OUR SUSTAINABILITY STATEMENT

TRUST

MBSB is Committed to our Communities

GROUP PCEO STATEMENT

"WE NOW HAVE THE OPPORTUNITY TO AMPLIFY OUR PURPOSE AS A PROVIDER OF ACCESS FOR THE COMMUNITIES WE SERVE – ACCESS TO ACHIEVING THEIR DREAMS, ACCESS TO REPRIEVE AND ACCESS TO A BETTER QUALITY OF LIFE."

Dear Stakeholders,

In the exciting year of 2017, we have experienced a roller coaster of events as an organisation. Business has persevered well through our merger and acquisition activities, culminating in the acquisition of the Asian Finance Bank Berhad (AFB). You have been the pillar of my strength to arrive at where we are now.

Throughout the journey this year, one thing has always been clear – that we wanted to grow and transform as an organisation to play a more significant role in the lives of our communities. From our inception as a building society, we have always remembered our purpose as a provider of access for the communities we serve – access to achieving their dreams, access to reprieve and access to a better quality of life.

We now have the opportunity to amplify this purpose.

Moving forward, to better serve our stakeholders, we are focused on becoming a top progressive Islamic bank. With technology as an enabler, we want to inclusively expand our banking and value-added services, providing access and services to all segments of society.

This is very aligned to MBSB's increased focus on sustainability. In 2016, we officially kicked off our sustainability efforts and we have been continuing those efforts through 2017, which we'd like to talk about in this section.

We plan to innovatively work on these issues and have undertaken a 3-year technology transformation roadmap. This will be the first phase of building foundational capabilities to support the enhanced direction of MBSB.

Most importantly, we successfully heard from more than 2,000 of you in our survey on what business matters were most important to you. I take this input very seriously and it will advise every aspect of my decision making in this coming year.

I look forward to continuing our conversation in these very important areas. Let's together make a true difference in the lives of the communities we touch. Thank you for all you do.

TRUST

STRATEGY

MBSB SUSTAINABILITY STRATEGY

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 as highlighted in this report. 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.

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
(Rendah Hati)	*(Profesionalisme)*	*(Etika)*	*(Empati)*	*(Kesungguhan)*

OUR INTEGRITY	OUR PEOPLE	OUR CUSTOMERS	OUR PRODUCTS	OUR TECHNOLOGY	OUR COMMUNITIES	OUR PLANET
Upholding Trust	Developing Champions	Enhancing Lives	Shared Value	Transforming Digitally	Advancing Communities	Thriving Globally

PROFIT

PEOPLE

PLANET

In support of the Sustainable Development Goals (SDGs), we are uniting our global resources towards these focused outcomes. Along these lines, we are working to map our Sustainability efforts and outcomes against the SDGs. This will be further elaborated in the coming year.

PILLAR	SUPPORTED SDGS			
OUR INTEGRITY	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES		
OUR PEOPLE	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH		
OUR CUSTOMERS	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES		
OUR PRODUCTS	7 AFFORDABLE CLEAN ENER	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES
OUR TECHNOLOGY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	
OUR COMMUNITIES	4 QUALITY EDUCATION	11 SUSTAINABLE CITIES AND COMMUNITIES		
OUR PLANET	7 AFFORDABLE CLEAN ENER	11 SUSTAINABLE CITIES AND COMMUNITIES		

2018 COMMITMENTS AND ACTIONS

- **We commit to ingrain sustainability within our core business to further enable economic, environmental, social and governance advances**
- We will expand upon and communicate our Sustainability Plans across the organisation, and increase awareness of the SDGs and its targets in relation to our plan

TRUST

SCOPE

SCOPE

Malaysia Building Society Berhad (MBSB) business operations

REPORTING PERIOD

Covers period of 1 January 2017 to 31 December 2017

DISTRIBUTION

Will be made available to our shareholders and our stakeholders. Will also be available via our website at **www.mbsb.com.my**

LOCATION

All operations across Malaysia

GUIDANCE

Bursa Sustainability Reporting Toolkit

FTSE4Good Bursa Malaysia (F4GBM)

Global Reporting Initiatives (GRI) G4 : In Accordance – Core

FEEDBACK

We welcome any feedback you may have for this Sustainability Section. We can be contacted at enquiry@mbsb.com.my.

GOVERNANCE

Our Sustainability Steering Committee is chaired by our PCEO and consists of top management across the organisation. The Steering Committee reports to the MBSB Management Committee. The Internal Audit Division acts as an independent observer.

The Project Management Office drives planned sustainability initiatives across the organisation and the Working Group, comprising members from across business divisions, provides business ideas, process innovation and data to support the sustainability efforts.

SUSTAINABILITY GOVERNANCE STRUCTURE

SUSTAINABILITY PROJECT STEERING COMMITTEE (PSC)

Internal Audit
(Observer)

SUSTAINABILITY PROJECT MANAGEMENT OFFICE (PMO)

- Finance
- Corporate Services

SUSTAINABILITY PROJECT WORKING GROUP (PWG)

- Corporate Services
- Corporate Business
- Retail Business
- Risk
- Treasury
- Compliance
- Project and Property Management
- Finance
- People Operations
- Legal
- Secretarial
- Corporate/Retail Collection and Management and Credit Administration

TRUST

SUSTAINABILITY PROJECT STEERING COMMITTEE (PSC)

Datuk Seri Ahmad Zaini Othman
PCEO/Chairperson

Azlina Mohd Rashad
Chief Corporate Officer, Corporate Services

Tang Yow Sai
Chief Financial Officer, Finance

Lim Seong Soon
Chief Risk Officer, Risk

Tengku Khalizul Tengku Khalid
Chief Compliance Officer, Compliance

Mohd Azri Mohd Nawi
Chief People Officer, People Operations

SUSTAINABILITY PROJECT MANAGEMENT OFFICE (PMO)

NAME	UNIT
Tang Yow Sai	Finance
Hee Wei Jean	Finance
Chan Chooi Han	Finance

NAME	UNIT
Azlina Mohd Rashad	Corporate Services
Zuhaznim Izzuddin	Corporate Services
Sazlina Zulkifli	Corporate Services

SUSTAINABILITY PROJECT WORKING GROUP (PWG)

FUNCTION	
Corporate Services	Risk
Corporate Business	Compliance
Retail Business	Finance
Treasury	People Operations
Project & Property Management	Legal
Corporate/Retail Collection & Management and Credit Administration	Secretarial

DIALOGUE

Our Stakeholders Shape Our Views

DIALOGUE

STAKEHOLDER ENGAGEMENT

The origins of MBSB is deeply rooted in the communities we now serve. This connection has always factored strongly in our way of business. Along these lines, stakeholder engagement is a concept that we fully embrace and have sought every opportunity to broaden.

In 2017, MBSB placed a large focus on engaging with our stakeholders, both internal and external. The engagements were initiated by various divisions across the organisation.

A high-level view of the engagements are summarised here, with details referenced throughout this section.

STAKEHOLDERS	ENGAGEMENT PLATFORMS	FREQUENCY	TOPICS/MATTERS ADDRESSED
ANALYSTS	Analyst Briefing	Quarterly	• Financial and business performance of MBSB
CUSTOMERS	Open house event for Hari Raya Product Briefing Signing Ceremony	Yearly Ad Hoc Ad Hoc	• Networking and introduction of the product
EMPLOYEES	Townhalls with CEO	Ad Hoc	• Important company updates • Policies, procedures, operations • Internal CSR activities • Health & Fitness • Social Engagements • Recreational activities • Educational trip for Employees' Children • Personal Development • Pledge initiative with SPRM
	Induction program/O_2 (On-board & Onwards program)	Semi Annual	
	People week	Ad Hoc	
	Training Program		
	Employee Self Portal		
	Internal CSR Activities	Several Times a year	
	Health Talk	Semi Annual	
	Surau Activities	Monthly	
	Corruption-Free Pledge (Ikrar Bebas Rasuah)	One Off	
GOVERNMENT	Programme under the Economic Planning Unit imposed on all GLCs (SLIM)	Throughout the year	• Employment issues
	Bumiputra Empowerment Agenda	Quarterly	• KPI Performance on Bumiputera empowerment agenda
	Whiteroom Session	Yearly	

2017 was the year that we further embraced our stakeholders to begin the journey towards reaching out to our stakeholders to understand their views and thoughts about the various matters that were of importance to us. We further advanced our engagement platforms reaching out to both our internal and external stakeholders. This gave us the opportunity to further enhance communication amongst the various groups. While some engagement channels and topics were maintained, a considerable number of initiatives were introduced in 2017.

STAKEHOLDERS	ENGAGEMENT PLATFORMS	FREQUENCY	TOPICS/MATTERS ADDRESSED
MEDIA	Media Appreciation Night Press Conferences	Yearly When required	• Knowledge sharing and networking
REGULATOR	Annual International Conference on Financial Crime and Terrorism Financing Briefings	Yearly Ad Hoc	• Potential solutions to challenges faced by compliance and risk - preparation future compliance risks • Regulatory guidelines • Personal Data Protection Act and its regulations • Common Reporting Standard (CRS) regulations • Supervisory Expectation on Technology Risk Management
SHAREHOLDERS	Annual General Meeting	Yearly	• Financial performance of MBSB and any approval needed by the shareholders
SUPPLIERS	Briefings		• MBSB expectations (during project implementation and vendor evaluation process)

DIALOGUE

STAKEHOLDER SURVEY

WE ASKED OUR STAKEHOLDERS AND THEY ANSWERED OVERWHELMINGLY

In 2017, we strategically planned and executed our Stakeholder Engagement process, which involved both our internal and external stakeholders.

By leveraging on platforms and relationships already in place, a survey was designed with questions surrounding our top 10 Material Matters. Stakeholders were reached via a variety of channels namely meetings, EGMs, analyst briefings, events and, for the masses, the survey was sent out electronically.

We received 2,630 respondents collectively from our 8 stakeholder groups, a commendable achievement for MBSB's first sustainability stakeholder engagement survey.

MBSB SUSTAINABILITY SURVEY

10 MATERIAL MATTERS

- Market Presence, Reputation & Perception
- Responsible Finance in innovative Products & Services
- Stability of the Banking System & Domestic Economy
- Operational Excellence
- Integrity & Governance
- Customer Experience & Satisfaction
- Risk Management
- Technology & Innovation
- Health & Safety
- Employee Engagement & Development

2,630 RESPONDENTS

- Analysts
- Employees
- Major Shareholders
- Media
- Customers
- Regulators
- Minority Shareholders
- Suppliers

The breakdown of the respondents by stakeholder group are as follows:

