporate and property financing, which has helped to partly offset the contraction in the retail segment</p>	<p>On 7 November, MBSB entered into a conditional share purchase agreement with all four shareholders of AFB, ie: Qatar Islamic Bank, RUSD Investment Bank Inc, Financial Assets Bahrain WLL and Tadhamon International Islamic Bank</p> <p>Q4 net profit more than doubled to RM123.98 million versus RM45.64 million in previous corresponding period, driven by higher operating profit and lower allowances for impairment losses on loans, advances and financing</p> <p>Revenue remained flat at RM818.27 million compared with RM819.4 million in the same quarter a year ago</p>	<p>On 7 February 2018, AFB became a legally and wholly owned subsidiary of MBSB and be part of the MBSB Group</p>	<p>AFB undertook a rebranding exercise and on 2 April 2018 it changed its name to MBSB Bank</p>



DIGITAL AS OUR WAY FORWARD

In line with MBSB's aspiration to embark on a banking platform, MBSB had continuously strive in strengthening its banking capabilities. With the acquisition of AFB, MBSB Bank shall now be able to take it further.

In 2017, MBSB made strides in paving our digital roadmap for the next few years. The first phase on our SMART project has gone live in its objective of providing better data management and insight. This year, we also upgraded our customer care call system and retail collection system. Steps have also been initiated to provide end-to-end online banking services, from application to completion of transactions, in line with simpler transactions and faster turnaround times.

Investments have been committed towards acquiring and enhancing systems that will enable us to improve business and operations, and senior positions have been brought on board on our digital team.

- MBSB's Data Management Office has been set up for organisation-wide data analytics and data governance
- First phase of the SMART Project has been completed with our Big Data Platform Go-Live in November 2017
- Three senior management level posts were created to increase our internal capabilities
- A quarter of a billion ringgit has been set aside as our commitment to innovation and technology in MBSB
- Five key areas have been identified to support the business plan moving forward:
 - Data Warehouse and Business Intelligence
 - Essential Banking Services
 - Digital Distribution Capabilities
 - Online Interface with EPF
 - Digitalised STP



FULFILLING MAQASID AL-SHARIAH

After stating our ambitions to become a fully Islamic financial institution, MBSB has steadily progressed towards this goal year-on-year. This year, this goal was brought much closer with the acquisition of AFB. This will create the country's second-largest standalone Islamic bank and only the third listed entity in the market.

Along these lines, the Shariah Advisory Council and Shariah Governance Structure ensures the rightful execution of all our decisions. Conversion of our assets are on track and training in Islamic finance for our internal staff is in full swing. We are also building our internal capabilities and certification in Shariah Audit.

- Purely Islamic assets since 2013
- More than 90% of asset portfolio is Islamic
- Conversion strategy is on track towards becoming a 100% Islamic Financial Institution
- 69% of employees have undergone the Basic Islamic and Shariah Awareness training; 31% of employees are fully certified in Shariah certification
- Key guiding principles for our conversions are that:
 - The proposed conversion plan shall be Shariah compliant
 - There will be no disadvantage to the customers
 - It will be a seamless conversion
 - There will be no costs to customers on the conversion (all costs will be borne by MBSB)
 - The balance principal amount of the conventional account will be the new financing amount
 - The remaining tenor, instalment amount and profit rate shall remain the same

STRATEGIC REVIEW

SUSTAINABILITY AT OUR CORE

MBSB has had an interesting year progressing our sustainability agenda through our second year of implementation. In 2017, internally, we have successfully achieved a higher level of awareness, comprehension and adoption of our Sustainability efforts. This has been portrayed by a variety of initiatives across the organisation. For this coming year, we will be striving to incorporate our Sustainability efforts and measurements more closely into our core business to increase the focus and monitoring of all initiatives across the organisation. (Refer to page 103).

SUSTAINABILITY STRATEGY

PROGRESS FOR ALL

“BUILDING MALAYSIA”

Help Malaysians build a sustainable and superior financial position
 Help Malaysia’s economic growth by supporting local businesses

OUR CORE VALUES



Humility



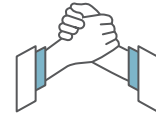
Professionalism



Ethics



Empathy



Passion

OUR INTEGRITY

Upholding Trust

OUR PEOPLE

Developing Champions

OUR CUSTOMERS

Enhancing Lives

OUR PRODUCTS

Shared Value

OUR TECHNOLOGY

Transforming Digitally

OUR COMMUNITIES

Advancing Communities

OUR PLANET

Thriving Globally

PROFIT

PEOPLE

PLANET

MATERIAL MATTERS

INTEGRITY AND GOVERNANCE

Integrity is the cornerstone of what MBSB stands for. We hold the trust of our employees, customers, shareholders and communities in the utmost importance, and strive to uphold our nation's building industry with integrity and good governance. This has been ranked as the most important matter by both our internal and external set of stakeholders.

PEOPLE ENGAGEMENT AND DEVELOPMENT

Here at MBSB, we strive to build together with our employees a sense of purpose of our work. We consistently highlight our impact in the communities we serve – be it a first-time homeowner stepping into their affordable home or a public sector employee realising that their take-home pay can afford more than they thought it could. This has developed a close-knit culture which we will continue to nurture post-merger. Our turnover rates has seen a declining trend in the last 3 years.

CUSTOMER EXPERIENCE AND SATISFACTION

This year at MBSB, customer experience and satisfaction has progressed significantly in our efforts to understand the needs and issues of our customers. This has been apparent in both the front-line responses and logs, as well as the back-end data analysis of possible business improvements and optimisation.

RESPONSIBLE FINANCE IN INNOVATIVE PRODUCTS AND SERVICES

In 2017, in line with our focus on responsible finance, we increased our focus into the affordable housing segment, SME equipment financing and green financing. We are also proud to report that we have significantly increased our portfolio supporting micro-enterprises.

DIGITAL TRANSFORMATION

The way that consumers relate to financial services continues to evolve quickly and here at MBSB, we are working hard to ensure that our customers can find the most relatable and easiest way to engage with us. Our digital channels need to provide the customer with a seamless and rewarding experience that meets their needs and enhances their lives.

COMMUNITY ADVANCEMENT

Apart from aiming to excel in its corporate achievements, MBSB plays an active role in inculcating societal wellbeing in the community. MSBS's Corporate Social Responsibility (CSR) programmes are designed extensively and creatively in order to bring impactful long-term benefit to all.

ENVIRONMENTAL PROTECTION

As a financial institution, MBSB believes that one of our biggest contributions towards environmental protection is in our choice of projects to finance. We have consciously expanded our Green Financing portfolio and will be continuing to do so in the coming year.

STRATEGIC REVIEW

MBSB BANK : WHAT'S AHEAD FOR 2018 AND BEYOND

In 2018, MBSB Bank will be focusing on the complete experience of its customers. This encompasses all touch points and value-added services it can provide its customers, via existing as well as new digital channels. Technology will also help MBSB Bank ascertain the correct support and offerings needed to better uplift the financial standing of its customers. MBSB Bank will also be focusing on aligning all its internal efforts and decisions towards enhancing its customers' experience and well-being.

“CUSTOMERS’ EXPERIENCE AND WELL-BEING GUIDE OUR ACTIONS.”



CONSCIOUS LEADERSHIP AND ENGAGED EMPLOYEES



MBSB Bank strongly believe that customers’ experience begins with leadership and employees being aligned to their direction and goals.

MBSB Bank strives to build a customer-centric approach by ingraining an awareness of the overall impact to society and the environment.

Develop a strong understanding of Islamic banking and finance across MBSB Bank

Identify key curriculum areas within Islamic banking and finance crucial for the employees and explore methods of delivery

Strategise branch network

Optimise branch network strategy in line with future market positions, and enhance systems and processes

Introduce call centre support for business and consumer banking

Align internal culture, knowledge and processes to provide the best support, systems and processes to our customers

STRATEGIC REVIEW

RESPONSIBLE CUSTOMER OFFERINGS



MBSB Bank is committed to introducing products and services that will continue to enhance the livelihood of its customers. This will be inline with its Shariah guiding principles and the bank's core values.

Introduce trade finance offerings

Identify existing and new customers' trade finance requirements for solutions. Provide training and review processes for increased ease and convenience

Enhanced loan and financing processes

Enhance systems, streamline account origination procedures and train for support

Added focus on Shariah-based product

Identify Shariah-based technical requirements and determine most effective and efficient method to build a Shariah-based solutions and resources

**Collaborate with
wealth product
providers**

Identify wealth management needs across customer segments and determine optimum product mix

**Enhanced
responsible
recovery
management**

Enhance processes to enable functionalities such as early warning and prediction of default, debt collection management, activities tracking, and touch point management

**Enhance treasury
management function**

Assess current systems and determine areas of improvement

**Enhanced product
flexibility and
bundling**

Identify product bundling opportunities, review governance processes to drive efficient decisioning and enhance core systems to support

**Enhanced
flexibility and
speed in product
introduction**

Identify areas of improvement in product manufacturing processes to improve speed and flexibility, and system enhancements required

STRATEGIC REVIEW

INSIGHTFUL CUSTOMER INTELLIGENCE



Customers today are bombarded and distracted by a plethora of information.

Timely, accurate customer intelligence is critical to better serve their needs.

Understand customers through knowledge, analytics and segmentation

Design, implement, test and roll out an Enterprise Data Warehouse (EDW) and Business Intelligence (BI) solution

Provide value-add product cross-sell

Build customer segmentation framework based on customer demographics and profiles. Determine or develop product offerings. Build specialised relationship manager teams with relevant experience

Enhance targeted marketing and campaigns

Determine the Marketing and Campaign Management requirements based on business needs

Develop customer 360 degree view

Determine the operational Customer Relationship Management (CRM) requirements based on business needs

PURPOSEFUL TECHNOLOGY



MBSB Bank is building its technology model with the customers being the centre of its design. Society at large needs to benefit from every technological innovation and decision made within the organisation.

Expand network of ATMs across targeted areas

Determine ATM requirements based on our customers' localised needs and enhance our core banking systems to cater to supporting processes

Introduce CDMs in targeted areas

Determine CDM requirements based on our customers' localised needs and enhance core banking systems to cater to supporting processes

Connect to payment gateways

Ensure full connectivity to existing and new technology infrastructure

Design and launch internet and mobile platform

Determine customers' latest needs for design and collaboration of platform

FINANCIAL REVIEW

KEY FINANCIAL ACHIEVEMENTS

In 2017, MBSB Group registered a profit before tax RM550.73 million which is a significant increase of 62.7% compared to financial year ended (“FYE”) 2016 of RM338.42 million. Similarly, the Group profit after tax for 2017 of RM417.13 million also increased significantly by 107.1% as compared to FYE 2016 of 201.41 million. The higher profits were mainly due to lower impairment allowance resulted from better collection efforts and lower funding costs. The higher profits contributed to improved net earnings per share of 7.10 sen in 2017 as compared to FYE 2016 of 4.90 sen with net return on equity increased to 6.0% from 3.48% in 2016.

Total net income for 2017 increased by 5.4% to RM1.48 billion which was due to lower funding costs. Despite a challenging operating environment in 2017, we are able to sustain our income with a 10.0% increase in gross corporate financing and a decline of 6.1% in gross retail financing. Our focus on expanding corporate financing portfolio has undoubtedly contributed positively to the total net income.

	2017	2016	Variance	
	RM Million	RM Million	RM Million	%
Net income from Islamic financing operations	1,131.99	1,132.26	0.27	0.0
Net interest income	320.03	219.83	100.20	45.6
Operating income	1,452.02	1,352.09	99.93	7.4
Net other income	33.38	56.88	(23.50)	(41.3)
Net total income	1,485.40	1,408.97	76.43	5.4
Other operating expenses	(336.06)	(293.28)	(42.78)	(14.6)
Operating profit	1,149.34	1,115.69	33.65	3.0
Allowance for impairment	(598.61)	(777.27)	178.66	23.0
Profit before taxation	550.73	338.42	212.31	62.7
Profit after taxation	417.13	201.41	215.72	107.1
Cost to income ratio	22.6%	20.8%		

Overall Group’s gross financing and loans contracted slightly by 3.1% to RM34.20 billion from FYE 2016 of RM35.28 billion. The contraction was due to decline of the retail portfolio and the pending completion of the sale of personal financing and housing receivables. The proposed receivables for sale have been classified as financial assets held-for-sale. On the gross corporate portfolio, it recorded a growth of 10.0% making retail corporate mix ratio at 79:21 as compared to 2016 mix ratio at 81:19.

	2017		2016		Growth/ (Decline)
	RM Million	Composition	RM Million	Composition	%
Personal financing	21,396.88	62.6%	22,822.21	64.7%	(0.1)
Housing	5,218.49	15.3%	5,479.80	15.5%	(0.1)
Auto finance	281.57	0.8%	334.52	1.0%	(0.2)
Staff financing	43.69	0.1%	48.21	0.1%	(0.1)
Retail	26,940.63	78.8%	28,684.74	81.2%	(6.1)
Corporate	7,260.55	21.2%	6,599.88	18.7%	10.0
Total	34,201.18	100.0%	35,284.62	100.0%	(3.1)

In 2017, total deposits from customers grew by 7.0% to RM32.76 billion from FYE 2016 of RM30.61 billion. There has been intense competition for deposits throughout the year and the growth was achieved with continued support from our depositors.

Asset quality for 2017 has improved by 76 basis points to 2.1% from FYE 2016 of 2.9%. The reduction was mainly due better collection efforts and the proposed sale of receivables mentioned earlier. The financing loss coverage increased to 139.5% from FYE 2016 of 109.2%.

The 2017 Group's cost to income ratio ("CIR") increase to 22.6% from FYE 2016 of 20.8% was due to the merger and salary expenses. It should be noted that 2017 CIR of 22.6% was below the Malaysian banking industry's average CIR of 45.8%.

In 2017, we ended our impairment programme which we started in 4th quarter of 2014 with about RM1.98 billion provided over the course of the three year period.

WHAT LIES AHEAD

The acquisition of the entire equity interest in MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad) ("MBSB Bank") enables the Group to have a full fledged Islamic bank, one of 16 in Malaysia. On 2 April 2018, MBSB, the financial holding company, successfully vested its Shariah compliant assets and liabilities to MBSB Bank. The Shariah compliant assets were at about RM44 billion.

Other than traditional financing activities, MBSB Bank will be doing more on transactional banking services to expand its fee-based income. These services include cash management, payments, trade finance, remittance, debit cards and inter-bank transfer. Internet banking will be offered once the required system infrastructures are in place by end of 2018.

On the traditional financing activities, MBSB Bank intends to have the retail corporate mix ratio to be around 65%:35% (2017: 78%: 22%) by end 2020 via particularly industrial hire purchase and property segments such as end to end financing to developers of affordable homes.

As part of digital transformation journey, MBSB Bank is expected to invest about RM250 million over the 15 to 24 months period to build up its digital capabilities and plan to launch fintech capabilities in partnership with third parties providing better customer banking experience. The big data and data warehouse projects are expected to be completed in 2018 and will provide better analytical insight into customers and the required needs.

All of the above will be supported by MBSB Bank's drive to have strong compliance culture at its top priority.

BUSINESS REVIEW

BUSINESS AT A GLANCE

CORPORATE BUSINESS & WHOLESALE REVIEW

The businesses from both corporate and wholesale have achieved commendable performance for the year 2017. Our highlights for these sectors include:-

- Securing RM5.436 billion of approval as at 31 December 2017. This is the result of our strategic initiatives to focus on supporting affordable housing projects. The bulk of the approval figures were derived from financing affordable homes projects such as Program Perumahan 1Malaysia (PR1MA), Projek Perumahan Penjawat Awam 1Malaysia (PPA1M) and Rumah Wilayah Persekutuan (RUMAWIP), and
- Driving for the disbursement of RM3.565 billion which recorded notable annualised growth in its gross financing of 10.01% and 16.29% for corporate financing and property financing respectively.

In summary, for the year 2017 both businesses have achieved the following critical results:-

- Expanding our market share and becoming the prime financial provider for both small and big scale developers, low and high income earners, and new and existing customers,
- Continuously increasing our contribution towards MBSB's overall profitability, and
- Supporting the government's aspirations of providing homes to low income earners.

RETAIL BUSINESS REVIEW

In retail, our highlight achievements include:-

- Securing RM606 million in mortgages for the year 2017, 45% of which are from residential properties priced below RM500k. This includes a bulk of the affordable housing projects launched in recent years by the government and several of developers.
- Refinancing of existing properties and debt; disbursements captured at RM5.607 billion.
- Recording of fee based income of RM7,200,000 by the Wealth Management Department, stemming from advisory, non advisory and cross selling initiatives. The major contributors are Mortgage Reducing Term Takaful and Group Credit Financing Takaful who collectively contributed 30% of the total fee based income.

DEAL HIGHLIGHTS

RM500 Million Islamic Financing For Telekom Malaysia's SMEs

MBSB will be collaborating with Telekom Malaysia Berhad (TM) for MBSB to offer its Islamic financing facilities under the "TM Vendor Financing Scheme".

Under the financing scheme, TM's vendors will be able to enjoy competitive rate based on Base Lending Rate (BLR) and they can apply for the financial facilities at the Letter of Intent (LOI) stage in the procurement process, as compared to the usual requirement where applications can only be made at the Letter of Award (LOA) stage. As the scheme was aimed at assisting the vendors in terms of financial aspect, the total value of financing under this special scheme is up to 80% of the contract value offered by TM.

On the collaboration, Datuk Seri Ahmad Zaini Othman, President and Chief Executive Officer of MBSB commented, "I am confident that it will continuously enable TM to further improve its entire vendors' ecosystem through increased efficiency and economies of scale, as well as giving them the opportunity to expand their business whilst becoming resilient, competitive and sustainable SME contractors."

RM247 Million Islamic Financing For Solar Farm In Seremban

MBSB will be financing up to RM247 million to partly finance the engineering, procurement, construction and commissioning of a solar farm in its agreement with Solar Management (Seremban) Sdn Bhd (SMS). The Islamic financing facility consists of RM19.0 million of Performance Guarantee-i under the Kafalah concept and RM228.0 million of Term Financing with the sub limit of RM137.0 million of Letter of Credit under the Tawarruq and Kafalah concept respectively. SMS will design, construct, own, operate and maintain a solar photovoltaic energy generating facility. The project located in Rembau, Negeri Sembilan is expected to complete by 30 November 2018.

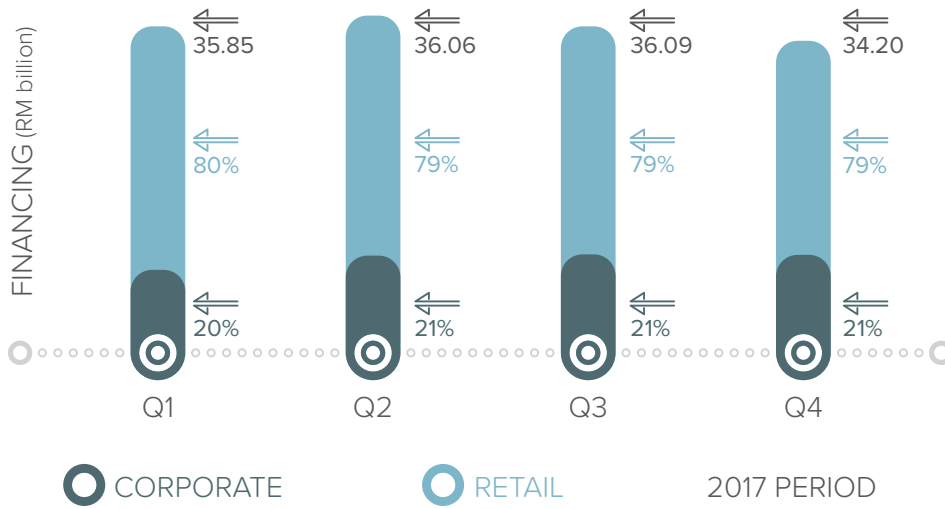
This exciting project marks MBSB's inaugural financing of a solar farm, bringing it closer to its sustainability objectives. "By supporting carbon emission reduction initiatives such as this, it is a testament of our responsibility towards the environment and our commitment to serve the nation and communities in a sustainable manner" added Datuk Seri Ahmad Zaini.

The project will also help elevate the economic growth by providing job opportunities to the local community and business prospects to small medium enterprises (SME's). "We look forward to continuously engage and learn from our stakeholders, developing our business together and upholding our responsibilities towards a sustainable growth in the years to come" concluded Datuk Seri Ahmad Zaini.

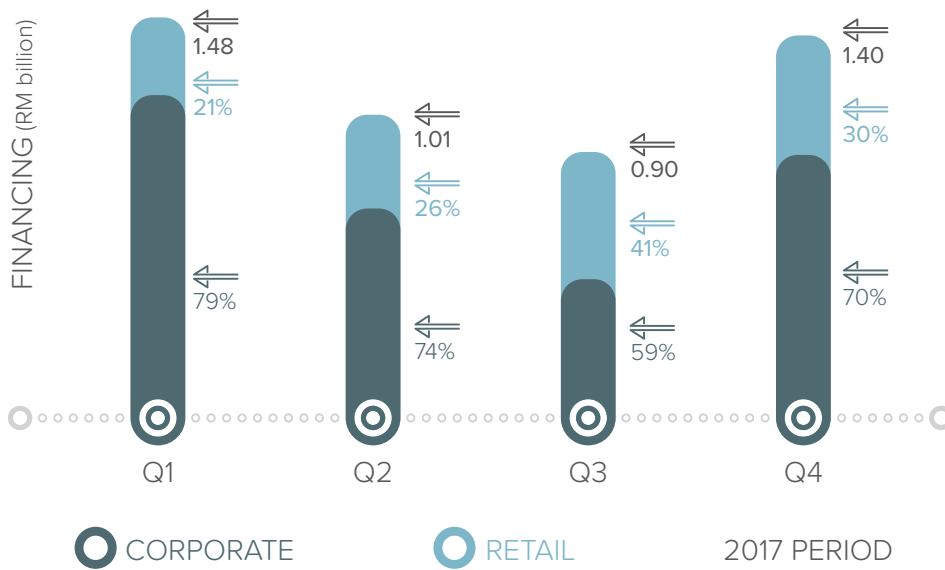


BUSINESS REVIEW

GROSS FINANCING, LOANS AND ADVANCES (CORPORATE/RETAIL)



TOTAL DISBURSEMENT (CORPORATE/RETAIL)



RISK REVIEW

RISK OVERSIGHT AND GOVERNANCE

Globally and locally, financial institutions are participating in an environment of increased regulatory and compliance requirements. Consumers are increasingly well-informed and critical of preventable errors and inappropriate business practices. With these encouraging transformations in risk management in the financial sector, we continue to strive to provide the best balance and protection for our stakeholders.

MBSB takes seriously our overall responsibility to manage risk and recognises the importance of maintaining a sound system of risk management and internal control and reviewing its adequacy and integrity so as to safeguard shareholders' investments and the Group's assets. As such, we have established comprehensive risk management policies, processes and infrastructure to ensure that all risks are well managed within MBSB's risk appetite.

The Group has established guiding principles which form the basis and foundation for clear accountability and responsibility for effective risk management governance as follows:-

- The Board is ultimately responsible for risk oversight within MBSB through the Risk Management Committee (RMC);
- The RMC is responsible for periodically reviewing risk management policies, risk exposure and limits whilst ensuring infrastructure and resources are in place; and
- Committees such as Credit and Risk Rehabilitation Assessment Committee, Asset Liability Committee, Initial Alert Report Committee, Management Committee and the IT Steering Committee assist RMC in managing credit risk, operational risk, market risk, liquidity risk, Shariah risk and other material risks.

Sound risk management and internal control practices have been implemented, covering three lines of defence. The Business Units form the first line of defence against risk by managing risk-reward trade-off within the scope of the Group's risk tolerance and policies. The second line of defence is made up of the Group Risk Management Division (GRM), Compliance Division and Legal Department, and is responsible for ensuring that the necessary balance in risk versus return decisions is not in any way compromised by business pressures to generate revenues. In addition, the Group has a Project and Property Management Division which acts as a second line of defence for financing applications involving property development projects as the division will provide its own estimate of the costs and projected revenue of the project/contract and assess the viability of the project/contract. The Board and RMC along with Internal Audit Division, being the third line of defence, provide an independent assessment of risk management processes and infrastructure and the adequacy and effectiveness of risk policies and internal controls.

RISK REVIEW

KEY RISKS AND MITIGATION

RISK TYPE	OUR PERFORMANCE
1 STRATEGIC RISK	<ul style="list-style-type: none"> Enhanced monitoring and reporting of major risk exposures to the Management and Board in order to identify emerging risks on a timely basis. Enhanced risk analysis and reporting through establishing the data warehouse via System for MBSB Analytics and Reporting (SMART) project.
2 MARKET RISK	<ul style="list-style-type: none"> Enhanced liquidity risk monitoring tools by adopting the Basel III requirement which is in line with BNM's requirement on all banks (i.e. Liquidity Coverage Ratio and Net Stable Funding Ratio). Conducted the testing on the Contingency Funding Plan to ensure its effectiveness and operational feasibility.
3 SHARIAH RISK	<ul style="list-style-type: none"> Established a Shariah Checklist for credit proposal papers to ensure all requirements are met. Conducted continuous Shariah risk awareness training across all departments and regions.
4 CREDIT RISK	<ul style="list-style-type: none"> Formalised an Early Care List Policy to identify customers that may require closer monitoring, based on certain characteristics so that any potential deterioration can be identified and rectified before they deteriorate to be classified as Watchlist accounts. Enhanced the Watchlist and Impairment Classification Policies to be in line with MFRS9 standards.
5 OPERATIONAL RISK	<ul style="list-style-type: none"> Conducted testing on the Business Continuity Plan to ensure its effectiveness and operational feasibility. Conducted continuous operational risk awareness training across all departments and regions.
6 IT RISK	<ul style="list-style-type: none"> Developed an IT Risk Management Policy to manage and effectively identify the risks associated with the operation and use of information systems that support the missions and business functions of the organisation. Conducted continuous IT risk awareness training across all departments and regions.