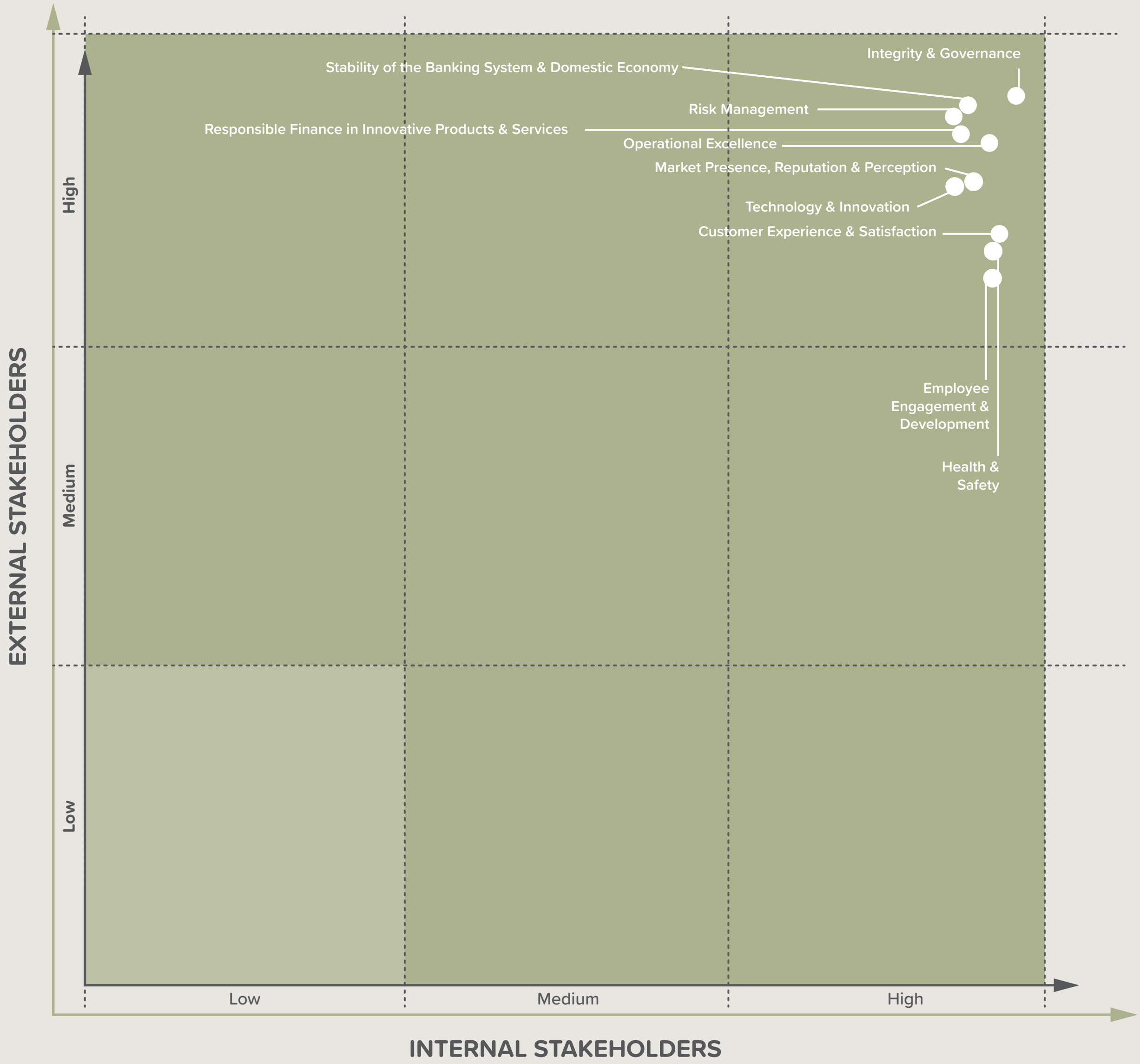
8 Stakeholder Groups	Analysts	Customers	Employees	Media	Regulators	Majority Shareholders	Minority Shareholders	Suppliers
2,630 Respondents	3	935	1,036	61	1	1	531	62

OUR STAKEHOLDERS HELPED US BUILD OUR MATERIALITY MATRIX

The purpose of the Sustainability Survey, was to provide our stakeholders with an avenue to share their views toward the Material Matters and what the importance of each was to them. The results plotted on the Materiality Matrix were derived from the results of the Sustainability Survey circulated amongst all 8 stakeholder groups, comprising of 2,630 respondents and how they ranked their importance concerning the 10 Material Matters.

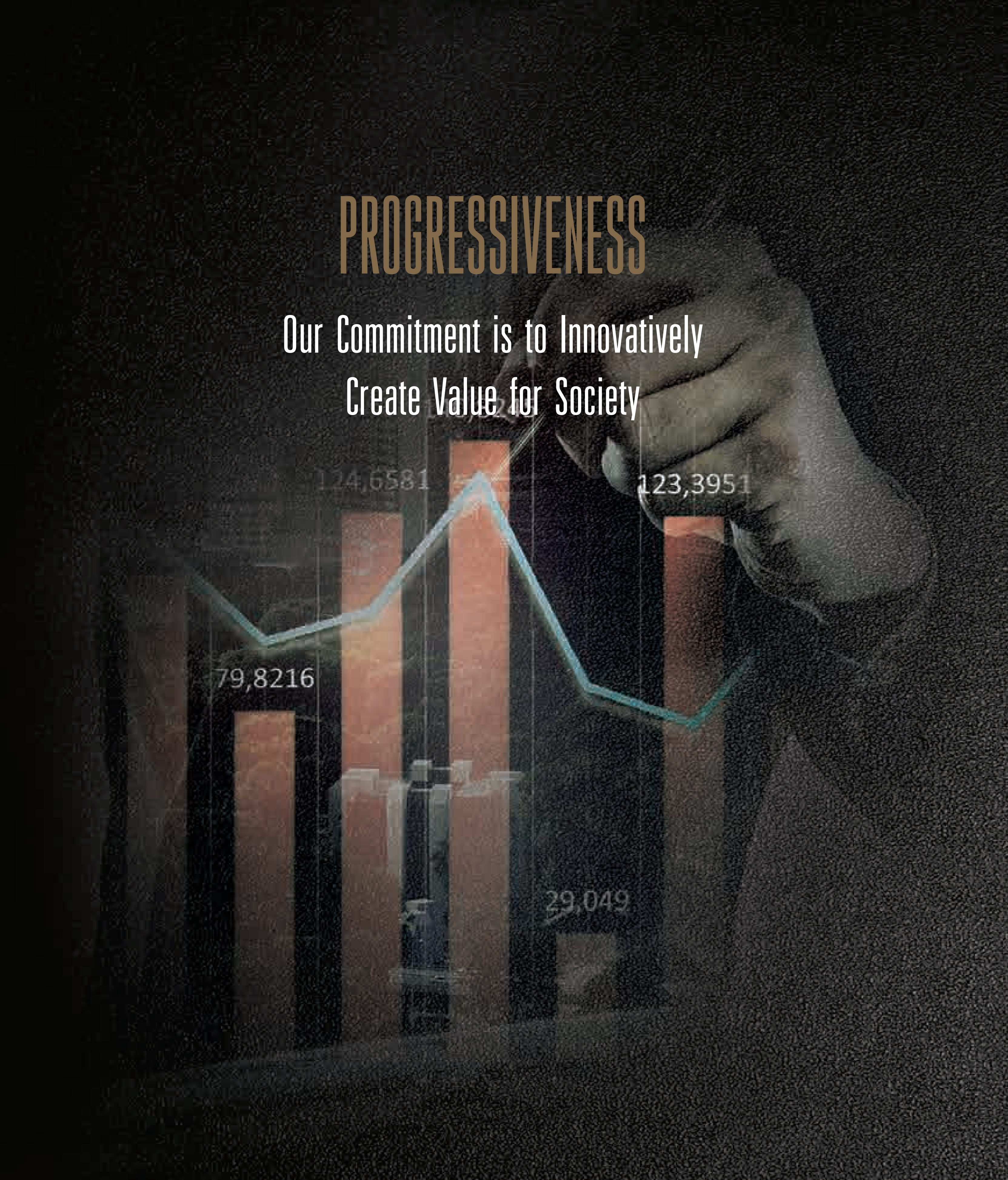
A graphical representation of these results are shown below. The levels of significance/priority is proportioned between low, medium and high against a scale of 10 being the highest, between internal and external stakeholders.

A graphical representation of these results are shown below.



PROGRESSIVENESS

Our Commitment is to Innovatively Create Value for Society



OUR MATERIAL MATTERS

MATTERS IMPORTANT TO MBSB AND OUR STAKEHOLDERS

- Integrity and Governance
- People Engagement and Development
- Customer Experience and Satisfaction
- Responsible Finance in Innovative Products and Services
- Digital Transformation
- Community Advancement
- Environmental Protection

LIM SEONG SOON
Chief Risk Officer

DATUK NOR AZAM BIN M. TAIB
Chief Business Officer

RISHAM AKASHAH BIN KAMARUZAMAN
Chief Digital Officer

MOHD AZRI BIN MOHD NAWI
Chief People Officer

AZLINA BINTI MOHD RASHAD
Chief Corporate Officer

ASRUL HAZLI BIN SALLEH
Chief Operations Officer

PROGRESSIVENESS

2016 SUSTAINABILITY COMMITMENTS (As declared in MBSB's 2016 Annual Report)	2017 PROGRESS UPDATE
In 2017, we will be engaging our key stakeholders specifically to discuss our material matters and to determine the importance of these matters to them. This will result in a material matrix that will match our priorities with those of our stakeholders. We look forward to this opportunity to exchange ideas and solutions.	The materiality matrix is included in the Stakeholder section. It includes direct feedback from 2,630 stakeholders as survey respondents.
In 2017, we will be continuing our journey to meet relevant regulations and guidance provided by local authorities, and strive towards selected global regulations and standards.	On our journey towards being a full-fledged bank following the acquisition of Asian Finance Bank Berhad (AFB), on our first day of operations, we will be fully compliant with all expanded governance requirements from all regulators. This year, we have also expanded our GRI indicator coverage.
Moving forward, in line with fully embracing Islamic Finance, MBSB commits that all of our employees will be trained on Islamic finance principles, with varied levels of certification and depth of knowledge.	As of 2017, 69% of employees have undergone Basic Islamic and Shariah Awareness training. 31% of employees are fully certified in Shariah certification.
In 2017, we will be further engaging with our customers across Corporate, Wholesale and Retail to better capture customer satisfaction and to analyse areas of improvement.	A full customer satisfaction survey was run for our Retail clients (results in the Customer Experience and Satisfaction section). A brief survey of our Corporate and Wholesale clients was carried out with largely positive results. One of our commitments for the coming year is to capture more quantitative and wide reaching responses for the Corporate and Wholesale sectors.
Moving forward, MBSB will increase our support of PR1MA with our offerings in the current established model, and by innovating new dynamic solutions to meet changing requirements. We are committed to making affordable home ownership a bankable and profitable venture.	MBSB continues to focus on affordable housing with 23.3% of all loans approved in 2017 falling into this sector. We have strongly supported Perumahan Penjawat Awam 1Malaysia (PPA1M) with 21.71% of all loans attributed to this programme.
In 2017, MBSB intends to grow this product portfolio, especially in East Malaysia, in support of Malaysia's SME players.	We have continued to focus on equipment financing as a key offering. East Malaysia has expanded and is currently being served out of our Johor hub.
We look forward to this coming year to push forward with our initiatives in transforming MBSB into an Islamic finance institution.	MBSB as a banking entity will be a fully Islamic bank from day one of operations.
Moving forward, we are working towards measuring and managing our environmental impact more closely, and increasing our initiatives in energy, water and resources conservation.	This year energy, water and paper consumption was tracked monthly with all results published in the Our Planet section.

INTEGRITY

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.

Our commitment to upholding the highest levels of governance has placed us in the Top 100 of the Minority Shareholders Watchdog Group (MSWG) in 2017.

CLOSING THE GAP – COMPLIANCE JOURNEY FROM AN EXEMPT FINANCE COMPANY TO BECOMING A FULL-FLEDGED BANK

This year was a defining year for us in preparing ourselves for growth and transformation in the banking sector. On top of the efforts reported in previous years to close the gap, some of our initiatives in 2017 include:

- Strengthening our IT security and data systems, including added security around our customer data systems
- Strengthened monitoring process (AML system) for detailed transactional monitoring to identify all areas of possible manipulation
- Enforcement of a new procurement policy and code of practice to ensure full transparency and integrity in the process
- Improved governance terms in the customer self-declaration form to ensure non-collusion and non-conflict in all transactions

STANDING UP FOR INTEGRITY

This year, MBSB was the first financial institution in Malaysia to take the Corruption-Free Pledge (Ikrar Bebas Rasuah), an initiative by the Malaysian Anti-Corruption Commission (MACC), also known as Suruhanjaya Pencegahan Rasuah Malaysia (SPRM).

At the event, Datuk Seri Ahmad Zaini led the pledge and, along with his senior managers, signed the pledge as witnessed by Dato' Shamsun Baharin, Deputy Chief Commissioner (Prevention). 150 of MBSB employees were also present for the pledge.

PROGRESSIVENESS

INCREASING ENGAGEMENTS WITH INTERNAL AND EXTERNAL STAKEHOLDERS

Engagement with stakeholders were prioritised in 2017 to ensure that MBSB not only performs above the required standards, but clearly communicates the importance and details of these governance measures.