BANKING READINESS

PEOPLE UPSKILLING

- 100% Completion of “Introduction To Banking Platform” Roadshows
- 91% of employees have been trained in Banking Product Knowledge
- 69% of employees have undergone the Basic Islamic and Shariah Awareness training
- 31% of employees are fully certified in Shariah certification

ENHANCEMENT OF RETAIL COLLECTION SYSTEM

The Retail Collection System revamp kicked off in November 2017 and enhancements will be completed by July 2018

ASSET AND LIABILITY CONVERSION

Conversion of asset portfolio has on track and is expected to complete by March 2018

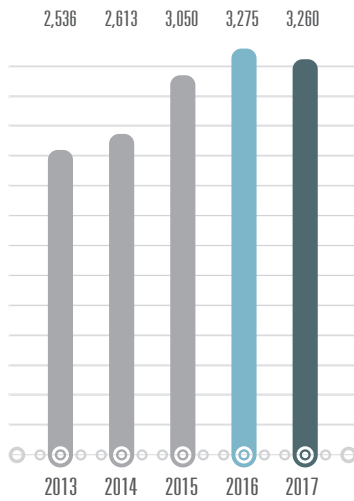
DISPOSAL OF NPF AND NON-CORE ASSETS

- Board has approved disposal of RM1.5 billion worth of NPF
- RM103.9 million worth of non-core assets have been disposed in 2017 with the balance of RM108.6 million to be disposed within 3 years

MEETING PRUDENTIAL REQUIREMENTS

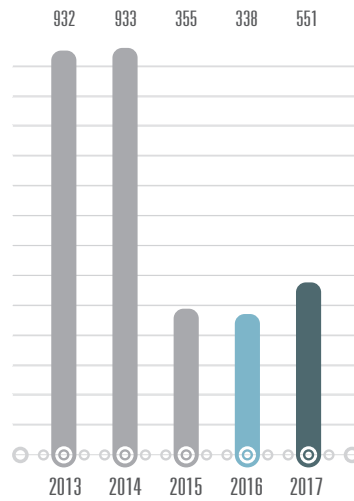
	BNM	MBSB			
		Q1	Q2	Q3	Q4
Adj. LD Ratio	100%	96.64%	96.92%	95.94%	91.74%
Leverage Ratio	12.5%	13.87%	14.06%	14.00%	13.98%
Liquid Asset Ratio	25%	31.12%	31.01%	30.24%	31.51%

FINANCIAL HIGHLIGHTS



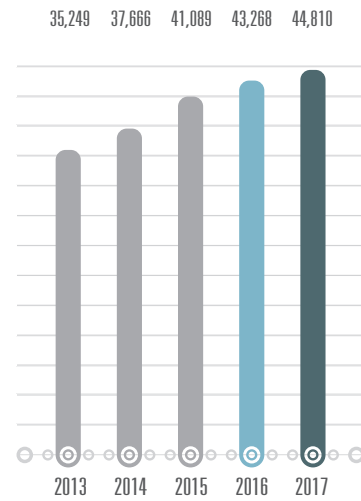
Group Revenue

(RM Million)



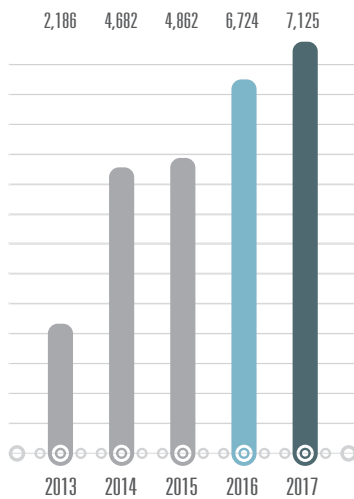
Group Profit Before Taxation

(RM Million)



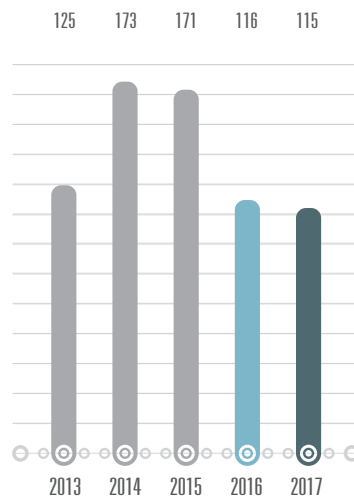
Group Total Asset

(RM Million)



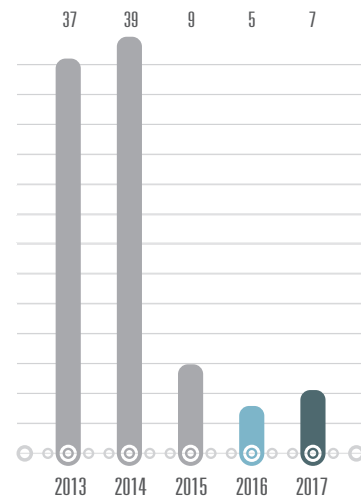
Group Shareholders' Equity

(RM Million)



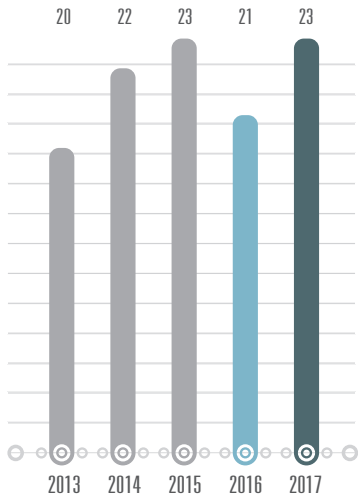
Group Net Asset Per Share

(Sen)

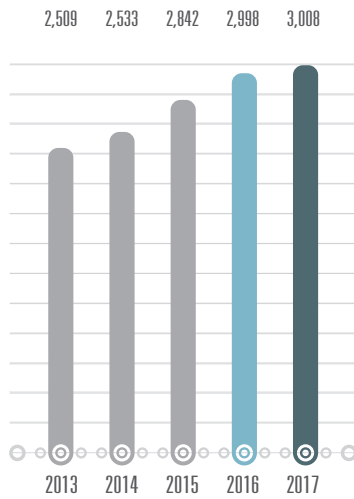


Group Basic Earnings Per Share

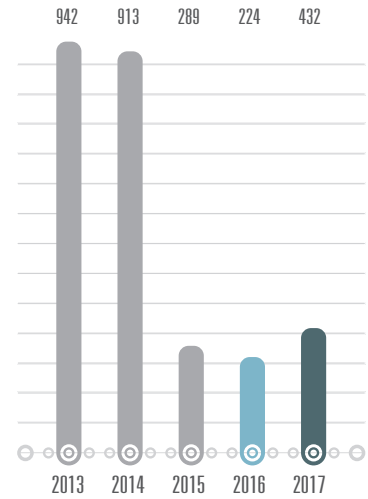
(Sen)



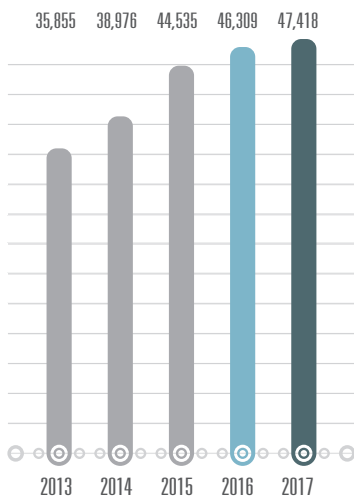
Group Cost to Income Ratio
(%)



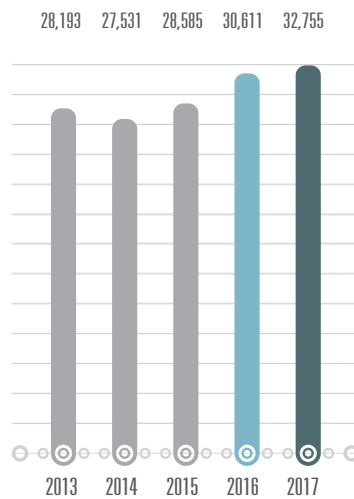
Company Revenue
(RM Million)



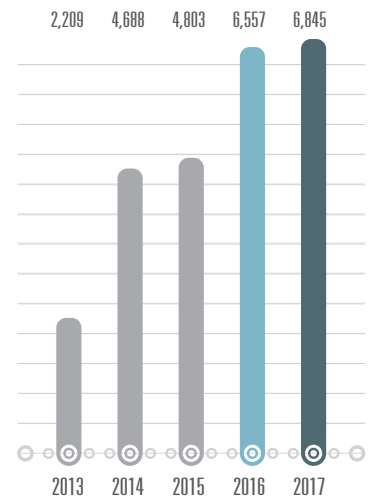
Company Profit Before Taxation
(RM Million)



Company Total Assets
(RM Million)



Company Deposit
(RM Million)



Company Shareholders' Equity
(RM Million)

CORPORATE GOVERNANCE OVERVIEW STATEMENT

“THE BOARD OF DIRECTORS (“BOARD”) OF MALAYSIA BUILDING SOCIETY BERHAD (“MBSB”) STRONGLY BELIEVES IN THE IMPORTANCE OF CORPORATE GOVERNANCE AND IS FULLY COMMITTED TO ENSURE THAT THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND INTEGRITY ARE APPLIED THROUGHOUT THE GROUP.”

In addition, the Board also considers and adopts where appropriate, the principles and best practices of corporate governance as prescribed in the Malaysian Code of Corporate Governance (“MCCG”) and those outlined by other regulatory bodies such as Bank Negara Malaysia’s guidelines on Corporate Governance.

Following the release of the new MCCG in April 2017, the Company Secretary has presented the new MCCG to the Board in June 2017 to create awareness and appreciation of the spirit of the MCCG. A gap analysis between the internal policies and procedures and MCCG has been conducted and the Company Secretary had obtained the concurrence of the Board to enhance the existing Board Charter and other internal policies to ensure adherence in the Corporate Governance standards.

This Corporate Governance Overview (“CG Overview”) Statement is prepared in

compliance with Main Market Listing Requirement (“MMLR”) Bursa Malaysia Securities Berhad (“Bursa Malaysia”) and it is to be read together with the Corporate Governance Report (“CG Report”) which is available on MBSB’s website at http://www.mbsb.com.my/CG_Report_2017.

The Board is pleased to report to shareholders the manner in which it has applied the Principles of the MCCG as set out in the CG Report.

1.0 PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

Board Responsibilities

The Board is responsible for overseeing the conduct of MBSB and its subsidiaries’ (“Group”) business and the Management’s implementation of the Group’s strategic objectives as well as its conduct and performance.

The Directors are guided by the Board Charter which clearly identifies the Board’s role, duties and responsibilities. The Board determines the strategic direction of the Group to ensure that MBSB achieve its aspiration to become a full-fledged bank. The Board had during the year met up regularly to examine the progress of the merger exercise and had together with the Management formulated the Business Plan for the Group in February 2017. The Board together with the Management had conducted review on the position of the Group and reviewed the Business Plan in May 2017. The Board, taking into consideration the eventual move to the banking platform had deliberated on the new focus area, business strategy and IT strategies required to support the new merged entity.

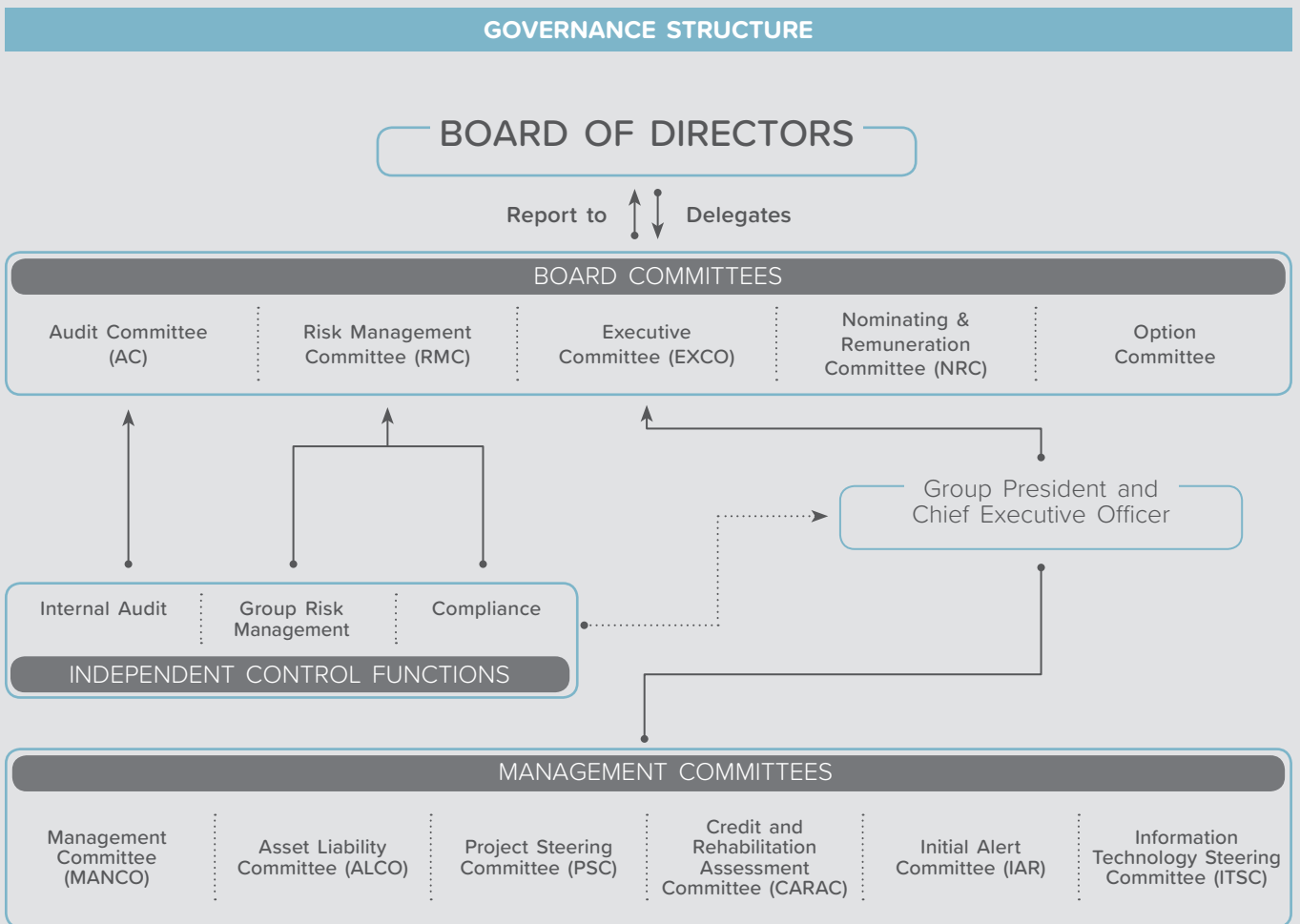
The Board Charter also outlines the processes and procedures to ensure the effectiveness and efficiency of the Board and its Committees. The Board is supported by various Board Committees and Management Committees (“the Committees”) and the roles and responsibilities of the respective Committees are clearly outlined in Terms of Reference (“TOR”) and the Approving Authority Manual (“AA Manual”) which requires regular

review and approval by the Board from time to time. Any decisions which are not within the Committees authority would be escalated to the Board with the Committees’ recommendation.