For Internal Engagements, we have increased the number and channels of touchpoints with our employees at all levels, as detailed below for the past 3 years. This included classroom teaching, e-learning, teleconference training and roadshows. Topics included AML/CFT and FATCA, key compliance matters and developing a compliance culture.

INTERNAL ENGAGEMENT*	2015	2016	2017
Head Office	591	209	219
SSC		1,275	1,283
Other Divisions	524	225	503
All Staff	869	1,318	2,117
TOTAL	**1,984**	**3,027**	**4,122**

* *Note that these participant numbers are non-unique individual counts.*

For External Engagements, we have consistently engaged with external parties regarding Risk and Compliance matters, reporting, new developments and proactive efforts to increase the levels of compliance beyond regulatory requirements. The parties engaged include:

- Bank Negara Malaysia (Malaysia's Central Bank)
- Compliance Officers' Networking Group (CONG)
- Department of Personal Data Protection, Ministry of Communication and Multimedia
- Inland Revenue Board (IRB)
- Regulators and local/international authorities e.g. Asia Pacific Group on Money Laundering, Royal Malaysia Police etc.

Though MBSB does not have a relatively extensive branch network, we do have remote branches that enable access in low populated or economically disadvantaged areas, for example, our branches in Mukah, Sarawak and Keningau, Sabah.

Currently, 7 out of our 44 branches provide easy access for disadvantaged communities (Sitiawan, Johor Bahru, Damansara, Klang, Puchong, Wangsa Maju and Sandakan). This will be actively increased in the remaining branches with the exercise expected to complete in two years.

GOVERNANCE UPHELD BY SHARIAH PRINCIPLES

Besides banking regulatory requirements, MBSB's high commitment to integrity is defined and ingrained by the Shariah principles we adopt, which strictly guides all our practices. MBSB's new banking entity will be a fully Islamic bank.

Our Shariah Advisory Council and our Shariah Governance Structure govern our adherence to Maqasid Shariah with our purpose of ensuring the wellbeing of our customers and to ease hardship in our community.

Our business conversion initiative towards becoming a full-fledged Islamic financial institution is rooted in our employees. Currently 69% of employees have undergone Basic Islamic and Shariah Awareness training, 31% of employees are fully certified in Shariah certification. The Shariah Audit Certification programme is designed to build strong fundamental and advance knowledge and skills in Shariah Audit practices.

The relevant Shariah policies enforced across the organisation include:

RELEVANT SHARIAH POLICIES AND PROCEDURES
Shariah Governance Framework (SGF) For MBSB (incorporating the SACTOR)
Shariah Advisory Committee Terms of Reference [SACTOR] (Part of the Shariah Governance Framework [SGF] For MBSB)
Shariah Compliance Manual (SCM) - PFi Tawarruq
Shariah Policies For Tawarruq Financial Products
Shariah Secretariat and Advisory (SSA) Unit Procedures
Shariah Risk Management Procedures

CONTROL MEASURES TO PROTECT CUSTOMER PRIVACY

The relevant MBSB controls in place safeguarding customer information are:

1. Any breaches to the Code of Ethics (including breaches of customer privacy) by MBSB employee could tantamount to disciplinary action and/or dismissal

2. Employee Undertaking Letter on Non-disclosure of Customer Information

3. System access control rights of customer data are given to relevant staff only according to their job scope/functions

4. Physical security control access rights to specific locations/areas e.g. filing room, server rooms etc. where customer information is stored are given to relevant staff only according to their job scope/functions

5. Compliance Division's training and awareness programmes on Management of Customer Information and Permitted Disclosures are provided regularly to Head Office and SSCs staffs (see details on previous page)

6. Third Parties and Outsourced Service Providers (OSP) are required to sign the Non-Disclosure Agreement (NDA)/Undertaking to safeguard customer information

PROGRESSIVENESS

RESPONSIBLE POLICIES AND PROCEDURES

ASPECT (alphabetical)	REGULATION AND SUPPORT
Anti-Corruption	Anti-Corruption Policy Fraud and Corruption Control Guidelines
Anti-Money Laundering	Anti-Money Laundering & Counter Financing of Terrorism (AML/CFT) Framework
Boardroom Diversity	Boardroom Diversity Policy
Child Labour	Children and Young Persons (Employment) Act 1966
Audit Partner	External Auditor Policy
Human Rights	Article 6 of Federal Constitution; Anti-Trafficking in Persons and Anti-Smuggling of Migrants Act 2007
Internal Compliance	Compliance Framework
Personal Data Protection	Personal Data Protection Act 2010
Supply Chain	Outsourcing Policy
Shariah Principles	Shariah Governance Framework
Whistle Blowing	Complaint and Whistle Blowing Policy

RELEVANT CUSTOMER PRIVACY POLICIES AND PROCEDURES
MBSB Personal Data Protection Policy and Procedure
MBSB IT Security Procedure
MBSB Code of Ethics
MBSB Outsourcing Policy
MBSB Procurement Policy

RESPONSIBLE BUSINESS PRACTICES

DECLARATORY STATEMENTS
There is no sale of banned or disputed products
All policies (including our Code of Conduct and Code of Ethics) are reviewed every 2 years
Audit engagement partner is reviewed every 5 years
In 2017, local suppliers made up 99.7% of our total supplier payment
In 2017, there has been no legal actions for anti-competitive behaviour, anti-trust, or monopoly practices
In 2017, there were no political contributions made or received
In 2017, there were no cases of staff disciplined or dismissed due to non-compliance with anti-corruption policies.
In 2017, there were no fines, penalties or settlements in relation to corruption
In 2017, there were no unresolved complaints regarding breaches of customer privacy and losses of customer data

2018 COMMITMENTS AND ACTIONS

- **We commit to uphold the highest level of integrity possible in our everyday decisions and actions, in our efforts to uplift our communities and our nation**
- We will advance disclosure of corporate practices by publishing selected corporate policies online
- We will increase our disclosure requirements from key prospects in order to ensure good governance and increased transparency towards the well-being of society and the environment

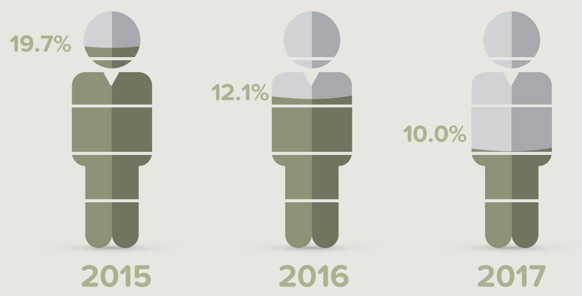
PROGRESSIVENESS

PEOPLE

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, as noted below.

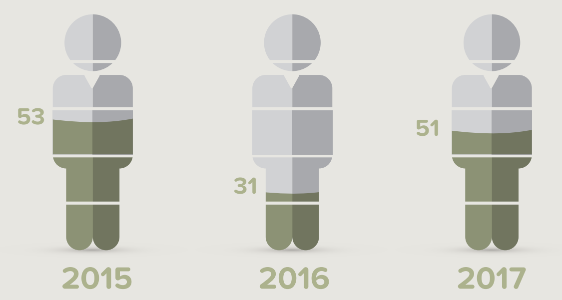
TURNOVER RATES



This increases our need to focus on ensuring that our employees are constantly stretching their abilities and potential to help them realise their potential. At the same time, we now have an opportunity to instil fresh ideas and ways of working to invigorate the merging of two entities into a stronger version of ourselves. Our training hours for 2017 totalled 76,931 hours, averaging 51 hours per employee per year – well above our organisational KPI of 30 hours per employee per year. In the coming year, in line with growing together with our people, we will be working closely with our CSR team to create more opportunities for development within the communities we serve.

Training types encompass Account/Audit/Finance, Anti-Corruption/Integrity, Banking Operations, Business Management, Property/Maintenance, Communication Skills, Customer Service, Human Resource, Islamic Banking/Finance, IT Security/Technology, IT/Computer Skills, Motivation/Team Building Personal Development, Risk/Compliance and Safety/Security. There is currently no transitional training upon retirement or termination.

TRAINING HOURS
(per employee per year)

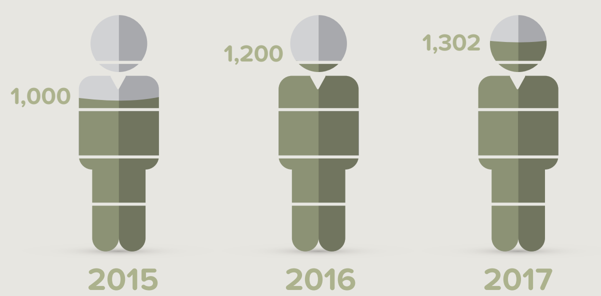


Employee Category	Male			Female			Total Training Hours 2017	Total FTE	Avg Hours/ FTE by Category
	Training Hours	FTE	Avg Hours	Training Hours	FTE	Avg Hours			
Senior Management	4,515.5	85	53	2,327.5	47	50	6,843	132	**52**
Mid-Management	8,061	146	55	6,430	117	55	14,491	263	**55**
Executive	19,547.5	345	57	23,861	479	50	43,408.5	824	**53**
Non-Executive	6,072	133	46	6,116.5	151	41	12,188.5	284	**43**
Total	**38,196**	**709**	**54**	**38,735**	**794**	**49**	**76,931**	**1,503**	**51**

* *Note that total staff here include all who were employed by MBSB in 2017*

Our staff size has steadily been building to support the growth and the anticipated trajectory of our business.

STAFF STRENGTH

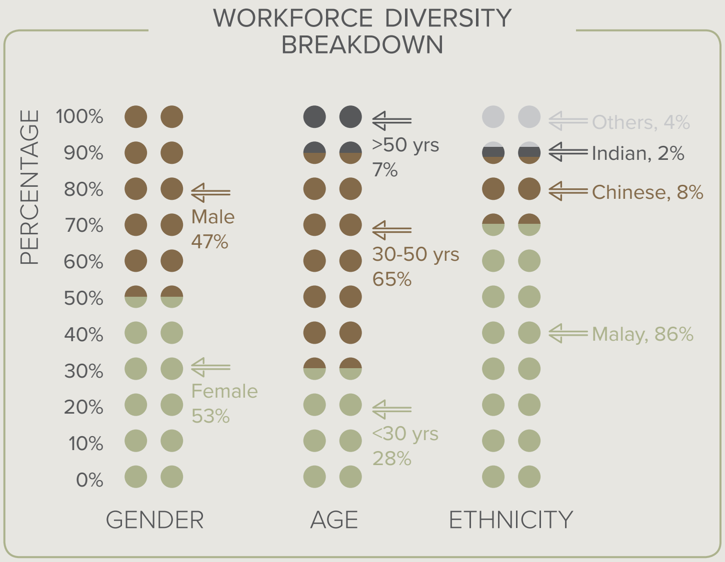


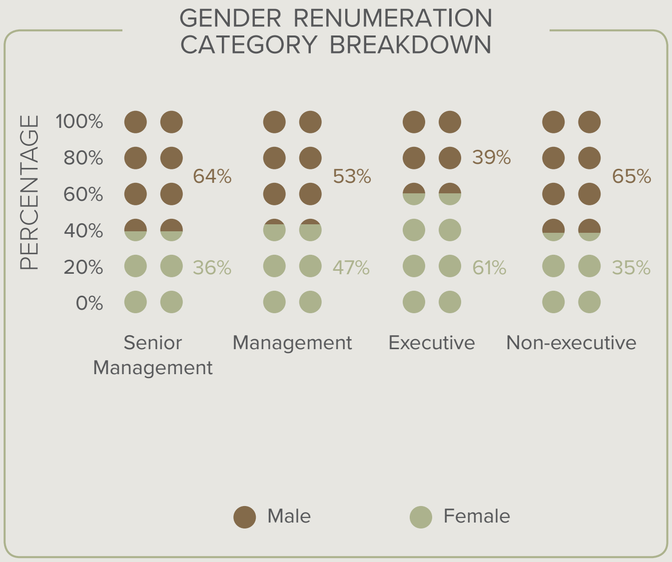
At MBSB, differing views stemming from our workforce diversity is something we celebrate, and this is apparent in all our daily interactions and decision making. Our gender, race and age breakdown is as detailed below. It is noted that we see an increased representation of women in the total workforce but a decrease in ethnic diversity of the workforce this year.

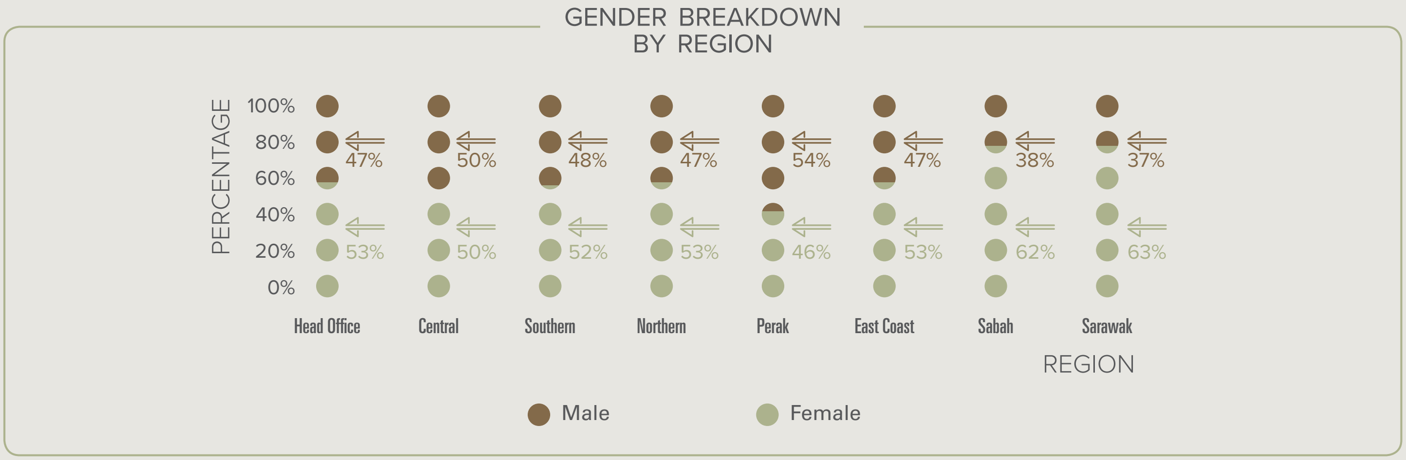
Employment Type	Permanent	Contract	Probation
Female	678	25	54
Male	624	12	38
TOTAL	**1,302**	**37**	**92**

* *Note that total staff is as of 31 December 2017*

PROGRESSIVENESS







MBSB is a fully locally-run organisation where all our staff in our headquarters are Malaysians, as detailed below:

Head Office Staff	Senior Vice President	Deputy Senior Vice President	Vice President	Deputy Vice President	Assistant Vice President	Senior Manager
TOTAL	8	2	6	15	34	51
LOCAL	100%	100%	100%	100%	100%	100%

DECLARATORY STATEMENTS

MBSB provides parental leave to both parents and 732 women and 662 men are eligible in the organisation. For 2017, a total of 76 women took maternal leave and 61 men took their paternal leave. We are happy to report that 100% of these men and women returned to work after their parental leave ended. Of this number, 92.7% of them were still retained after 12 months of work after returning.

We respect an employee's right to freedom of association and collective bargaining without discrimination, in line with the Industrial Relations Act. A total of 20.27% of our staff are covered by collective bargaining agreements. These agreements currently cover safety to an extent of establishing rules and regulations.

Under the 4th Collective Agreement between MBSB and NUCW, the minimum wage stated is RM1,000 for Peninsular Malaysia and East Malaysia which complies with the Minimum Wages Order 2012 which was gazetted in accordance with section 23(1) of the National Wages Consultative Council Act. MBSB will notify the union 2 weeks in advance should there be any intention to change the existing hours of work.

In monitoring our employees' occupational health and safety, we have a Safety and Health Committee with a representation of 35 employees (24 for Group OSHA Committee and 11 for Building OSHA Committee).

In 2017, one claim was submitted to the Social Security Organisation (SOCSO) for Occupational Disease. He was an employee at the head office and was on 39 days of medical leave.

All policies on these and other Labour Standards are communicated through internal memorandums, posted on the Intranews, emailed and introduced during the induction programme. The policy and code of ethics are available in two languages, ie: English and Bahasa Malaysia.

There have been no instances of non-compliance to safety standards.

MBSB does not condone bullying and/or harassment. It is considered a major misconduct in our Company policy and subject to disciplinary actions.

2018 COMMITMENTS AND ACTIONS

- **We commit to create for our employees the environment and the support that encourages continuous growth and learning.**
- We will provide constructive and timely feedback, encouragement and development guidance in building our employees' capabilities and critical skills.
- We will build leadership capabilities that focus on building a more collaborative workplace to enhance work effectiveness and employee engagement in our journey towards becoming an employer of choice.

PROGRESSIVENESS

CUSTOMERS

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.

CHANNELING THE VOICE OF THE CUSTOMER TO ALL BUSINESS SEGMENTS

The Customer Relationship Management (CRM) team conducted internal engagement sessions this year to increase the awareness of the types and frequency of issues seen by MBSB's retail customers. The main purpose of these sessions are for:

- Business process improvement recommendations
- Refreshers on all committed turnaround times by each party
- Awareness of CRM policies and procedures for customer complaint handling
- Networking among the various divisions

The outcome of the sessions has been encouraging with seen improvements in turnaround times for customer complaint responses. Three sessions were conducted in 2017 with the following groups:

- Retail Collection
- Retail Credit Administration
- Branches

INCREASING EFFICIENCY, TRANSPARENCY AND CARE OF OUR CUSTOMER HANDLING

A new system has been installed this year to further automate, monitor and route customer service requests. This will be coupled with increased training in the areas of product information, regulatory requirements and business process knowledge.

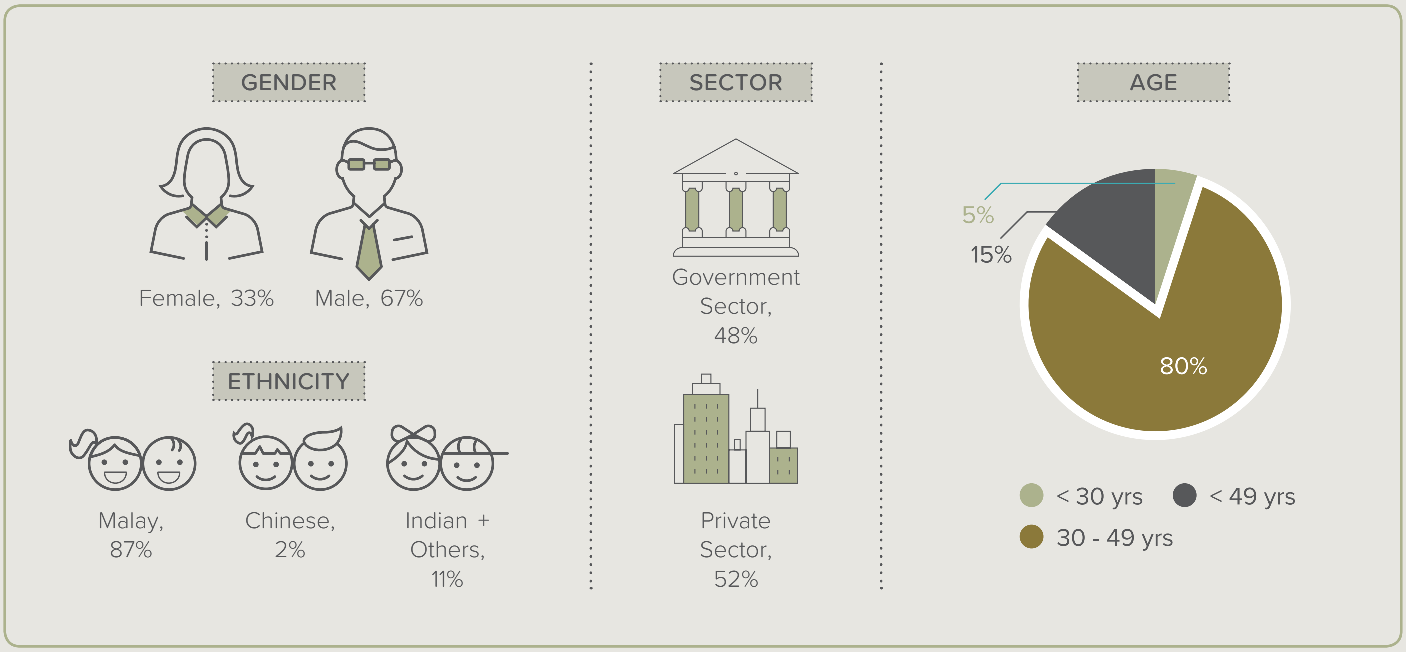
Resolution of customer issues were also analysed to discover areas of customer care that can be extended to relieve any hardship faced, or introduce alternative financial solutions. In 2015, we were the first financial institution to partner closely with Agensi Kaunseling dan Pengurusan Kredit (AKPK), the agency set up by the Central Bank of Malaysia to help individuals take control of their financial situation through Financial Education, Financial Counselling and a Debt Management Programme. As recognition of our continuous active partnership, MBSB received the AKPK Collaborators Award 2017 for being the most supportive Financial Institution for AKPK initiatives in assisting our customers.

LISTENING TO THE NEEDS OF OUR CUSTOMERS

This year, we ran an in-depth survey and analysis of our retail customers conducted by an external survey expert. The objectives of this survey were:

- To increase the service quality offered
- For continuous improvement of standard operating procedures, and
- As a benchmark to track effectiveness.

A total of 400 respondents were achieved in the survey with the following breakdown:



PROGRESSIVENESS

Overall, the survey results showed that MBSB achieved an above average satisfaction survey score with 75.8% of respondents "Pleased" with the service, and will continue to strive towards a "Delighted" response from the customer. It was also concluded that 30% of existing customers are loyal to MBSB as either their 'only' or 'preferred' financial institution.

However, critical improvement areas were found in the survey as follows:

MBSB BRANCH	MBSB CALL CENTRE
Quality of query resolution	Quality of query resolution and time taken
Problem solving skill	Total time a call remains in queue

Armed with the detailed analysis of the customer feedback, we will continuously seek for efficiencies and improvements.

2018 COMMITMENTS AND ACTIONS

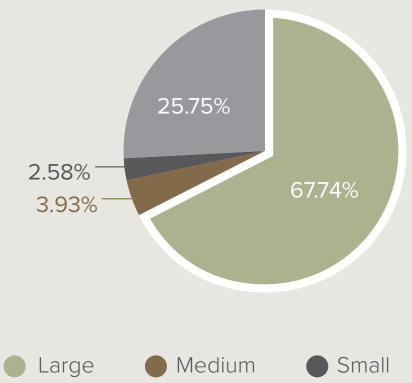
- **We commit to place the best interest of our customers at every possible juncture in providing dependable customer care**
- We will continue to enhance our customers' experience through care, innovation and technology
- We will focus on the needs of our customers at their different points of contact with us, and work to ensure that we become a consultative partner to engage and support their journey with us

PRODUCTS

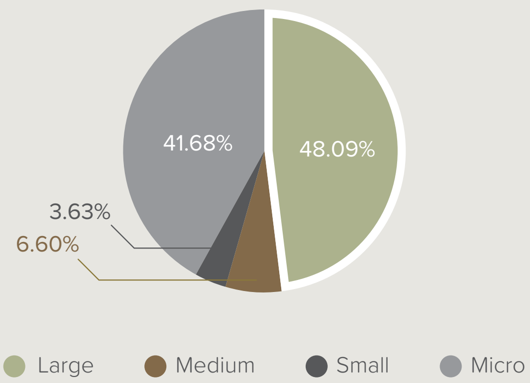
RESPONSIBLE FINANCE IN INNOVATIVE PRODUCTS AND SERVICES

In 2017, in line with our focus on responsible finance, we increased our focus in 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.