Although the Board had entrusted its’ Committees with specific responsibilities to oversee the Group’s affairs in accordance with their respective Terms of Reference, the Board remains responsible and keep

abreast with the key issues and decisions made by the respective Committees through the reports escalated to the Board as well as the Minutes of meetings which capture the detailed deliberations which was subsequently tabled to the Board for notation.

The governance structure of MBSB can be depicted as follows:-



Note: The Executive Committee had been dissolved with effect from 6 February 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The governance structure of MBSB is supported by the AA Manual which delineates relevant matters and approving authority limits, including those reserved for the Board's approval and those which the Board may delegate to the Board Committees, the Group President and Chief Executive Officer ("Group PCEO") and Management. The governance structure, Terms of Reference, Board Charter and the AA Manual will be reviewed as and when required, to ensure an optimum structure for efficient and effective decision-making in the organisation.

In 2017, the Board conducted a gap analysis between the existing Committee's Terms of Reference with Bank Negara Malaysia's ("BNM") guidelines to identify the gaps of the existing Terms of Reference before moving to banking platform. The Board had reviewed the gap analysis and had revised the Terms of Reference to formalise the best practices to ensure that the TOR is in line with BNM's requirement. The Directors of MBSB has undergone a refresher on Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") in January 2017 to ensure that they are keep updated on the latest regulatory requirement in relation to AML/CFT.

The Board also had reviewed the Board Charter and the AA Manual in 2017 to reflect the necessary changes in the internal process and regulatory requirements to ensure operational efficiency as well as compliance with CG standards as set out in the MCCG and BNM's requirements.

The Board has reviewed the Code of Ethics for Company Directors in June 2017 to ensure that the Code of Ethics is in line with the practices in the MCCG. MBSB also has in place a Code of Conduct and Ethics for employees and Complaint & Whistle Blowing Manual to encourage employees to report on suspected fraud, misconduct behaviour and/or violations of the Code of Conduct and Ethics as well as any other directives or policies issued by MBSB from time to time. This is to support MBSB's values in upholding the highest standard of personal and professional integrity, ensure employees can raise concerns without fear of reprisals; and provide a transparent and confidential process for dealing with genuine concerns pertaining to safeguarding the Company's interests.

The Group also has in place a Fraud and Corruption Control Policies and Procedures in managing the risk of fraud and corruption which should be read together with the Complaint and Whistle Blowing Policy.

In addition, the Board has established Anti-Money Laundering and Counter Financing of Terrorism Framework which is part of the MBSB's Compliance policy. MBSB is committed to fully cooperate with the relevant local and international competent authorities and law enforcement agencies in combating money laundering and financing of terrorism. Appropriate internal controls and procedures for money laundering prevention are in place. Compliance Division carries out

regular checks and training to ensure that the employees are fully aware and committed in discharging their obligations.

The position of the Chairman and the Group PCEO are held by different individuals with clear division of responsibility between the Chairman and Group PCEO to ensure balance of power and authority and promotes check and balance. The Chairman focuses on strategy, management oversight, board leadership and risk management whereas the Group PCEO focuses on the business, operations and organisational issues and implementing Board's decision. The roles of Chairman and Group PCEO which are formally documented in the Board Charter which can be found on MBSB's website at http://www.mbsb.com.my/Board_Charter.

- Board Charter
- Terms of Reference
- Approving Authority Manual
- Code of Ethics for Company Directors
- Code of Conduct and Ethics
- Complaint and Whistle Blowing Manual
- Fraud and Corruption Control Policies and Procedures
- Anti-Money Laundering and Counter Financing of Terrorism Framework

All the Board members have full access to two (2) Company Secretaries who are qualified to act as Company Secretary under Section 235 of the Companies Act, 2016 and they are Associate members of Malaysian Institute of Chartered Secretaries and Administrators (“MAICSA”).

The Company Secretaries demonstrates ongoing support in advising and assisting the Board on matters relating to the affairs of the Company, including issues pertaining to compliance, corporate governance and best practices, boardroom effectiveness and Directors’ duties and responsibilities including disclosure of their interest in securities, disclosure of conflict of interest in transactions, prohibition on dealing in securities and restrictions on disclosure of price sensitive information.

Board Composition

The Board recognises the benefits of having a diverse Board to ensure that the Board is able to perform effectively by providing the necessary range of perspectives, experience and expertise. The Board is committed to Board diversity and at the same time will ensure that all appointments to the Board will be made based on merits while taking into account the Company’s needs and circumstances, present size of the Board, suitability for the role, skills, experience, knowledge, experience and diversity.

BOARDROOM DIVERSITY POLICY

KNOWLEDGE	SKILLS	EDUCATION & BACKGROUND
PROFESSIONAL EXPERIENCE	AGE & GENDER	ETHNICITY & CULTURE

The Board had adopted the Boardroom Diversity Policy which covers diversity in terms of professional experience, skills, knowledge, education and background, age, ethnicity, culture and gender. The diversity of skill, experience and knowledge of its members in various disciplines and profession allows the Board to address and/or to resolve the various issues in an effective and efficient manner.

The Board through its Nominating and Remuneration Committee (“NRC”) reviews the Board composition on yearly basis and the same is tabled to the Board. The Committee also reviews and recommends to the Board the optimum size of the Board to enable effective oversight and delegation of responsibilities to encourage the active participation of all directors in Board/Board committees.

The NRC has conducted an annual review on the Board’s mix of skills and experience, diversity and other qualities in 2017 and concluded that

there was a need to appoint woman directors and directors who possess credit/banking experience in preparing MBSB towards its move to the banking platform. The NRC also agreed that additional directors need to be appointed as part of the succession planning of the Board. During the year, NRC has recommended the appointment of additional four directors namely:-

1. Datuk Johar Bin Che Mat (Independent Non-Executive)
2. Puan Lynette Yeow Su-Yin (Independent Non-Executive)
3. Encik Szalaza Bin Zainuddin (Non-Independent Non-Executive)
4. Tunku Alina Binti Raja Muhd Alias (Independent Non-Executive)

A Board Skill Matrix was developed to understand the capabilities and personal attributes of the existing Board members and use as a reference when considering a new appointment of directors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The NRC also carried out fit and proper assessment on the candidates prior to recommendation to the Board for approval.

The Board has adopted a Fit and Proper Policy which outlined the following criteria for assessment of the suitability of the candidates, re-election of Directors, appointment/renewal of contract for the Group PCEO, key senior management with “C Suites” position and the Company Secretary:-

- (i) Probity, personal integrity and reputation - person must have the personal qualities such as honesty, integrity, diligence, independence of mind and fairness.
- (ii) Competence and capability - person must have the necessary skills, experience, ability and commitment to carry out the role.
- (iii) Financial integrity - person must manage his debts or financial affairs prudently.

The NRC is also responsible in reviewing the appointment, removal and determines the remuneration package of the members of the Shariah Advisory Committee.

The Board through NRC has conducts the annual assessment on the effectiveness of the Board, Board Committees, individual directors and independence of Independent Directors.

The results of the annual assessment indicated that the Board, Board Committees and the individual directors have performed within expectation and able to discharge their functions and duties effectively. The Board also satisfied with the results of the assessment on the Independent Directors and was of the view that all Independent Directors are independent of management and free of any interest, position, association or other relationship that might materially influence the Independent Director’s capacity to bring an independent judgment and to act in the best interests of the Group and its stakeholders.

The NRC has also assessed the performance of Directors who are subject to re-election of Directors at the AGM and the recommendation is submitted to the Board for decision on the proposed re-election of the Director concerned for shareholders’ approval at the forthcoming AGM.

The NRC had conducted extensive review and thorough deliberation was held from September 2017 to December 2017 to discuss and recommend on the composition of the Board and Board Committees for MBSB and the new merged entity post-merger. The NRC also has reviewed and recommended the candidates for appointment as Shariah Committee Members for the new merged entity in December 2017.

During the year, the Board size had increased from seven (7) members as at 1 January 2017 to eleven (11) members as at 31 December 2017. The number of woman directors had increased from none as at 1 January 2017 to two (2) as at 31 December 2017.

In February 2018, as part of the restructuring of the Board composition for both MBSB and its wholly-owned subsidiary i.e. MBSB Bank Berhad (formerly known as Asian Finance Bank Berhad) (“MBSB Bank”), one (1) woman director resigned as director of MBSB and was appointed as director of MBSB Bank. The women representation in the Board of MBSB was registered at 20% after the restructuring exercise. The NRC and the Board are actively looking for potential candidates to achieve optimum Board size with right diversity.

The detailed activities carried out by NRC in 2017 are disclosed in Corporate Governance Report.

Board Remuneration

The Board has established a Directors Remuneration Framework which is tailored to support the strategies and long-term vision of the Company as well as provide adequate motivational incentive for directors to pursue long-term growth and success of the Company. The NRC is responsible to review the Directors’ remuneration on an annual basis prior to making its recommendations to the Board for approval.

The NRC is responsible to ensure that the Directors' remuneration is competitive and align with the industry benchmark. The level of remuneration for the Directors shall be determined and recommended by the NRC to the Board after giving due consideration all relevant factors including the Directors fiduciary duties, time commitments expected of the Directors, Company's performance, market conditions as well as the compensation level for comparable positions among other similar Malaysian public listed companies in the same industry.

The remuneration and benefits payable to Directors are determined by shareholders resolution in accordance with the Companies Act 2016 and Company's Constitution.

The NRC has reviewed the Directors' fees and the benefits payable to the Directors in January 2018.

The NRC has proposed to increase the fees for the Committees Chairman and Members. With the introduction of the CA 2016, MCCG and the amendments to the MMLR, the duties and responsibilities of Board members have become more onerous and the expectations of the Board Committees have increased. The AC, RMC and NRC are also carrying the oversight responsibilities particularly in ensuring that the Group is in compliance with the BNM guidelines. The NRC has assessed the responsibilities of the Committees and was of the view that it is reasonable to increase the fees for the Committee members.

The details of the Directors' fees structure and benefits payable to Non-Executive Directors are disclosed in the CG Report.

2.0 PRINCIPLE B: EFFECTIVE AUDIT & RISK MANAGEMENT

Audit Committee

As at 31 December 2017, the AC comprises three (3) Independent Directors and (1) Non-Independent Non-Executive Director. The AC was chaired by Encik Aw Hong Boo who has extensive experience in accounting and finance. Encik Aw is a member of Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountant (MICPA) and a Fellow of Institute of Chartered Accountants in England & Wales (ICAEW). With effect from 6 February 2018, the AC is chaired by Encik Lim Tian Huat.

None of the AC members was a former key audit partner in the past 2 years.

The Board has adopted a stricter policy in the Board Charter which applies to appointment of new director as well. The Board Charter states that 'any candidate/director directly involved in the engagement and any partner of the external auditor firm must not serve or to be appointed as Director until at least 2 years after he ceases to be an officer and/or partner of that firm and the firm last served as an auditor of the Group.'

The AC is also responsible to review and monitor the suitability and independence of external auditors annually. The AC is guided by the External Audit Policy and Procedures on the assessment of external auditors. The review encompasses an assessment of the qualifications and performance of the auditors, the quality and the auditor's communication with the AC and the Group, the auditor's independence, objectivity and professional skepticism.

The AC was satisfied with the suitability of Messrs Ernst & Young ("EY") based on the quality of service and sufficiency of resources they provided to the Group. The AC was also satisfied with its review that the non-audit services provided by EY for financial year ended 31 December 2017 did not in any way impair their objectivity and independence as external auditors of the Group.