2016 PORTFOLIO BY SIZE



2017 PORTFOLIO BY SIZE



Business enterprises are categorised as micro, small and medium by the respective sectors based on either the Annual Sales Turnover or Number of Full-Time Employees.

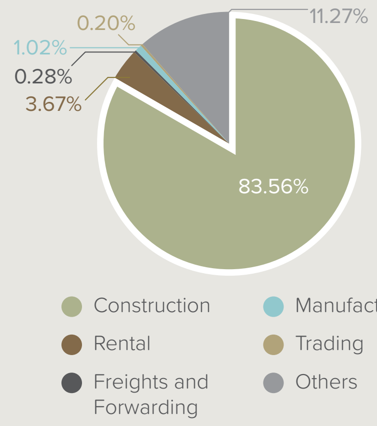
In addition, we have solidified our focus on Malaysia's public sector employees with partnerships that will provide direct financial access and advisory. MBSB's banking entity will also be a 100% compliant Islamic Bank as of the first day of operations as the new merged entity.

PROGRESSIVENESS

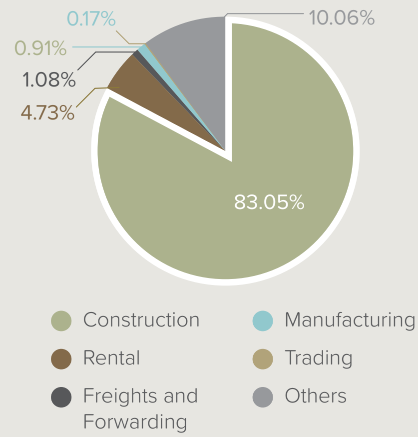
FINANCING AFFORDABLE HOMES

MBSB continues to focus on enabling the affordable housing market in Malaysia, proving that it is a growing and viable market. For 2017, more financing was made available for PRIMA, PPA1M and Rumawip, and has totalled RM2.8 billion approved in 19 projects. Moving forward, MBSB sees even greater growth opportunities in affordable housing and will strive to provide communities of all levels with access to home ownership.

2016 PORTFOLIO BY SECTOR



2017 PORTFOLIO BY SECTOR



FINANCING GREEN PROJECTS

This year, green financing made up approximately 8.7% of total loans approved for the organisation. It is a strong start and we look to increase our support of green projects in the country. We have detailed below a few examples of the projects this year.

One of Malaysia's Largest Solar Projects

MBSB has made its maiden venture into the financing of solar power projects with funding of up to RM247 milion to one of the seven successful bidders chosen by the Energy Commission for the large scale solar farm project. The agreement is set up under the Tawaruq and Kafalah Islamic financing concepts.

The project is a 50MW solar photovoltaic power plant which will be located in Rembau, Negeri Sembilan, spanning over 200 acres of land. The project is expected to complete by November 2018. The solar farm has secured a 21-year solar power purchase agreement with the national power provider Tenaga Nasional.

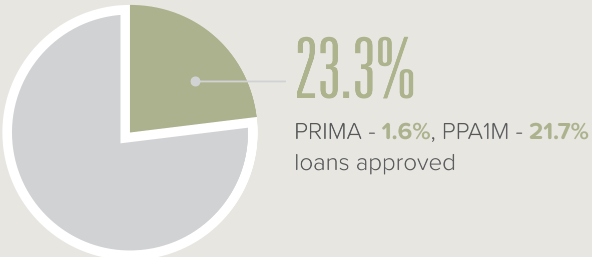
Building a Hydro Plant

MBSB is financing the construction, maintenance and management of a 7MW Mini Hydro Power Plant in Perak. Mini Hydro Power Plants are one of the tools for Malaysia to balance the need for sustainable development and environmental conservation.

Expanding a Biogas Plant

MBSB will finance the expansion cost of an existing biogas plant in Perak from 60MT/hour to 100MT/hour. Biogas generated from anaerobic digestion of palm oil mill effluent (POME) can replace palm kernel and mesocarp fiber which has higher economic value as boiler fuel, upgraded to be used in gas engine for power generation. By 2020, the Malaysian Palm Oil Board (MPOB) requires all existing palm oil mills to install full Biogas Plant.

2017 APPROVED LOANS AS A PERCENTAGE OF TOTAL LOANS APPROVED



PROGRESSIVENESS

FINANCING SMES

Equipment Financing for Construction SMEs

MBSB continues to increase its focus on providing financing for small enterprises in the construction industry. SMEs nationwide are currently being serviced out of 3 hubs in Penang, Kuala Lumpur and Johor.

YEAR	TOTAL APPROVED FOR EQUIPMENT FINANCING
2015	RM329.78 million
2016	RM653.03 million
2017	RM675.82 million

Partnering for SME Vendor Financing

MBSB is offering its Islamic financing facilities of up to RM500 million to Telekom Malaysia (TM)'s vendors, manufacturers and contractors. This will provide these vendors with immediate working capital to progress the work that they have secured from TM. All eligible vendors are entitled for financing of up to RM2 million per contractor or 80% of the contract value awarded by TM, whichever is lower, on a three-year contract and it is hoped that the full amount will be utilised by the coming year. The telecommunications provider currently has approximately 1,000 vendors.

PROVIDING FINANCIAL ADVISORY SERVICES TO MALAYSIA'S PUBLIC SECTOR EMPLOYEES

MBSB is initiating end-to-end financial advisory services for Malaysian public sector employees. This currently includes special lending rates, special approval considerations (up to 70% of gross pay), and access to financial advisors. This will be expanded in the coming year to enable them to envision an end-to-end effective solution for their financial needs. This would pave the way for better planning and financial resilience of this community, and access to services that are not currently made available to this target market. An Early Care Unit Team has been set up within MBSB and tasked with the duty of providing information and creating awareness in our customers at an early stage.

2018 COMMITMENTS AND ACTIONS

- **We commit that we will strive to create shared value with the communities that we serve through our ethical products and services**
- We will continue our focus on the needs of the affordable housing sector, the Malaysian public sector employees, and small medium enterprises
- We will increase our disclosure requirements from key prospects in order to ensure good governance and avoidance of severe negative consequences to society and the environment

TECHNOLOGY

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.

BASIC BUILDING BLOCKS OF THE NEW BANK

As a new bank, we will continue to build upon our digital infrastructure to serve our customers effectively. In the coming two years, this will be one of our main thrusts in our digital strategy. This will include:

- Providing end-to-end online banking services, from application to completion of transactions
- Revamping processes to ensure simpler transactions and faster turnaround times

TOWARDS BEING A TOP PROGRESSIVE ISLAMIC BANK

MBSB is also taking steps to quickly adopt new technology to enable us to effectively drive towards our goal of becoming a top progressive Islamic bank. We have kicked off a three-year initiative called Project SMART (System for MBSB Analytics and Reporting). The main objectives of Project SMART are to:

- Support strategic decision making with centralised view of data
- Better serve our customers through increased analytical capabilities through Big Data Platform
- Enable automated and timely reporting

PROGRESSIVENESS

FOCUSING ON THE CUSTOMERS' DIGITAL EXPERIENCE

MBSB's digital journey is largely centred around ensuring that we meet our customers' needs when, where and how they choose to engage. This focus on customer experience ensures that our technology adoption remains relevant and applicable.

Our key focus areas are:

- Ease of use for our customers,
- Speed of transactions, and
- Innovativeness of offerings.

The activities to enable this include:

- Developing customer knowledge, analytics and segmentation,
- Introducing a comprehensive customer call centre for business and consumer banking,
- Connecting to payment gateways,
- Launching internet and mobile banking platforms, and
- Enhancing core systems with specific product and service capabilities.

ENHANCING MBSB'S INTERNAL EXPERTISE

In 2017, we enhanced our organisational structure to support our firm commitment to technology. Three senior management level posts were created to increase our internal capabilities, namely the positions of Chief Digital Officer, Chief Information Officer and Head of Data and Analytics. The plans and investments in these three areas for the next few years have been clearly laid out to support the business strategy. Approximately a quarter of a billion ringgit has been set aside as our commitment to innovation and technology in MBSB.

2018 COMMITMENTS AND ACTIONS

- **We commit that we will strive to be a top progressive Islamic bank, leveraging technology to better serve our customers.**
- We will invest in strengthening our digital capabilities to better provide access and services to all our communities.
- We will continue to enhance our customers' experience through care, innovation and technology.

COMMUNITIES

COMMUNITY ADVANCEMENT

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

COMMUNITY

In championing community empowerment, MBSB acknowledges pertinent issues such as the lack of education opportunities. This is why, a large portion of MBSB's CSR programmes are linked to education.

Over the Top PINTAR School programme continues to be MBSB's flagship CSR initiative since its inception in 2007.

In 2017, we have implemented several programmes at six of our newly adopted schools located in Sabah, Sarawak, Selangor, Penang, Negeri Sembilan and Terengganu. We aim to instill and equip these young minds with necessary learning skills to ensure the quality of their development.

Klinik UPSR BH Didik Tour 2017, a collaboration with Berita Harian Education Desk aims in enhancing standard 5 and 6 students' examinations skills, preparing them for UPSR. Meanwhile, the Team Building for Excellence, a programme crafted for the teachers to drive positive and embed the importance of teamwork was conducted at all of our adopted schools.

Meanwhile, in preparation of the new school year, MBSB contributed school uniforms and supplies to 480 underprivileged children in the adopted schools, to spread cheer and uplift their school spirits.

In line with MBSB's initiative to champion education, MBSB was also involved with a strategic joint sponsorship between SEGi college and 8 corporate companies and government agencies.

MBSB's concerted effort was seen in sponsoring 50 Diploma students who fall under the B40 category studying in higher learning institutions with CGPA 3.0 and above to continue with their Degree programmes. Commenced in April 2017, the students were sponsored RM8,000 each, to pursue their Degree at SEGi college.

The joint sponsorship awarded students who were taking up courses in the area of Marketing management, business administration, information technology, human resources as well as finance management.

PROGRESSIVENESS

The Safety Awareness Campaign, another flagship programme under our CSR umbrella was launched in 2016 with an aim to increase awareness on safety measures in order to create a safer living environment.

Last year, in collaboration with Media Prima Radio Network (MPRN), MBSB executed the Safety Awareness Program during the fasting month and Hari Raya Aidilfitri holidays. The public service announcements (PSA), digital videos on social networks, radio interview sessions and on-ground activities under the Safety Awareness Campaign were amongst the activities taken place to create awareness.

Complementing the Safety Awareness Campaign was a live radio interview session with honorable guest, Tuan Abdul Khair Bin Osman, PgKB I, *Cawangan Pendaftaran Keselamatan Kebakaran*, where he shared their ongoing efforts to increase awareness on fire safety.

"Program Sejahtera MBSB", also MBSB's flagship programme was grounded to ensure the Malaysian destitute communities' living conditions meet the minimum standard of safety and comfort by warranting them with livable homes through its home building and rehabilitation exercises. A joint collaboration with Islamic Relief Malaysia, a total of 17 families in the states of Negeri Sembilan, Pulau Pinang, Perlis, Perak, Pahang, Melaka and Johor have benefited from this programme for year 2017.

In addressing charity as a company culture, we also constantly encourage our employees to contribute their time through voluntary programmes. MBSB's employees were involved in 'Cooking for a Cause Project' in collaboration with Food Aid Foundation where it was conducted in Northern, Southern, Central and East Coast region. MBSB have been working closely with Food Aid Foundation by offering monetary contribution and manpower support for their efforts in preparing meals for the homeless and distributing them since year 2015.

The Tree Planting programme, which is a collaboration with the Forest Research Institute of Malaysia (FRIM) was launched in November 2016. In 2017 our employees successfully planted 50 trees within the vicinity of FRIM, an initiative to help preserve the environment at the same time inculcate the importance of sustainable development amongst our employees as part of our responsibility in fulfilling our environmental responsibilities.

Shopping and Iftar with orphans during the holy month of Ramadhan is also an annual CSR initiative by MBSB where our employees assist the orphans with their shopping in preparation of Aidilfitri. Orphans were also being treated with Iftar and *"Duit Raya"* contribution in hope that it will lift their Hari Raya spirit.

The Blood Donation campaign is another continuous initiative to assist the National Blood Bank to maintain positive balance of blood. In 2017, MBSB had conducted 2 Blood Donation drive, in view of National Blood Bank's high demand of blood.

Other CSR initiatives include sponsorship and donations to less privileged communities, charity homes and welfare organisations.

WORKPLACE

A valuable asset not just to the company, but also the society, our employees are also beneficiaries of our CSR programmes.

Ensuring that every individual in the company is given a chance to advance in their area of expertise, we have made employee career progression as one of the main priorities. In 2017, we carried on to strengthen our workforce through various training and development programmes to help employees develop into their full potential. Our Human Capital Development has invested over RM4.5 million on training and development programmes for different levels of employees.

At MBSB, we offer attractive remuneration packages and incentives as well as reward schemes, as we value our employees and their welfare has always been the Company's primary concern. We hope that in return it will inspire them to heighten their career performance.

As at December 2017, MBSB employees have totaled up to 1,380 ranging from upper management level to branch's personnel. Currently MBSB has a total of 46 branches nationwide.

The MBSB High Achievement Award and MBSB Education Excellence Award continue acknowledging employees who successfully moved forward in their tertiary education and employees' children who exceled in the national examinations by rewarding them with cash incentives.

Other programmes for employees' children in 2017 include field trips to Zoo Negara and Funtopia Extreme Park, allowing them to gain scientific knowledge on animals and their habitats and experience sports activities respectively.

As a result of our ongoing efforts to develop our workforce, we are pleased to announce that MBSB received the "Employer of Choice 2017" by Malaysian HR Awards.

MARKETPLACE

In strengthening our CSR programmes, we understand that it would be integral to provide business assistance to small and medium players (SMEs), particularly Bumiputera's. MBSB has always been an advocate to the Bumiputera Empowerment Agenda and each year we provide various programmes to complement the agenda. We have been working on the Bumiputera Development programme where we provided 200 hours of training and development to Bumiputera business owners. On top of that, MBSB continuously prioritises Bumiputera businesses and appoint them as the main vendors for the Company's procurement.

2018 COMMITMENTS AND ACTIONS

- **We commit that we will strengthen our nation from the ground up by providing strategic interventions to the ones who need them the most**
- We will build a focused outreach strategy which will guide our community initiatives and further align it with our core business and strengths
- We will further ingrain our core values to ensure that environmental, social and governance factors feature strongly in our decision making

PROGRESSIVENESS

PLANET

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. More details can be found in the Responsible Product section.

We are still on track to meet the Leadership in Energy and Environmental Design (LEED) Gold standard and Green Building Certification (GBI) status for our new headquarters which is under construction. In addition to that, there have been a few initiatives this year to reduce paper usage in the organisation. MBSB's company secretary has since gone paperless and all the Directors of the company have been given iPads to view in softcopy all documents circulated.

In 2017, we saw decreased consumption overall of both electricity and water. However, the consumption of paper has increased, possibly as a result of the relatively many large internal projects ongoing.

Total Consumption

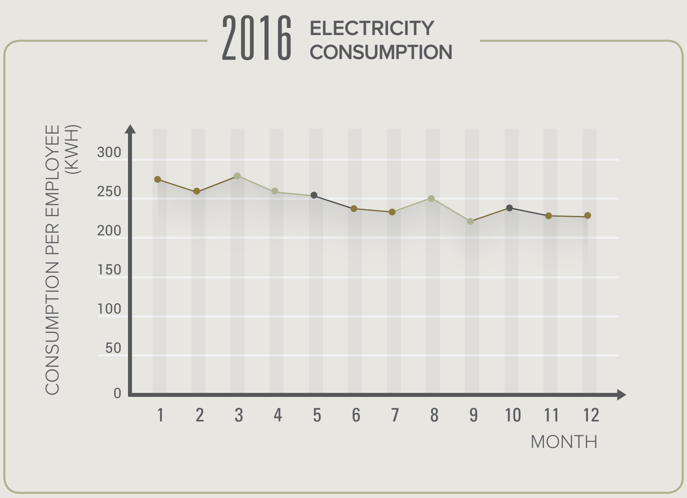
	Electricity (Kwh)	Water (m^3)	Paper (REAMS)
2016	4,040,138.63	33,930.10	8,424.00
2017	**3,579,631.70**	**26,205.26**	**11,325.00**

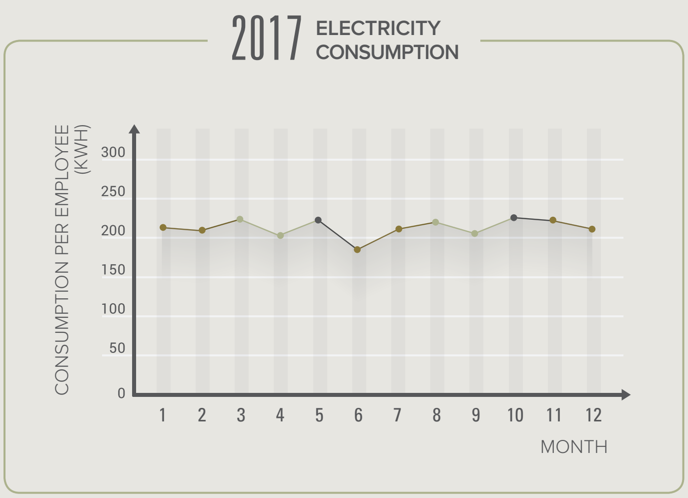
Consumption Per Employee

	Electricity (Kwh)	Water (m^3)	Paper (REAMS)
2016	2,959.81	24.86	6.17
2017	**2,575.27**	**18.85**	**8.15**

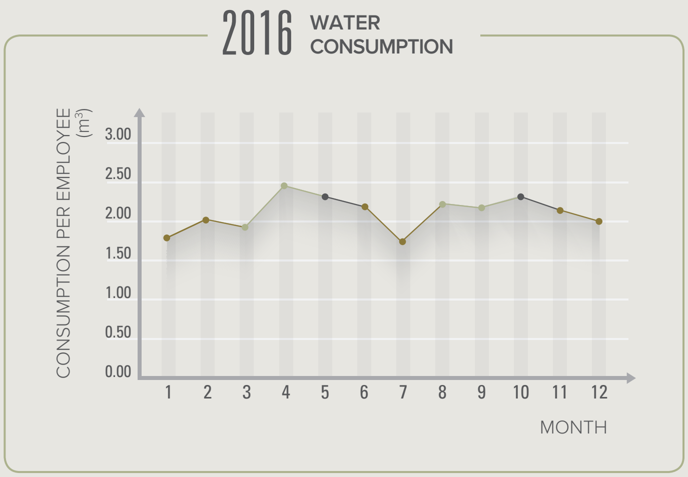
**Note that total employees here is calculated based on average on payroll over the year*

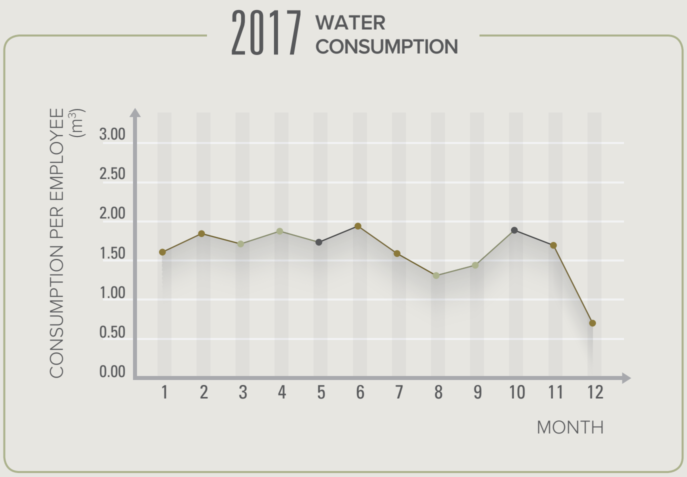
ELECTRICITY CONSUMPTION



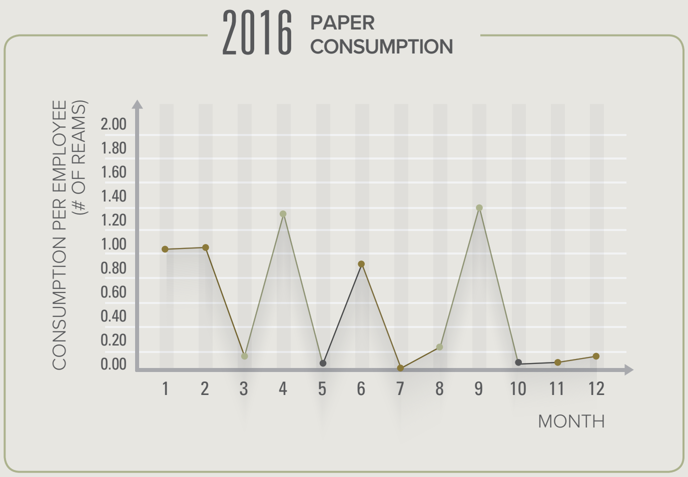


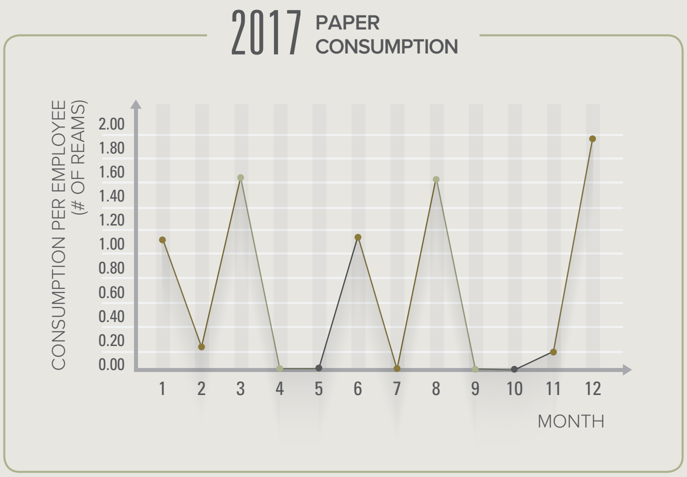
WATER CONSUMPTION BY MONTH





PAPER CONSUMPTION BY MONTH





2018 COMMITMENTS AND ACTIONS

- **We commit that we will protect our planet through our various opportunities of influence**
- We will increase our disclosure requirements from key prospects in order to ensure good governance and avoidance of severe negative consequences to society and the environment
- We will introduce energy, water and paper saving initiatives to further reduce our consumption

PROGRESSIVENESS

COMMITMENTS IN SUMMARY

SUMMARY OF OUR SUSTAINABILITY COMMITMENTS FOR 2018

MBSB 2018 SUSTAINABILITY COMMITMENTS AND ACTIONS	
OVERALL	• **We commit to ingrain sustainability within our core business to further enable economic, environmental, social and governance advances**
	• We will expand upon and communicate our Sustainability Plans across the organisation, and increase awareness of the SDGs and its targets in relation to our plan
OUR INTEGRITY	• **We commit to uphold the highest level of integrity possible in our everyday decisions and actions, in our efforts to uplift our communities and our nation**
	• We will advance disclosure of corporate practices by publishing selected corporate policies online
	• We will increase our disclosure requirements from key prospects in order to ensure good governance and increased transparency towards the well-being of society and the environment
OUR PEOPLE	• **We commit to create for our employees the environment and the support that encourages continuous growth and learning**
	• We will provide constructive and timely feedback, encouragement and development guidance in building our employees' capabilities and critical skills
	• We will build leadership capabilities that focus on building a more collaborative workplace to enhance work effectiveness and employee engagement in our journey towards becoming an employer of choice
OUR CUSTOMERS	• **We commit to place the best interest of our customers at every possible juncture in providing dependable customer care**
	• We will continue to enhance our customers' experience through care, innovation and technology
	• We will focus on the needs of our customers at their different points of contact with us, and work to ensure that we become a consultative partner to engage and support their journey with us
OUR PRODUCTS	• **We commit that we will strive to create shared value with the communities that we serve through our ethical products and services**
	• We will continue our focus on the needs of the Malaysian public sector employees, the affordable housing sector and small medium enterprises
	• We will increase our disclosure requirements from key prospects in order to ensure good governance and avoidance of negative consequences to society and the environment wherever possible