The AC has carried out the annual assessment on EY and has recommended to the Board for consideration for further recommendation to the Shareholders for approval at the 48th AGM on the appointment of EY as external auditors of the Group for the financial year ending 31 December 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Risk Management and Internal Control Framework

The Board is ultimately responsible for risk oversight within the Group through the RMC. The RMC is responsible to periodically review the Risk Management policies, risk exposure and limit whilst ensuring infrastructure and resources are in place. Management Committees such as Management Committee (“MANCO”), Credit Assessment and Rehabilitation Committee (“CARAC”), Asset Liability Committee (“ALCO”), Initial Alert Report Committee (“IAR”) and IT Steering Committee assist the RMC in managing credit risk, operational risk, market risk, liquidity risk, Shariah risk, IT risk and other material risks.

The RMC has established the Group’s Risk Management Framework and Risk Appetite Framework which act as the main reference documents in matters relating to the Group’s risk management activities and serve as a guide to Group Risk Management Division in monitoring risk management practices. The risk appetite framework also assists the Management and the Board in managing risk within the Group, where the business activities are mainly risk-taking in nature.

The respective heads of business units are responsible for monitoring the compliance of their business activities to the approved risk appetite in the framework and the Group Risk Management Division is responsible for monitoring the risk limits set by the Board and reporting any limit breaches or exceptions to the relevant Management Committees, Board Committees and the Board. The reports include the type of breaches, rationale (cause or reason leading to the breaches) and action plans taken to rectify the situation. The Board also has the overall responsibility of maintaining a sound system of internal controls to safeguard shareholders’ investments and the Company’s assets.

The Board is of the view that the risk management and internal control framework in place during 2017 is sound and sufficient to ensure that all risks are well managed within the Group’s risk appetite by providing adequate infrastructure and resources in place to support the risk management activities.

The risk management and internal control framework is disclosed in the Statement on Risk Management and Internal Control Section in the Company’s Annual Report 2017.



The RMC has established the Group’s Risk Management Framework and Risk Appetite Framework which act as the main reference documents



Shariah Governance

The Board has established and implemented a comprehensive Shariah Governance Framework since 2013. Since the introduction of the Shariah Governance Framework, MBSB has achieved significant milestones towards institutionalising governance structures, policies and processes to promote end-to-end Shariah compliance in its Islamic finance operations.

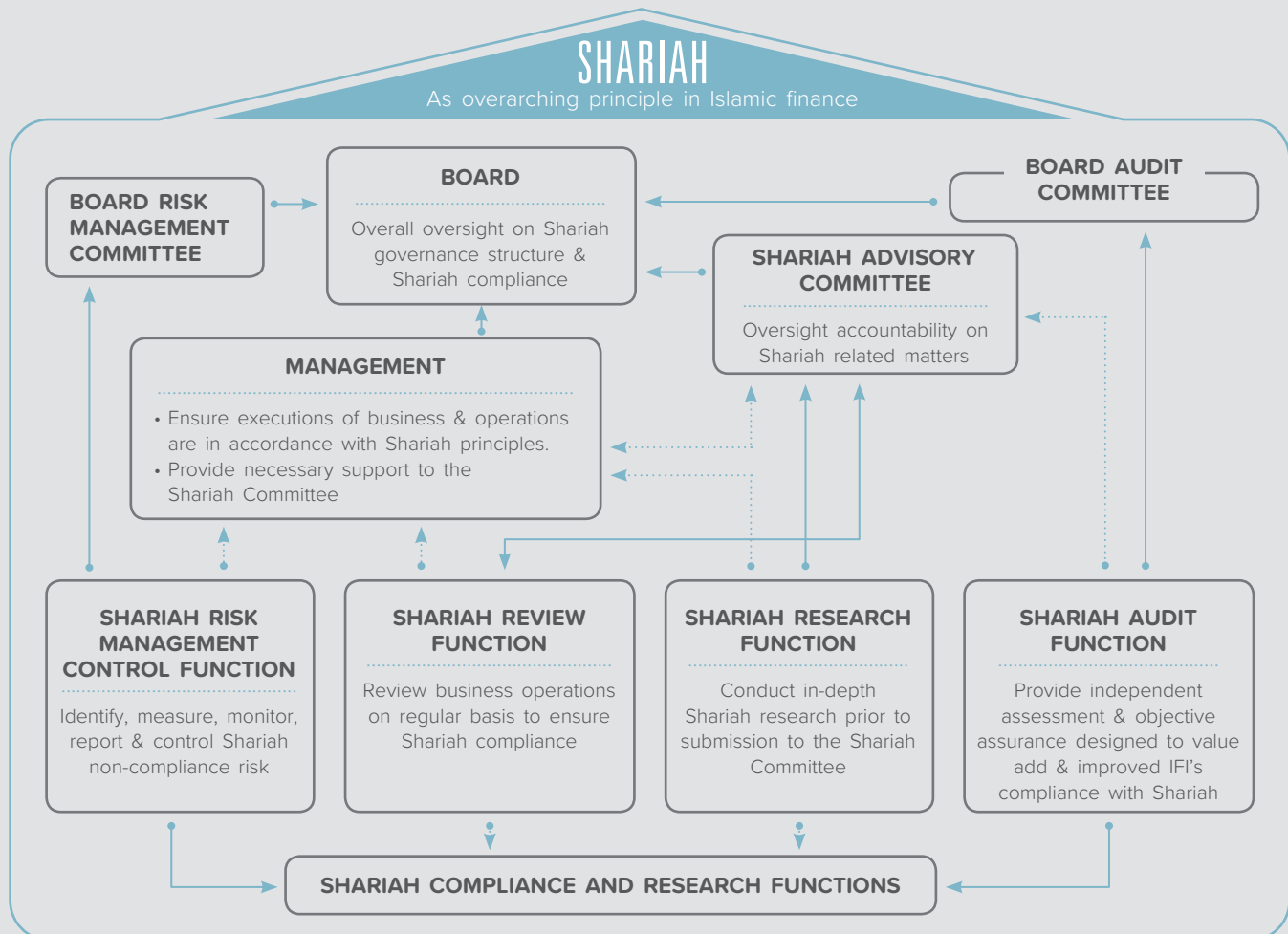
MBSB has also implemented Shariah risk management control functions

and dedicated resources to manage Shariah non-compliance risks within the Islamic financial system.

Efforts to further strengthen Shariah governance standard remain a priority to MBSB as good governance models and practices evolve in tandem with the growing complexity of the Islamic Financial industry. As such, the Shariah Governance Framework for MBSB envisions for future of Shariah Governance impacting business model and strategy of MBSB as an Islamic

focused financial institution as well as driving innovation of value-adding Islamic financial products through effective implementation of a holistic Shariah regulatory framework.

The Shariah Governance Framework of MBSB is in line with the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia. The framework provides clear roles and responsibilities for adherence across the organisation as illustrated below:



Note: With effect from 7 February 2018, the Shariah Governance Framework has moved to MBSB Bank.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

3.0 PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING & MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Communication with Stakeholders

MBSB is committed to provide the investors and stakeholders with high quality information on a timely manner. MBSB actively engages all its stakeholders through various platforms including the announcements via BursaLINK, disclosures on MBSB website and engagement through the investor relations function. MBSB also maintain an open communication with analyst, investors, regulators, employees, customers and other communities.

As part of the Group's initiatives, Group PCEO together with the Chief Financial Officer and the Corporate Services Division conduct discussions, dialogues and briefings with fund managers, financial analyst and media, as and when necessary and/or after the Group's quarterly financial results are released to Bursa Malaysia. This is to promote better understanding of the Group's financial performance, operations and other matters affecting shareholders' interest.

MBSB's website, which can be found at <http://www.mbsb.com.my>, provides updated information on the corporate and business aspect of the Group. Press releases, announcements to Bursa Malaysia, analysts briefings and quarterly results of the group are also made available on the website and this helps to promote accessibility of information to the company's shareholders and all other market

participants. All details of the corporate events carried out by the Company are also available on MBSB's website.

A Corporate Disclosure Policy of the Group has been in place and it has set out the policies and procedures for disclosure of all material information to be released to the public.

Stakeholders are encouraged to drop an email at enquiry@mbsb.com.my if they have any inquiries.

Conduct of General Meeting

The AGM of the Company is the principal forum for dialogue and interaction with its shareholders. Shareholders are given the opportunity to participate effectively in resolutions tabled at the AGM. All shareholders have direct access to the Board members at this AGM. In addition, the senior management, external auditors and other advisors are present at the AGM to provide answers and clarifications to shareholders.

All directors were present at the 47th AGM. During the 47th AGM, the Group PCEO presented the Group's financial performance to the shareholders before proceeding with the business of the meeting. The Group PCEO also shared the responses to questions submitted in advance of the AGM by the Minority Shareholder Watchdog Group.

The Chairman also invited the shareholders to raise questions pertaining to MBSB's financial statements, proposed resolutions and other items during the Questions and

Answers session before putting a resolution to vote.

The notice and agenda of AGM together with Form of Proxy are given to shareholders at least 21 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxy to attend and vote on their behalf. Each item of special business included in the notice of AGM will be accompanied by an explanatory statement on the effects of a proposed resolution.

The poll voting at the 47th AGM was conducted through electronic voting system.

This CG Overview Statement was approved by the Board of Directors on 30 March 2018.

.....—○

 MBSB actively engages all its stakeholders through various platforms

.....—○ 

ADDITIONAL COMPLIANCE STATEMENT

UTILISATION OF PROCEEDS RAISED FROM ANY CORPORATE PROPOSAL

During the financial year ended 31 December 2017, the following were carried out by the Group:-

1) Dividend Reinvestment Plan (“DRP”)

The net proceeds raised from DRP (after deducting the estimated expenses for DRP) are for the purpose of funding of the working capital and/or other requirements of the Group.

2) Two Calls Rights Issue

The gross proceeds of approximately RM1.71 billion raised from the Two Calls Rights Issue on 29 July 2016 had been fully utilised in financial year ended 31 December 2017 in accordance to the proposed utilisation of proceeds and timeframe as set out in the circular to shareholders dated 20 April 2016.

NON-AUDIT FEES

Apart from the annual audit fees, the Group has incurred other assurance related fees of and non-audit fees paid or payable to external auditors of MBSB, Messrs Ernst & Young or its affiliates for the financial year ended 31 December 2017.

	Group (RM'000)	Company (RM'000)
Fees paid/payable to Ernst & Young		
– Audit Fees	667	574
Regulatory Related		
– Statement on Risk Management and Internal Control	5	5
Non-Audit Fees		
– SMART Project (System for MBSB Analytics & Reporting Project)	355	355
– Tax	72	72
– Receiver and Manager	91	91
Total	1,190	1,097

MATERIAL CONTRACTS WITH RELATED PARTIES

Save as disclosed in Note 36 to the financial statements, there are no other material contracts subsisting at the end of the financial year or entered into since the end of the previous financial year by the Company and its subsidiaries which involves interests of the Directors, Group PCEO and major shareholders.

ADDITIONAL COMPLIANCE STATEMENT

DIVIDEND PAYMENT POLICY

The Company has adopted a 30% dividend payment ratio on profit after tax.

EMPLOYEES SHARES OPTION SCHEME (“ESOS”)

The Shares Option granted to Group PCEO as at 31 December 2017 was as follows:-

Name of the Director	Exercise Price (RM)	As at 1.1.2017	Granted	Exercised	As at 31.12.2017
Datuk Seri Ahmad Zaini Othman	1.42	270,461	–	–	270,461

The number of shares allocated, in aggregate, to the Directors and senior management of the Group shall not exceed 50% of the total Company's shares available under the scheme.

As at 31 December 2017, the actual percentage of total options granted to senior management of MBSB under ESOS was 15.33% of the total ESOS granted.

Details of the ESOS during the financial year 2017 are set out in Note 23 of the Notes to the Financial Statements in this Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

“AS A LISTED COMPANY ON BURSA MALAYSIA, THE BOARD OF DIRECTORS HAVE AN OBLIGATION UNDER BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS, TO ENSURE THAT A STATEMENT ON THE STATE OF THE GROUP’S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM IS INCLUDED IN THIS ANNUAL REPORT. THE FOLLOWING STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL IS PREPARED IN ACCORDANCE WITH THE GUIDELINES AS SET OUT IN THE “STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL: GUIDELINES FOR DIRECTORS OF LISTED ISSUERS.”

BOARD’S RESPONSIBILITY

The Board acknowledges overall responsibility and recognises the importance of maintaining a sound system of risk management and internal control and reviewing its adequacy and integrity so as to safeguard shareholders’ investments and the Group’s assets. The Board endeavours to identify principal risks and ensure the implementation of appropriate internal controls and mitigation measures.

Due to the limitations that are inherent in any system of risk management and internal control, this system is designed to manage, rather than eliminate the risk of failure to achieve business objectives and, therefore, can only provide reasonable but not absolute assurance against material misstatement, fraud or loss occurrence.

The Board remains committed towards operating a sound system of risk management and internal control and, therefore, recognises that the system must continuously evolve to support the Group’s businesses and operations in a dynamic business environment. As such, the Board is ensuring that the Group establishes comprehensive risk management policies, processes and infrastructure to manage the various types of risks.

The Board is satisfied with the implementation of risk management process within the Group which encompasses the identification, measurement, monitoring, control and reporting of the relevant material risks as well as emerging risks faced by the Group in achieving its business goals and objectives which had taken into consideration of the changes in the business environment and regulatory requirements. The outcome of this process is closely monitored and reported in a timely manner to the Board for deliberation. This ongoing process has been in place for the entire financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board receives reports relating to the compliance status of the internal and regulatory requirements imposed on the Group regularly. The Board deliberates on any deficiencies reported and directs Management to take all the necessary actions including remedial plans and follow-up actions to ensure that the deficiencies are addressed.