MBSB 2018 SUSTAINABILITY COMMITMENTS AND ACTIONS	
OUR TECHNOLOGY	• **We commit that we will strive to be a top progressive Islamic bank, leveraging technology to better serve our customers**
	• We will invest in strengthening our digital capabilities to better provide access and services to all our communities
	• We will continue to enhance our customers' experience through care, innovation and technology
OUR COMMUNITIES	• **We commit that we will strengthen our nation from the ground up by providing strategic interventions to the ones who need them the most**
	• We will build a focused outreach strategy which will guide our community initiatives and further align it with our core business and strengths
	• We will further ingrain our core values to ensure that environmental, social and governance factors feature strongly in our decision making
OUR PLANET	• **We commit that we will protect our planet through our various opportunities of influence**
	• We will increase our disclosure requirements from key prospects in order to ensure good governance and avoidance of negative consequences to society and the environment wherever possible
	• We will introduce energy, water and paper saving initiatives to further reduce our consumption

SUSTAINABILITY PERFORMANCE DATA

FTSE4GOOD BURSA MALAYSIA (F4GBM) CONTENT INDEX

This section has been prepared according to the FTSE4Good Bursa Malaysia (F4GBM) as provided by FTSE. The index shows each disclosure and relevant references as available within the report.

PILLARS AND THEMES	CODE	DESCRIPTION	REFERENCE SECTION
ECONOMIC			
Climate Change	ECC – 15	Three years of total energy consumption data is disclosed	Sustainability Report 2017 – Our Environment
	ECC – 31	Policy or commitment statement on energy use	
	ECC – 40	Results measured against previously set and disclosed targets	
SOCIAL			
Labour Standards	SLS – 3	Non-discrimination and equal opportunity	Sustainability Report 2017 – Our People
	SLS – 5	Policy or statement supporting the right to freedom of association	
	SLS – 6	Policy or statement supporting the right to collective bargaining	
	SLS – 7	Policy/Principles/Code addressing the elimination of excessive working hours	
	SLS – 8	Policy or statement supporting the right to a minimum or living wage	
	SLS – 11	Policy supporting the community	Sustainability Report 2017 – Our Communities
	SLS – 12	Company policy on labour standards	Sustainability Report 2017 – Our People
	SLS – 16	Action to improve workforce diversity, equal opportunities, or reduce discrimination	
	SLS – 21	Labour standards non-compliance instances	
	SLS – 24	Full time staff voluntary turnover rates	
	SLS – 25	Percentage of employees that are contractors or temporary staff	
	SLS – 26	Employee development training to enhance knowledge or individual skills	
	SLS – 29	Employee personal development training	
	SLS – 30	The company addresses bullying and/or harassment	

PILLARS AND THEMES	CODE	DESCRIPTION	REFERENCE SECTION
HUMAN RIGHTS			
Human Rights	SHR – 3	Statement of principles or process by which community investments are made	Sustainability Report 2017 – Our Communities
	SHR – 4	Policy addresses children's rights	Sustainability Report 2017 – Our Integrity; Our Communities
	SHR – 5	Commitment to local employment and/or sourcing	Sustainability Report 2017 – Our People
	SHR – 15	Output/outcome of specific results, achievements or benefits of community investments	Sustainability Report 2017 – Our Communities
	SHR – 16	Mechanisms to facilitate employee engagement and involvement with charitable partners	
	SHR – 17	Corporate or group donations/community investments made	
GOVERNANCE			
Anti-Corruption	GAC – 1	Bribery – Policy or commitment statement	Annual Report 2017 – Statement on Risk Management and Internal Control
	GAC – 2	Anti-corruption – Policy or commitment statement	
	GAC – 3	Board has oversight of anti-corruption policy	
	GAC – 4	Due diligence of new business partners addresses corruption	
	GAC – 5	Confidential or anonymous whistle-blowing mechanism for staff	Annual Report 2017 – Statement on Risk Management and Internal Control, Corporate Governance Overview Statement
	GAC – 7	Communication of anti-corruption policy to all employees	Annual Report 2017 – Statement on Risk Management and Internal Control
	GAC – 8	Training for staff on the anti-corruption policy	Sustainability Report 2017 – Our Integrity
	GAC – 9	Corruption risk assessment for company operations	Annual Report 2017 – Statement on Risk Management and Internal Control
	GAC – 10	Procedures are in place to address corruption in operations that are assessed to be 'high risk'	
	GAC – 11	Process for intermediaries (including contractors or agents)	
	GAC – 12	Total amount of political contributions made	Sustainability Report 2017 – Our Integrity
	GAC – 13	Staff disciplined or dismissed due to non-compliance with anti-corruption policy/policies	
	GAC – 14	Cost of fines, penalties or settlements in relation to corruption	

FOCUS

PILLARS AND THEMES	CODE	DESCRIPTION	REFERENCE SECTION
Corporate Governance	GCG – 1	Separate Non-Executive Chairman and CEO	Annual Report 2017 – Corporate information, Board of Directors
	GCG – 2	Details about Directors	
	GCG – 3	Number of Board Directors	
	GCG – 4	Number of independent Directors on the board	
	GCG – 5	Number of women on the board	
	GCG – 6	Commitment to gender diversity on the board	Annual Report 2017 – Corporate Governance Overview Statement and Corporate Governance Report
	GCG – 7	Board addresses conflicts of interest	
	GCG – 8	Periodic evaluation of board effectiveness	
	GCG – 9	Board Committee(s) and their Charters, terms of reference or equivalent	
	GCG – 10	Number of times the board/each committee have/has met per annum	
	GCG – 11	Attendance rate	
	GCG – 14	Fixed and variable remuneration	
	GCG – 19	Annual General Meeting: Number of days between the date of notice and date of meeting	Annual Report 2017 – Notice of Annual General Meeting
	GCG – 21	Shareholders have the right to vote on executive remuneration	Annual Report 2017 – Corporate Governance Overview Statement
	GCG – 22	Shareholders have the right to vote on Director appointments and dismissals	Annual Report 2017 – Notice of Annual General Meeting
	GCG – 26	Disclosure of voting results	Company Website – Corporate – Investor Relations, Announcement to Bursa
	GCG – 42	Does the company provide for one share one vote for all company meeting resolutions?	Annual Report 2017 – Corporate Governance Overview Statement
	GCG – 45	Financial expertise on the audit committee	Annual Report 2017 – Report of the Audit Committee, Corporate Governance Overview Statement

PILLARS AND THEMES	CODE	DESCRIPTION	REFERENCE SECTION
Corporate Governance	GCG – 46	Fully non-executive Audit Committee or Audit Board	Annual Report 2017 – Report of the Audit Committee, Profile of Board of Directors
	GCG – 47	Fully non-executive Remuneration Committee	Annual Report 2017 – Corporate Governance Overview Statement
	GCG – 48	Executive remuneration	
	GCG – 49	Disclosure and Nature of fees paid to the auditor	Annual Report 2017 – Financial Statements, Additional Compliance Statement
Risk Management	GRM – 1	The Board has oversight of risk management	Annual Report 2017 – Statement on Risk Management and Internal Control, Corporate Governance Overview Statement
	GRM – 2	Senior responsibility for risk	
	GRM – 4	Reporting and Standards	Sustainability Report 2017 – Our Integrity
	GRM – 5	Board oversees Code of Conduct, Code of Ethics or equivalent and ESG risks	Annual Report 2017 – Corporate Governance Overview Statement
	GRM – 7	Company's risk management framework	Annual Report 2017 – Statement on Risk Management and Internal Control
	GRM – 8	Corporate-wide approach to non-compliance	
	GRM – 10	Company's commitment to regular rotation of auditors/audit partner	Sustainability Report 2017 – Our Integrity
	GRM – 12	Company reviews compliance with its Code of Conduct/Code of Ethics, identifies any non-compliance and reviews the effectiveness of its Code of Conduct/Code of Ethics	
	GRM – 14	Provisions for fines and settlements specified for ESG issues in audited accounts	
	GRM – 20	Confidential whistle-blowing mechanism to notify breaches of company codes or policies	

FOCUS

SUSTAINABILITY PERFORMANCE DATA

GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

This section has been prepared according to the 'In Accordance' – Core option as provided by the GRI. The index shows each disclosure and relevant references as available within the report.

GENERAL STANDARD DISCLOSURES

DISCLOSURES	DESCRIPTION	REFERENCE SECTION
STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision-maker of the organisation addressing sustainability	Sustainability Report 2017 – PCEO Statement
ORGANISATIONAL PROFILE		
G4-3	Name of the organisation	Sustainability Report 2017 – Scope
G4-4	Primary brands, products, and services	Annual Report 2017 – Business Review
G4-5	Location of the organisation's headquarters	Annual Report 2017 – Corporate Information
G4-6	Countries where the organisational operates	Annual Report 2017 – Our Profile and Presence
G4-7	Nature of ownership and legal form	Annual Report 2017 – Corporate Governance Overview Statement
G4-8	Markets served	Annual Report 2017 – Branches
G4-9	Scale of the organisation	Annual Report 2017 – Financial Statement
G4-10	Employment	Sustainability Report 2017 – Our People
G4-11	Collective bargaining	
G4-12	Supply chain	Sustainability Report 2017 – Our Integrity
G4-13	Organisational changes	Annual Report 2017 – Our Profile and Presence
G4-14	Precautionary approach	Annual Report 2017 – Statement on Risk Management and Internal Control
G4-15	Externally developed economic, environmental and social charters	Annual Report 2017
G4-16	Memberships of associations	Annual Report 2017

DISCLOSURES	DESCRIPTION	REFERENCE SECTION
IDENTIFIES MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities	Annual Report 2017 – Financial Statement
G4-18	Process for defining the report	Sustainability Report 2017 – Our Material Matters
G4-19	Material aspects identified	
G4-20	Material aspect within the organisation	
G4-21	Material aspect outside the organisation	
STAKEHOLDER ENGAGEMENT		
G4-24	Stakeholder groups	Sustainability Report 2017 – Our Stakeholders Shape Our Views
G4-25	Identification and selection of stakeholders	
G4-26	Approach to stakeholder engagement	
G4-27	Key topics and concerns raised	
REPORT PROFILE		
G4-28	Reporting period	Sustainability Report 2017 – Scope
G4-30	Reporting cycle	
G4-31	Contact point	
G4-32	Chosen content	
G4-33	External assurance for the report	
GOVERNANCE, COMMITMENTS AND ENGAGEMENTS		
G4-34	Governance structure	Sustainability Report 2017 – Governance
ETHICS AND INTEGRITY		
G4-56	Organisation's values, principles, standards and norms of behaviour	Annual Report 2017 – Corporate Governance Overview Statement