Management is responsible for implementing and monitoring the system of risk management and internal control and for providing assurance to the Board that it has done so. In this regard, the Board acknowledges that it has received assurance from the Group President and Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Compliance Officer that the Group's risk management and internal control system is operating adequately and effectively.

RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

The Board regards risk management as an integral part of business operations and confirms that there is an on-going process of identifying, evaluating, monitoring, managing and reporting the significant risks that may affect the achievement of its business objectives. The control structure and processes which have been instituted throughout the Group are reviewed and updated from time to time to strengthen and tighten the relevant internal controls which is consistent with the Group's and market practices.

Responsibility for implementing the Group's strategies and day-to-day businesses are delegated to the Management. The organization structure sets out clear segregation of roles and responsibilities,

lines of accountability and levels of authority to ensure effective and independent stewardship. The Management assists the Board in implementing the risk management policies and procedures approved by the Board as well as developing and operating internal controls to manage the identified risks as well as monitors and reports regularly to the Board on all risks related to the Group. The Management is also accountable to ensure such policies and procedures are being continuously reviewed in order to meet the changing financial landscape as well as the changes in the nature and size of the Group's activities.

GROUP RISK MANAGEMENT FRAMEWORK

The Group's Risk Management Framework is designed to identify, analyse and evaluate significant risks that hinder the achievement of the Group's policies and objectives. The Risk Management Framework acts as the main reference document in matters relating to the Group's risk management activities and serves as a guide to Group Risk Management Division in monitoring risk management practices. It also assists the Management and the Board in managing risk within the Group, where the business activities are mainly risk-taking in nature.

The Group has established guiding principles which form the basis and foundation for clear accountability and responsibility for effective risk management governance as follows:-

- The Board is ultimately responsible for risk oversight within MBSB through the Risk Management Committee (RMC);
- The RMC is responsible for periodically reviewing risk management policies, risk exposure and limits whilst ensuring

infrastructure and resources are in place; and

- Committees such as Credit and Risk Rehabilitation Assessment Committee (CARAC), Asset Liability Committee (ALCO), Initial Alert Report Committee (IAR), Management Committee (MANCO) and IT Steering Committee assist RMC in managing credit risk, operational risk, market risk, liquidity risk, Shariah risk, IT Risk and other material risks.

MBSB has an organisational structure which clearly defines lines of accountability and delegation of responsibility to ensure that there are no overlaps and coverage gaps. In addition, the Group's risk management structure provides clear lines of responsibility and accountability for the risk management process as well as outlines the principal risk and control responsibilities.

Sound risk management and internal control practices have been implemented, covering three lines of defence. The Business Units form the first line of defence against risk by managing risk-reward trade-off within the scope of the Group's risk tolerance and policies. The second line of defence is made up of the Group Risk Management Division (GRM), Compliance Division and Legal Department, and is responsible for ensuring that the necessary balance in risk versus return decisions is not in any way compromised by business pressures to generate revenues. In addition, the Group has a Project and Property Management Division which acts as a second line of defence for financing applications involving property development projects as the division will provide its own estimate of the costs and projected revenue of the project/contract and assess the viability of the project/contract. The Board and RMC

along with Internal Audit Division, being the third line of defence, provide an independent assessment of risk management processes and infrastructure and the adequacy and effectiveness of risk policies and internal controls.

As part of the Internal Capital Adequacy Assessment Process (ICAAP), the Risk Appetite Statement, Material Risk Assessment and Capital Stress Testing has also been implemented to ensure that all material risks are identified, measured and reported. The ICAAP is embedded within MBSB's internal risk management framework and not developed solely for regulatory compliance purposes. Accordingly, information derived from the ICAAP should influence decision making of MBSB and be used to determine other management processes and business applications such as in limits setting, product design/pricing and performance measurement. For each material risk identified, MBSB ensures that the risk assessment is supported by:-

- a) Consistent and robust risk assessment approaches;
- b) Quality data used for risk measurement; and
- c) Sound techniques and methodologies that commensurate with MBSB's size, nature of business and complexity of activities. MBSB considers specific limitations that may exist on the use of particular techniques when implemented under certain market conditions.

It is crucial for the Group to maintain adequate capital levels not only during the normal business cycle but also during unfavourable economic conditions. Therefore, the Group would always consider

any potential shortfall of its capital adequacy during stressed periods. The Stress Test Policy for MBSB and its Group sets out to maintain adequate capital levels. It prescribes the minimum level, which shall be observed to ensure prudent conduct in such activities. Stress testing involves identifying possible events or future changes in the financial and economic conditions that could have unfavourable effects on the Group's exposure and the assessment of the Group's ability to withstand such changes, usually in relation to the capacity of the capital and earnings to absorb potentially significant losses. Stress testing is applied in identifying potential vulnerable risk areas of the Group's portfolio to exceptional but plausible events. It examines an alternative future that could cause problems in the portfolio, thus, enabling the Group to determine how bad those problems could become and prepare for them. In addition, by applying these exceptional but plausible events to the portfolio, stress tests are utilised to better understand the risk profile, evaluate business risks and thus take appropriate measures accordingly. The stress testing encompasses the relevant material risks affecting the Group and assesses the organisation's ability to withstand stress in terms of financial soundness i.e. Balance Sheet, earnings and capital adequacy.

Risk Appetite

Risk Appetite is fundamental to, and underpins all aspects of the way in which the Group operates and manages its capital requirements. The Group is of the view that a well-articulated risk appetite is imperative to give a clear indication to the Group's stakeholders of the type of organisation that the Group represents and a criterion as a comparison with other organisations.

The Risk Appetite therefore sets stakeholders' expectations as to how the Group should operate from a risk taking perspective. It represents a boundary on the level of risk that the Group is willing to accept and contented in operating its business objectives, strategies and financial plans. A clearly articulated Group Risk Appetite is fundamental to the alignment of risk taking activities with its strategic plans. This is to ensure consistent approach towards risk and strategic management across the Group.

As the risk appetite is dynamic, the Board sets the risk appetite based on the business and financial targets, while incorporating macroeconomic and global outlook. The Board also considers the actual and targeted risk profile of the Group proposed by senior management and business units when setting the risk appetite. The risk appetite is also being reviewed periodically.

Information Technology Risk Management Framework

The Group endeavours to adopt sound Information Technology Risk Management (ITRM) practices based on industry best practices. This Document is implemented with the following objectives:-

- Articulate the overall vision, principles, philosophy, objectives and goals of IT Risk Management;
- Provide greater clarity of roles and responsibilities for IT Risk Management at all levels of staff in MBSB;
- Define a policy for effective management and supervision of IT risk;
- Define a policy for IT risk identification, assessment, treatment and monitoring and reporting;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- Integrate and align the management of IT Risk with the Group's Operational Risk Management Framework, as well as other relevant guidelines, thus allowing the organisation to make well-informed decisions about the extent of the risk;
 - Promote IT risk awareness and culture throughout the organisation and ensure that a commitment to IT Risk Management exists at all levels of staff within the Group;
 - Foster an organisational climate where information security risk is considered within the context of the design of business process, enterprise system architecture and system development life cycle;
 - Ensure that adequate security controls are implemented to protect information assets (confidentiality, integrity, availability); and
 - Reduce the Group's exposure to unexpected losses caused by IT Risk.
- a) Establish clear lines of reporting structure, roles and responsibilities and consistency in managing Shariah risk;
 - b) To act as an awareness tool for Business and Support Units (BSU) and all MBSB staff on numerous types of Shariah risk which may occur in Islamic financial activities;
 - c) Serves as a practical guide to facilitate staff in understanding Shariah risk management principles and to ensure that the management of Shariah risk is clearly identified, measured, monitored, controlled and reported;
 - d) To facilitate BSU and all staff in identifying possible Shariah Non-compliance (SNC) events with respect to Islamic financial activities; and
 - e) Reduce the Company exposure to unexpected losses arising from SNC events.

It is imperative that staff at all levels understand their responsibilities and are held accountable for managing IT Risk that is, the risk associated with the operation and use of information systems that support the missions and business functions of the Group.

Shariah Risk Management Procedures

The Shariah Risk Management Procedures is designed to enable MBSB to conduct its activities in line with best standards and practices in a manner that complies with internal and regulatory requirements. The main objectives of the procedures are as follows:-

RISK MANAGEMENT COMMITTEE

The Board has put in place the RMC as the driver for identifying significant risks and ensuring proper oversight of the management of risks which relate to the Group's processes and activities.

The RMC undertakes the overall responsibility for risk oversight within the Group which includes reviewing the risk management policies, risk exposure and limits as well as ensuring that all risks are well managed within the Group's risk appetite, by providing adequate infrastructure and resources to support the risk management activities.

Primary objectives of the RMC are to assist the Board in fulfilling its fiduciary responsibilities particularly in management controls as well as to provide a focal point for communication between risk managers, Board and Senior Management on matters in connection with reporting, risks and controls and providing a forum for independent discussion. The RMC shall also undertake additional duties as may be deemed appropriate and necessary to assist the Board.

During the financial year ended 31 December 2017, a total of 10 RMC meetings were held. The Committee comprises the following members and details of their attendance of meetings held during the financial year are as follows:-

Name of Members	Number of meetings attended/held
Encik Lim Tian Huat	10/10
Encik Aw Hong Boo	10/10
Dato' Jasmy Bin Ismail	10/10
Tunku Alina Alias * Appointed as RMC member on 30 October 2017	2/2

The composition of RMC was changed on 6 February 2018 to as follows:-

1. Encik Lim Tian Huat (Chairman)
2. Ir. Moslim Bin Othman
3. Puan Lynette Yeow Su-Yin

MANAGEMENT COMMITTEES

The Management Committee (MANCO), comprising members of Senior Management, acts as a platform for addressing all inherent risks to the Group as well as the development of risk mitigation measures and strategies. In implementing the Risk Appetite Framework across the Group, MANCO ensures timely escalation of all events which may materially impact the Group's financial condition or reputation for appropriate action. The committee is also responsible for identifying, discussing and resolving any operational, financial and key management issues.

Other dedicated management committees namely, Credit and Rehabilitation Assessment Committee (CARAC); Asset Liability Committee (ALCO); Initial Alert Report Committee (IAR); and IT Steering Committee assist the RMC, Executive Committee (EXCO) and Board in managing credit, operational, market, liquidity and Shariah risks, IT Risks and other material risks. Further details of the roles and responsibilities of these committees are as follows:-

- **CARAC** deliberates and approves corporate and retail loans/financing, within the authority limit delegated by the Board. Where the prospective corporate and retail loans/financing is not within CARAC's authority limit, it

would recommend the loans/financing to the relevant Board/Board Committee for approval.

- **ALCO** serves as the primary oversight and decision making body that provides strategic direction for the management of market risk and liquidity risk. The committee also monitors capital adequacy through capital management.
- **IAR**, in attending to corporate and retail loans/financing, reviews and evaluates the position of loan/financing accounts that are in arrears or require closer monitoring and determines the course of action to be taken for these accounts. On a portfolio level, the committee assesses the quality of the retail and corporate loan/financing portfolios and evaluates any significant trends detected.
- **IT Steering Committee**, as the senior governance and policy making body for information technology (IT) at MBSB, ensures that MBSB's planning for and investment in IT supports the organisation's strategic goals.

These committees are responsible for overseeing the development and assessing the effectiveness of policies approved by the Board. Senior Management oversees the execution and implementation of the policies.

Effective 2 April 2018, the IAR Committee and IT Steering Committee of MBSB will be disbanded and will be operating only in the new banking entity, as MBSB will no longer be processing any new financing accounts or undertaking any new initiatives.

GROUP RISK MANAGEMENT DIVISION

The Group Risk Management Division (GRM) is headed by the Chief Risk Officer and is responsible for communicating the critical risks the Group faces, the controls in place and future plans to manage these risks to the Management, RMC and Board.

GRM continues to provide advice and guidance on the credit, operational, market, liquidity, Shariah and general business risk to the Group. The scope of advice serves to manage and control significant risk exposures inherent to the Group's business operations as well as covers the identification of significant risks. GRM is involved in all aspects of the Group's activities, including new product approvals, credit approval, credit monitoring and review of process workflows and policies.



The committee is also responsible for identifying, discussing and resolving any operational, financial and key management issues



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The four key aspects of risk management in MBSB i.e. Risk Identification, Risk Measurement, Risk Controls and Risk Monitoring and Reporting are detailed as below:-

Risk Identification

- Risks are identified through the application of the Group's risk frameworks, policies and procedures.
- Risks inherent in products and business activities are identified upfront at the point of introduction, as well as on an ongoing basis via various avenues, including, product reviews, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI), incident/loss event reports, and through reviews conducted by the Internal Audit division. This includes the identification of any emerging risks that may have a significant impact on the Group.
- The usage of key risk indicators enables early detection of risk, in order to ensure that adequate risk management controls and procedures are in place to ensure appropriate management of these risks in an informed and strategic manner.
- Material risks faced by the Group are identified by determining events or scenarios that may adversely impact the Group. The details of the identification process and the results are documented in MBSB's Material Risk Assessment document.

Risk Measurement

- Risks are measured and aggregated using Group-wide methodologies across each of the risk types.
- Qualitative and quantitative risk measurement techniques have been developed across different dimensions of risk factors, including stress testing methodologies, credit risk grading methodologies, and ratios for various types of risk.

Risk Controls

- Controls and limits are used to manage risk exposures within the risk appetite set by the Board. The risk appetite is disclosed in the Group's Risk Appetite Framework.
- Qualitative and quantitative controls including risk triggers and limits have been developed to oversee and manage significant risk exposures.
- Risk mitigation techniques have been implemented in order to minimise existing or to prevent new or emerging risks from occurring.
- These controls and limits are regularly monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes.

Risk Monitoring and Reporting

- Risks are being monitored on an on-going basis. Risk Management reports addressing the Group's risk exposure (on an individual and portfolio basis), risk portfolio composition and risk management activities are submitted to the Management, RMC and Board for their review on a regular basis.
- Key risk indicators and early warning signals are monitored to ensure that sufficient and timely actions can be put in place to mitigate any potential risk for the Group.
- Qualitative and quantitative metrics are assigned based on the key risks for the Group. The state of compliance of these indicators is reported to Management, RMC and the Board on a regular basis.
- Operational risk incidents highlighted in incident/loss event reports are also reported to Management, RMC and Board regularly.

During the year, GRM was involved in the following key activities:-

- Enhanced monitoring and reporting of major risk exposures to the Management and Board in order to identify emerging risks on a timely basis;
- Formalised an Early Care List Policy to identify customers that may require closer monitoring, based on certain characteristics so that any potential deterioration can be identified and rectified before they deteriorate to be classified as Watchlist accounts;
- Enhanced the Watchlist and Impairment Classification Policies to be in line with MFRS9 standards;
- Developed an IT Risk Management Policy to manage the risks associated with the operation and use of information systems that support the missions and business functions of the Group;
- Enhanced risk analysis and reporting through establishing the data warehouse via System for MBSB Analytics and Reporting (SMART) project;
- Enhanced liquidity risk monitoring tools by adopting the Basel III requirement which is in line with BNM's requirement on all banks (ie. Liquidity Coverage Ratio and Net Stable Funding Ratio);
- Conducted the testing on Contingency Funding Plan to ensure its effectiveness and operational feasibility;
- Conducted continuous risk awareness training across all regions; and
- Established Shariah checklist for credit proposal to ensure that all Shariah requirements are met.

GRM also reviews the Group's compliance to risk limits and identifies emerging risk issues. During the financial year, GRM has representation in decision-making meetings as a member of ALCO, MANCO, IAR and the IT Steering Committee, and as an attendee of CARAC meetings.

GRM continues to report to the Management, RMC and Board according to the committees' requirements and the changing business environment. Risk Management reports addressing the Group's risk exposure, risk portfolio composition and risk management activities are submitted to the Management, RMC and Board for their review on a regular basis.

INTERNAL AUDIT DIVISION

The Internal Audit Division, reporting to the Audit Committee (AC), performs systematic and regular reviews of key processes via audit of divisions/departments and Sales & Service Centres (SSCs) in an effort to assess the effectiveness, adequacy and integrity of internal controls including compliance to the necessary policies and guidelines. Areas of improvement and proposed recommendations are highlighted to Senior Management and the AC with periodic follow-up reviews on actions taken. The Internal Audit Division assists the AC in discharging the Committee's duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the MBSB's system of internal controls. In doing so, the Internal Audit Division adopts the industry practise based on the following guidelines/practices:-

i) **BNM/RH/GL (013-4) Guidelines on Internal Audit Function of Licenced Institutions**

The core functions of an Internal Audit Division according to the above Guidelines are:-

- To perform an independent appraisal of activities as a service to the Management; and
- To assist Management to establish and maintain the best possible internal control environment within MBSB.

ii) **International Professional Practice Framework**

To ensure that the Internal Audit Division operates competently and professionally within this changing environment, a series of professional standards have been adopted which reflect the internationally accepted International Professional Practice Framework, issued by the Institute of Internal Auditors.

iii) **The function of the Internal Audit Division is also guided by the Internal Audit Charter, Internal Audit manual and Audit Committee Terms of Reference.**

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Internal Audit Division has carried out independent and objective reviews in accordance with an approved audit plan covering credit assessment, credit operations, treasury, financial accounting, information technology, Shariah, outsourcing services, hotel operations and operational controls. The annual audit plan is developed using a risk-based approach and is reviewed and approved by the AC. The Internal Audit Division has also performed a Shariah audit to ensure that the Group's Islamic products and practices are Shariah Compliant.

Based on the reviews, the Internal Audit Division has provided the AC with periodic reports highlighting observations, recommendations and management action plans to improve the system of internal controls. The AC, on behalf of the Board, regularly reviews and deliberates on internal control issues identified in reports prepared by the internal auditors and the related actions taken by Senior Management. The AC also reviews the external auditor's annual audit plan and the annual audit report with the management response on any findings raised.

COMPLIANCE FUNCTION

Compliance management is the collective responsibility of the Board, Senior Management and every employee of the Group. The Group Compliance function is driven by the Compliance Division, whereby its main function is to identify and manage compliance risk at the Group level through consistent compliance monitoring and testing carried out across the group.

The Compliance Division, reporting to the Group President and Chief Executive Officer and to the Board, continuously performs Compliance Thematic reviews, transaction monitoring on Anti-Money Laundering & Counter Financing of Terrorism (AML/CFT) and provides compliance advisory support to ensure regulatory and compliance risks are mitigated. Shariah Compliance reviews were also conducted with the objective of ensuring that the Group's activities and operations do not contravene with Shariah rulings. The Compliance Thematic reports, Shariah Compliance review reports, progress of rectification of issues and other pertinent regulatory updates are tabled to MANCO (where applicable), RMC and the Board. In addition, the Shariah Compliance review reports are also tabled to the Shariah Advisory Committee (SAC) to ensure that the Group's practices are Shariah compliant.

In addition, Compliance Division sends out an Annual Statement of Compliance Certification to all business/support units and SSCs. It is a self-certification exercise whereby the business/support units and SSCs certify their state of compliance with regulatory and Shariah requirements as well as policies and procedures within their respective business/support units.

During the year, the Compliance Division has implemented the following key initiatives:-

- Development and implementation of AML/CFT system to further strengthen transaction monitoring process for detection of suspicious transactions and cash threshold reporting to Bank Negara Malaysia and to improve customer screening process;
- Development and implementation of Common Reporting Standards (CRS) procedures on customer on-boarding to ensure compliance with the relevant requirements by Inland Revenue Board of Malaysia;
- Development of Shariah Health Check for retail business to ensure MBSB's continuous adherence with Shariah requirements;
- Conducted trainings on Foreign Account Tax Compliance Act (FATCA), AML/CFT, CRS and Personal Data Protection Act (PDPA) to increase awareness and knowledge on the aforementioned regulations and relevant latest developments;
- Continuous Shariah Compliance Review to ensure product development, structure, concept, legal documentation, operation and activities of MBSB's Islamic Financing products are in compliance with Shariah requirements;

- Continuous Compliance Thematic reviews on pertinent regulatory requirements. In addition, the review has been extended to SSCs, covering pertinent regulatory and operational requirements as the scope of the review; and
- Continuous compliance awareness alerts to provide regular knowledge sharing on compliance to all staff on specific areas of concern such as AML/CFT, PDPA, Responsible Financing, FATCA and Staff Code of Ethics.

The Group’s budget and business plan as well as strategic initiatives, taking into account the risk appetite, are deliberated by the Management and the Board on an annual basis. The Board also reviews the operational and financial performance of the Group. Quarterly management reports are presented to the Board providing information on the financial performance and risk exposure of the Group to enable the Board to effectively oversee the Group’s overall performance objectives, key initiatives, financial plans and annual budget;

Remuneration Committee, details of which are set out in the Corporate Governance Report. Each committee has clear terms of reference;

- An Approving Authority Policy with appropriate empowerment and authority limits has been approved by the Board, including authorisation limits at various levels of Management in the Group, to ensure accountability and responsibility;
- The Group’s Risk Appetite Framework articulates the nature, type and level of risk the Group is willing to assume and is approved by the Board on an annual basis. The compliance to the risk appetite is monitored on a periodic basis and any non-compliance to the risk appetite framework is reported to the Board;
- The Risk Control and Self-Assessment (RCSA) serves as a tool to empower risk owners to perform risk analyses on their business operations. The RCSA allows risk owners to identify, assess, mitigate, monitor and report operational risk at a process level. The objective is to ensure that processes become inherently stronger, in its effort to reduce residual risk and the number of lapses in the processes;

- A clear, effective and robust Group corporate governance structure is in place with well-defined, transparent and consistent lines of responsibility established within the Group;

In addition to the RMC and the AC, the Board is supported by other established Board Committees in the execution of its responsibilities namely, the EXCO and Nominating &

OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the procedures established by the Board that provide effective internal control include:-

- A detailed integrated budgeting process has been established, resulting in clear ownership of business objectives, plans and the expected financial outcome based on the Board’s approved budget.



Main function is to identify and manage compliance risk at the Group level through consistent compliance monitoring and testing carried out across the Group



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Business Continuity Management (BCM) policies have been established for the Group. The processes are regularly tested during the year with the relevant department/division to ensure the effectiveness of the process. The BCM programme serves as a guideline for the Group to resume critical operations within the required timeframes and minimises the cost of damages and interruptions due to disasters;

- Policies, procedures and processes governing the Group's businesses and operations are documented and are made available to employees across the Group through the Group's intranet portal. The policies, procedures and processes are reviewed and updated regularly to ensure relevance to the current business environment as well as compliance with current/applicable laws and regulations, and are communicated and made available to all employees. The policies, procedures and processes are reviewed and updated by the business and functional units through a structured review process to address changes in laws and regulations and business and operational environment, as well as to manage any risks arising from such changes;
 - A strong risk culture is promoted within the Group, which supports and provides appropriate standards and incentives for professional and responsible behaviour;
- Recruitment procedures are established within the Group to ensure that the right and appropriate persons are selected to fill available positions including the Fit and Proper Requirements Policies & Procedures which was developed for key responsible persons. Formal training programmes either face-to-face or through e-learning, semi and annual performance appraisals, and other relevant procedures are in place to ensure that staff are adequately trained and competent to enable them to discharge their duties and responsibilities effectively. Proper guidelines are also drawn up for termination of staff;
- Employees are bound to observe prescribed standards of business ethics when conducting themselves at work and in their relationship with external parties, such as customers and suppliers. The Guidelines on the Code of Conduct for Directors, Officers and Employees set out the standards of good and ethical banking practices, and aims to maintain confidence in the security and integrity of the Group's business practices. Employees are expected to comply with the Guidelines on the Code of Conduct for Directors, Officers and Employees to conduct themselves with integrity and objectivity and not be placed in a position of conflict of interest;
 - The Group has a Complaint & Whistle Blowing Policy which addresses the avenues for individuals to report suspected breaches of law or regulations or other improprieties. All staff is accorded the opportunity to report via the Whistle Blowing mechanism with the assurance that it shall be dealt with confidentiality and that the reporter's identity is protected;
 - The Group participates in forums and trainings to stay informed on fraud events and controls. To this extent, the Fraud & Corruption Control Policies & Procedures has been approved by the Board and has been disseminated to all employees. The Fraud & Corruption

Control Policies & Procedures are implemented to provide broad principles, strategy and policies for the Group to adopt in relation to fraud in order to promote high standards of integrity. The policy establishes robust and comprehensive programmes and controls for the Group as well as highlights the roles and responsibilities at every level for preventing and responding to fraud. Where suspected fraud is detected, the Group ensures prompt investigations and disciplinary actions are taken accordingly; and

- The Group's AML/CFT Framework is continuously reviewed and updated to meet regulatory requirements as well as to combat money laundering and financing of terrorism activities. All employees are expected to carry out their functions with the highest ethical and professional standards, in accordance with the AML/CFT Framework and to continuously be vigilant against the Group being exposed or used to launder money or finance illegal activities including terrorist financing.

- The Shariah Governance Framework (SGF) is devised to serve as a blue print for the operations and activities of the Group in order to comply and adhere to the Shariah principles in the area of Islamic Finance. This Document sets out the overall policy for the Group to guide its conduct in the required activities. It prescribes the minimum level, which shall be observed to ensure prudent conduct in such activities.

The President and Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Compliance Officer of the Group have provided confirmation that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects during the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report, based on the risk management and internal control system adopted by the Group. Management continues to take measures to strengthen the control environment.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the annual report for the financial year ended 31 December 2017. Their review was performed in accordance with Recommended Practice Guide (RPG) 5 issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have assured that this Statement is consistent with their understanding of the process that the Board has adopted in the review of the adequacy and effectiveness of the Group's risk management and internal control system.

RPG5 does not require the external auditors to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control procedures.

The Board confirms that the system of risk management and internal control, with the key elements highlighted above, was in place during the financial year. The system is subjected to regular reviews by the Board. The Board believes that the system of risk management and internal control of the Group is sound and sufficient to safeguard shareholders' investments and the Group's assets.

The statement was approved by the Board of Directors on 30 March 2018.

REPORT OF THE AUDIT COMMITTEE

1.0 PURPOSE

The Audit Committee (AC) of MBSB is established to provide assistance to the Board with the following primary objectives:-

- Provide independent oversight on the financial reporting, risk management and internal control systems that facilitate appropriate checks and balances within MBSB and MBSB Group.
- Serve as an independent party to objectively review the financial information of MBSB and MBSB Group (which is presented by the Management to the Board and Shareholders).

2.0 COMPOSITION OF THE AUDIT COMMITTEE

The AC consists of four (4) Directors which two of the members;

Member	Qualification
Encik Aw Hong Boo	Chartered Accountants and members of the Malaysian Institute of Accountants (MIA)
Encik Lim Tian Huat	Chartered Accountants and members of the Malaysian Institute of Accountants (MIA)

This meets the requirement of the Bursa Securities Listing Requirements which requires at least one qualified accountant as a member of the AC.

During the financial year ended 31 December 2017, a total of 10 AC meetings were held. The AC comprises the following members and the details of attendance of each member at the Committee meetings held during the financial year are as follows:-

Composition of the Committee	Number of Meetings Attended/Held
Encik Aw Hong Boo¹ <i>(Independent Non-Executive Director/Chairman)</i>	10/10
Encik Lim Tian Huat² <i>(Independent Non-Executive Director)</i>	10/10
YBhg Datuk Shahril Ridza Ridzuan³ <i>(Non-Independent Non-Executive Director)</i>	3/3
YBhg. Dato' Jasmy Ismail⁴ <i>(Senior Independent Non-Executive Director)</i>	10/10
Encik Sazaliza Bin Zainuddin⁵ <i>(Non-Independent Non-Executive Director)</i>	7/7

Notes:-

- ¹ Appointed as Chairman of the AC on 4 June 2013
- ² Appointed as a member on 4 June 2013
- ³ Stepped down as a member on 22 March 2017
- ⁴ Appointed as a member on 10 March 2016
- ⁵ Appointed as a member on 22 March 2017

The Chairman of the AC reports to the Board on matters deliberated during the Audit Committee meetings. Minutes of each meeting are also distributed to each member of the Board.

For the period from 1 January 2017 to 6 February 2018	With effect from 6 February 2018
Encik Aw Hong Boo <i>(Chairman)</i>	Encik Lim Tian Huat <i>(Chairman)</i>
Datuk Shahril Ridza Bin Ridzuan <i>(1 January 2018 to 22 March 2017)</i>	Ir. Moslim Bin Othman
Encik Sazaliza Bin Zainuddin <i>(22 March 2017 to 6 February 2018)</i>	Puan Lynette Yeow Su-Yin
Encik Lim Tian Huat	
Dato' Jasmy Bin Ismail	

With the merger between Asian Finance Bank Berhad (AFB) and Malaysia Building Society Berhad (MBSB), Internal Audit Division (IAD) will comply with all Bank Negara's requirements.

3.0 AUTHORITY

The AC in discharging its duties has explicit authority to investigate any matter within its terms of reference. It has full access to and co-operation from the Management and full discretion to invite any director or executive officer to attend its meetings. The AC shall have the necessary resources made available to it by the Group to enable it to discharge its functions effectively. The AC has full and unrestricted access to the information and is able to obtain an independent professional advice if necessary, with any expenses related thereto to be borne by the MBSB.

4.0 SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year, the main activities undertaken by the AC in accordance with its terms of reference are summarised as follows:-

4.1 Financial Reporting

- a) Reviewed the quarterly unaudited financial results of MBSB and MBSB Group prior to recommending to the Board of Directors for approval with particular focus on the main factors contributing to the financial performance in terms of revenue and operating expenses.
- b) Reviewed the impact of any changes to the accounting policies and adoption of new accounting standards as well as the accounting treatments used in the financial statements.
- c) Reviewed the annual audited financial statements of MBSB and MBSB Group and discussed with the Management and external auditors prior to submission to the Board of Directors for their approval. The review was to ensure that the accounting treatment, financial reporting and disclosures were in compliance with:-
 - Provisions of the Companies Act 2016;
 - Listing Requirements of Bursa Malaysia Securities Berhad;
 - Applicable approved accounting standards in Malaysia; and
 - Other legal and regulatory requirements.

4.2 Internal Audit

- a) Reviewed and approved the Annual Audit Plan (AAP) to ensure adequate scope and comprehensive coverage over the activities of MBSB and ensured that all high risk areas are audited annually.
- b) Reviewed the status of completion of the AAP, resource requirements for the year and assessed the performance of IAD.
- c) Reviewed the internal audit reports tabled during the year, which outlined the audit issues, recommendations and management's response thereof. Discussed with management and where appropriate, directed management to rectify and improve the system of internal controls and workflow processes based on the internal auditors' recommendations for improvement to ensure control lapses are addressed.
- d) Monitored the corrective actions taken on the outstanding audit issues to ensure that all the key risks and control lapses have been addressed.
- e) Conducted half-yearly reviews of the performance, progress and adequacy of coverage of the internal audit function.
- f) Reviewed the staffing requirements of the IAD in terms of skills and core competencies of the internal auditors.
- g) Reviewed and approved the revised Audit Charter to integrate with Asian Finance Bank Berhad's (AFB) Audit Charter.
- h) Reviewed and recommend to the Board of Directors for approval the revised Terms of Reference of the AC to be in line with BNM's Guidelines on Corporate Governance, the Main Market Listing Requirements, Malaysia Code of Corporate Governance issued in 2017 as well as the integration with AFB.
- i) Conducted annual reviews of the Business Contingency Plan and Disaster Recovery Plan testing which is benchmark against Bank Negara Malaysia's Guidelines on Business Continuity Management.

REPORT OF THE AUDIT COMMITTEE

- j) Reviewed the investigation reports tabled during the year and ensured appropriate remedial actions/ measures were taken.
- k) Reviewed the minutes of AC meetings for an overview of the deliberation and remedial actions taken by the Management on the control lapses raised by the Internal Auditors.

4.3 External Audit

- a) Reviewed with the external auditors:-
 - Their audit planning memorandum for the year ended 31 December 2017 comprising their audit plan, audit strategy and scope of work for the year.
 - Their annual audit report and management letter together with management's response to the findings of the external auditors.
 - Updates of new developments on Financial Reporting Standards issued by the Malaysian Accounting Standards Board.
- b) Met the external auditors twice for discussion without the presence of the Management.
- c) Assessed the independence and objectivity of the external auditors during the year and prior to the appointment of the external auditors for ad hoc non-audit services. The Committee also received from the external auditors their policies and written confirmation regarding their independence and the measures used to control the quality of their work.
- d) Evaluate the performance and effectiveness of the external auditors and made recommendations to the Board of Directors on their audit fees and for their reappointment to hold office until the conclusion of the next annual general meeting. The evaluation of the external auditor would include the following:-

- i) Performance
 - Level of knowledge, capabilities, experience and quality of previous work;
 - Level of engagement with the board;
 - Ability to provide constructive observation, implications and recommendation in areas which require improvement;
 - Appropriateness of audit approach and the effectiveness of audit planning; and
 - Ability to perform the audit work within the agreed duration given.
- ii) Independence and objectivity
 - Non-audit services rendered by auditor does not impede independence; and
 - Auditor demonstrates unbiased stance when interpreting the standards/policy adopted by a financial institution.

4.4 Policy Review and Other Matters

- a) Reviewed the Report of the AC for inclusion in the MBSB's 2017 Annual Report before recommending to the Board for approval.
- b) Reviewed the disclosure statements on compliance with the Malaysian Code on Corporate Governance and the statement of internal controls on the annual audited financial statements for inclusion in the MBSB's 2017 Annual Report before recommending to the Board for approval.
- c) Tabled the minutes of each AC meeting to the Board for notation, and for further direction by the Board, where necessary.

4.5 Directors' Training

During the year, the Committee members have attended the relevant training programmes, conferences and seminars as detailed out in CG Report.

5.0 STATEMENT ON INTERNAL AUDIT FUNCTION

5.1 The function of internal audit is an independent, objective assurance and consulting activity designed to add value and improve MBSB operations. It helps to accomplish these objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

5.2 The IAD was established to carry out the function of internal audit for MBSB. The IAD assists the AC in discharging the Committee's duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the MBSB's system of internal controls. The IAD is adopting best practices of the relevant requirements on internal audit:-

i) BNM/RH/GL (013-4) Guidelines on Internal Audit Function of Licenced Institutions


The core functions of an internal audit division is in accordance with the said BNM guideline:-

- To perform an independent appraisal of activities as a service to the Management; and
- To assist Management to establish and maintain the best possible internal control environment within the MBSB.


ii) International Professional Practice Framework

To ensure that the IAD operates competently and professionally within this changing environment, a series of professional standards have been adopted. They reflect the internationally accepted "International Professional Practice Framework pronounced by the Institute of Internal Auditors"

5.3 The internal audit function is performed in-house and undertaken by MBSB's IAD. The IAD functionally reports to the AC as an independent unit that provides independent and objective assurance on the adequacy and effectiveness of MBSB's internal control systems implemented by the Management.



The function of internal audit is an independent, objective assurance and consulting activity designed to add value and improve MBSB operations



5.4 The IAD, as the third line of defence, checks for compliance with statutory/regulatory requirements, internal policies and procedures and review the work processes/procedures for efficiency and effectiveness. In addition, the IAD assesses the operating effectiveness of the risk management and internal control systems. The IAD also carries out investigative audits where there are improper, illegal and dishonest acts reported.

5.5 The IAD function which is guided by its Audit Charter that formally documents the roles, duties and responsibilities of the internal auditors, reports functionally to the AC and administratively to the Group President and Chief Executive Officer.

The principal activities of the IAD are to provide independent and objective assurance on the adequacy and effectiveness of MBSB's internal control system as implemented by the Management.

5.6 The IAD is represented at the onset in all major IT projects undertaken, and provide necessary input especially in relation to controls required. The IAD provides consulting or advisory services in the evaluation of risk exposures of new systems, business products and services to assess the controls that should be in place to mitigate the risks identified prior to implementation.

REPORT OF THE AUDIT COMMITTEE

When providing such consulting or advisory services, the IAD is not involved in the system selection or implementation process in order to maintain its objectivity and independence.

- 5.7 The IAD provides periodic reports to the AC deliberating the results of the audit conducted in terms of risk management of the unit, operating effectiveness of internal controls, compliance with internal and regulatory requirements and overall management of the unit. Key control issues, significant risks and recommendations are highlighted along with the Management's responses and action plans for improvement and/or rectification where applicable. This enables the AC to execute its oversight function by forming an opinion on the adequacy of measures undertaken by the Management.
- 5.8 The IAD in performing its duties covers all units and operations of MBSB. The selection of the units to be audited from the audit universe is based on the Annual Audit Plan which is premised on a risk-based approach with the emphasis on the following main core audit strategies:-
- a) Financial Audit with the primary objective is to provide an independent, reasonable assurance of the accounting system and information.
 - b) Credit audit of Head Office/Sales and Service Centres covering the credit underwriting of post-disbursed loan, credit operations, security documentation and credit recovery.
 - c) Operational audit with the primary objective to ensure effective operations of business and banking processes are discharged.
 - d) Treasury audit with the aim to ensure that Treasury operations are in-line with the objectives and strategies of the asset and liabilities management and the approved policies and procedures as well as to ensure proper authentication and verification of treasury transactions.
 - e) Information System (IS) audit with the primary objective to ensure that the in-house application system and those outsourced systems in respect of the process data migration, operations, access control, physical security, maintenance and its contingency planning are in accordance with MBSB's policies and procedures.
- The IAD also conducts audits on the information systems of MBSB to ensure that the computing resources are adequately secured to protect the data integrity and confidentiality, and there are adequate measures to safeguard and provide for the continued availability of the system to support business operational needs.
- f) Shariah Audit with the primary objective is to ensure that MBSB is discharging its responsibilities in compliance with Shariah rules and principles as prescribed by MBSB's Shariah Advisory Committee (SAC).

The purpose of the Internal Shariah Audit is to ensure that the system of internal control for Shariah Compliance comprise of Shariah Governance, Shariah Product, Shariah Operation and Shariah Support is conceptually sound and effective in implementation, so as to ensure that the goals and objectives for Shariah compliance are achieved.

With regards to Shariah audit, findings and recommendations are also tabled to the SAC and AC for notification and deliberation.

5.9 During the financial year ended 31 December 2017, the Internal Audit Division has carried out the following activities:-

- a) Presented its audit plan, audit budget and scope of work to the AC for approval. The internal auditors have adopted a risk-based approach towards the planning and conduct of audits, which is designed to evaluate and monitor MBSB's internal controls system.
- b) Conducted the scheduled audits and tabled the audit reports to the AC highlighting the audit findings, issues and recommendations for improvement.
- c) Followed-up on management corrective actions on unresolved audit findings and reported the status to the AC.
- d) Conducted annual reviews of the Business Contingency Plan and Disaster Recovery Plan testing which is benchmark against Bank Negara Malaysia's Guidelines on Business Continuity Management.
- e) Performed ad-hoc audit assignments and investigations at the request of the AC on areas of concern identified by the AC.
- f) Provided advisory services to review the operational guidelines and manuals to ensure pertinent controls embedded are consistent

with the changes in businesses and operations as well as the integration with the policies and procedures of MBSB Bank Berhad (previously known as AFB).

- g) Worked closely with the external auditors to resolve any control issues as raised by external auditors to ensure that significant issues are duly acted upon by the Management.

5.10 The cost incurred for the internal audit function in respect of the financial year ended 31 December 2017 amounted to **RM1,834,218**.

6.0 INTERNAL AUDIT REPORTS

The IAD has completed 87 assignments and 20 consultancy services during the year covering the audits of all key operations and investigations. All findings by the IAD are tracked and followed-up until closed.