FOCUS

SPECIFIC STANDARD DISCLOSURES

MATERIAL ASPECTS	DISCLOSURES	DESCRIPTION	REFERENCE SECTION
ECONOMIC			
Economic Performance	G4–DMA	Disclosure on Management Approach	
	G4–EC1	Direct economic value generated and distributed	Annual Report 2017 – Financial Statements
Market Presence	G4–DMA	Disclosure on Management Approach	
	G4–EC5	Policy or statement supporting the right to a minimum or living wage	Sustainability Report 2017 – Our People
	G4–EC6	Proportion of senior management hired from the local community at significant locations of operation	
Indirect Economic Impacts	G4–DMA	Disclosure on Management Approach	
	G4–EC7	Development and impact of infrastructure investments and services supported	Sustainability Report 2017 – Our Products
	G4–EC8	Significant indirect economic impacts	
Procurement Practices	G4–DMA	Disclosure on Management Approach	
	G4–EC9	Proportion of spending on local suppliers at significant locations of operation	Sustainability Report 2017 – Our Integrity
ENVIRONMENT			
Energy	G4-DMA	Disclosure on Management Approach	
	GA–EN3	Energy consumption within the organisation	Sustainability Report 2017 – Our Environment
	GA-EN6	Reduction of energy consumption	
Overall	G4-DMA	Disclosure on Management Approach	
	GA-EN31	Environmental protection expenditures and investments	

MATERIAL ASPECTS	DISCLOSURES	DESCRIPTION	REFERENCE SECTION
SOCIAL			
Labour Practices and Decent Work			
Employment	G4–DMA	Disclosure on Management Approach	
	G4–LA1	New employee hires and employee turnover by age group, gender, and region	Sustainability Report 2017 – Our People
	G4–LA2	Benefits provided to fulltime employees	
	G4–LA3	Return to work and retention rates after parental leave, by gender	
Labour/ Management Relations	G4–DMA	Disclosure on Management Approach	
	G4–LA4	Minimum notice periods regarding operational changes	Sustainability Report 2017 – Our People
Occupational Health & Safety	G4–DMA	Disclosure on Management Approach	
	G4–LA5	Percentage of total workforce represented in formal joint management–worker health and safety committees	Sustainability Report 2017 – Our People
Training & Education	G4–DMA	Disclosure on Management Approach	
	G4–LA9	Average hours of training per year per employee by gender, and by employee category	Sustainability Report 2017 – Our People
	G4–LA10	Programs for skills management and lifelong learning	
	G4–LA11	Percentage of employees receiving regular performance and career development reviews	
Diversity & Equal Opportunity	G4–DMA	Disclosure on Management Approach	
	G4–LA12	Composition of governance bodies and breakdown of employees	Sustainability Report 2017 – Our People
Equal Remuneration for Women & Men	G4–DMA	Disclosure on Management Approach	
	G4–LA13	Ratio of basic salary and remuneration of women to men	Sustainability Report 2017 – Our People

FOCUS

MATERIAL ASPECTS	DISCLOSURES	DESCRIPTION	REFERENCE SECTION
SOCIAL			
Human Rights			
Investment	G4–DMA	Disclosure on Management Approach	
	G4–HR2	Total hours of employee training on human rights policies or procedures	Sustainability Report 2017
Child Labour	G4–DMA	Disclosure on Management Approach	
	G4–HR5	Operations and suppliers identified as having significant risk for incidents of child labour	Sustainability Report 2017 – Our Integrity; Our People
Forced or Compulsory Labour	G4–DMA	Disclosure on Management Approach	
	G4–HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour	Sustainability Report 2017 – Our Integrity
Society			
Local Communities	G4–DMA	Disclosure on Management Approach	
	G4–SO1	Operations with implemented local community	Sustainability Report 2017 – Our Communities
	G4–SO2	Operations with significant actual or potential negative impacts on local communities	Sustainability Report 2017 – Our Products
	FS–13	Access points in low-populated or economically disadvantaged areas by type	
	FS–14	Initiatives to improve access to financial services for disadvantaged people	
Anti-Corruption	G4–DMA	Disclosure on Management Approach	
	G4–SO3	Operation assessed for risks related to corruption and the significant risks identified	Annual Report 2017 – Statement on Risk Management and Internal Control
	G4–SO4	Communication and training on anticorruption policies and procedures	Sustainability Report 2017 – Our People
	G4–SO5	Confirmed incidents of corruption and actions taken	Sustainability Report 2017 – Our Integrity
Public Policy	G4–DMA	Disclosure on Management Approach	
	G4–SO6	Political contributions by country and recipient/beneficiary	Sustainability Report 2017 – Our Integrity
Anti-Competitive Behaviour	G4–DMA	Disclosure on Management Approach	
	G4–SO7	Legal actions for anti-competitive behaviour, antitrust, and monopoly practices	Sustainability Report 2017 – Our Integrity
Compliance	G4–DMA	Disclosure on Management Approach	
	G4–SO8	Significant fines and non–monetary sanctions for non–compliance with laws and regulations	Sustainability Report 2017 – Our Integrity

MATERIAL ASPECTS	DISCLOSURES	DESCRIPTION	REFERENCE SECTION
SOCIAL			
Product Responsibility			
Product & Service Labelling	G4–DMA	Disclosure on Management Approach	
	G4–PR5	Results of surveys measuring customer satisfaction	Sustainability Report 2017 – Our Customers
Marketing Communications	G4–DMA	Disclosure on Management Approach	
	G4–PR6	Sale of banned or disputed products	Sustainability Report 2017 – Our Integrity
	G4–PR7	Incidents of non-compliance	
Customer Privacy	G4–DMA	Disclosure on Management Approach	
	G4–PR8	Complaints regarding breaches of customer privacy and losses of customer data	Sustainability Report 2017 – Our Integrity
Product Portfolio	G4–DMA	Disclosure on Management Approach	
	FS–6	Percentage of the portfolio for business lines	Sustainability Report 2017 – Our Products
	FS–7	Monetary value of products and services designed to deliver a specific social benefit for each business line	
	FS–8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line	
Active Ownership	FS–11	Percentage of assets subject to positive and negative environmental or social screening	Sustainability Report 2017 – Our Environment

FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors' are required by the Companies Act 2016 ("CA") to prepare financial statements for each financial year which have been made out in accordance with the applicable Malaysian Financial Reporting Standards ("MFRS"), the International Financial Reporting Standards ("IFRS") and the provisions of the CA in Malaysia and give a true and fair view of the state of affairs and of the results and cash flows of the Company and the Group for the financial year.

In preparing the financial statements, the Directors' have used appropriate and relevant accounting policies that are consistently applied and supported by reasonable as well as prudent judgments and estimates, and that the financial statements is prepared on a going concern basis.

The Directors' are responsible for ensuring that the Company and the Group keep proper accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the CA.

The Directors' have the general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, to detect and prevent fraud and other irregularities.

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding, money market activities, provision of financing, advances and financial guarantees on a secured and unsecured basis, which includes Islamic financing, and other related financial services. The principal activities of and other information relating to the subsidiaries are described in Note 12 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit for the year	417,126	304,268

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of comprehensive income and the statements of changes in equity. In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2016 was as follows:

	RM'000
In respect of the financial year ended 31 December 2016:	
– single-tier final dividend of 3.0% on 5,798,774,158 ordinary shares declared on 26 May 2017, paid on 22 June 2017	173,963

On 30 January 2018, the directors approved the payment of a single-tier final dividend of 5.0% in respect of the financial year ended 31 December 2017 on approximately 5,924,425,200 ordinary shares as at 31 December 2017, amounting to a total dividend of RM296,221,260.

The financial statements for the current financial year do not reflect the proposed dividends. Such dividends, will be accounted for in equity in the financial year ending 31 December 2018.

The entire portion of the dividend can be elected to be reinvested in new ordinary shares in accordance with the Dividend Reinvestment Plan ("DRP") as disclosed in Note 35 to the financial statements and subject to the relevant regulatory approvals. The DRP was previously approved by the shareholders on 10 December 2013.

DIRECTORS

The directors of the Company and the Company's subsidiaries in office since the beginning of the current financial year to the date of this report are:

The Company

Tan Sri Abdul Halim bin Ali
Datuk Shahril Ridza bin Ridzuan
Datuk Syed Zaid bin Syed Jaffar Albar
Dato' Jasmy bin Ismail
Encik Aw Hong Boo
Encik Lim Tian Huat
Ir. Moslim bin Othman
Encik Sazaliza bin Zainuddin (Appointed on 22 March 2017)
Datuk Johar bin Che Mat (Appointed on 22 March 2017)
Puan Lynette Yeow Su-Yin (Appointed on 22 March 2017)
Tunku Alina Alias (Appointed on 26 September 2017)

The Subsidiaries of the Company

Encik Tang Yow Sai
Dato' Azman Aziz
Puan Azlina Mohd Rashad
Encik Asrul Hazli Salleh
Encik Hazim Dato' Yahya
Encik Loke Chee Kien
Cik Norhayati binti Azit
Encik Lim Tian Huat

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company or its subsidiaries were a party whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 31 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest. The Group directors and officers are covered by Directors' and Officers' Liability Takaful. The total insurance coverage amounts to RM30,000,000 and the annual insurance premium that is payable amounts to RM79,510.

DIRECTORS' REPORT

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interest of a director in office at the end of the financial year in shares of the Company during the financial year were as follows:

	Number of ordinary shares of RM1.00 each			
Name of director	**1.1.2017**	**Acquired**	**Sold**	**31.12.2017**
Direct interest:				
Ordinary shares of the Company				
Tan Sri Abdul Halim bin Ali	232,600	6,067	–	238,667

None of the other directors in office at the end of the financial year had any interest in shares or options over shares in the Company or its related corporations during the financial year.

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid up ordinary share capital by RM373,276,736 from RM5,798,774,158 to RM6,172,050,894 as follows:

	Number of new ordinary shares Units '000	**RM'000**	**Issue/ exercise price**
Issuance of new shares* for cash pursuant to:			
ESOS granted on 9.3.2012	7	13	1.02
Exercise of Special Issue (DRP)	125,644	144,491	1.15
	125,651	144,504	
Transfer of share premium to share capital**	–	198,449	–
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	–	12,486	–
Transfer of capital reserve to share capital	–	17,838	–
	125,651	373,277	

* The new ordinary shares issued during the financial year ranked *pari passu* in all respects with the existing ordinary shares of the Company.

** Pursuant to the Companies Act 2016, which become effective on 31 January 2017, ordinary shares of the Company will cease to have par or nominal value. Accordingly, the Company's share premium, capital redemption reserve and capital reserve account will become part of the Company's issued and paid-up share capital.

EMPLOYEE SHARE OPTION SCHEME

The Malaysia Building Society Berhad's Employee Share Option Scheme ("ESOS") is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 29 April 2010.

The ESOS was implemented on 12 August 2010 and is in force for a period of 5 years from the date of implementation. The Board of Directors approved the extension of the duration of the ESOS for a further 5 years from 12 August 2015 to 11 August 2020 in accordance with by-law 19.3 of Malaysia Building Society Berhad's ESOS by-laws on 6 August 2015.

The salient features and other terms of the ESOS are disclosed in Note 23(a) to the financial statements.

Details of the options to subscribe for ordinary shares of the Company pursuant to the ESOS as at 31 December 2017 are as follows:

Grant date	Expiry date	Exercise price (RM)	Number of options
11.09.2010	11.08.2020	1.00*	1,264,740
09.03.2012	11.08.2020	1.02*	846,175
15.11.2012	11.08.2020	1.42*	8,996,266
09.03.2014	11.08.2020	1.52*	14,802,993

* New exercise prices adjusted pursuant to the ESOS By-Law 15.1(c)(ii) as a result of the implementation of the Rights Issue exercise.

DIRECTORS' REPORT

EMPLOYEE SHARE OPTION SCHEME (CONT'D.)

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of option holders, other than directors, who have been granted options to subscribe for less than 276,643 ordinary shares of RM1.00 each as at the year end. The names of option holders who were granted options to subscribe for 276,643 or more ordinary shares of RM1.00 each during the financial year are as follows:

		Number of Shares Options			
Name of director	**Revised Exercise Price (RM)**	**1.1.2017**	**Granted**	**Exercised**	**31.12.2017**
Tang Yow Sai	1.00	367,229	–	–	367,229
	1.42	175,799	–	–	175,799
Azlina Binti Mohd Rashad	1.42	480,978	–	–	480,978
Zainnurain Bin Othman	1.42	422,178	–	–	422,178
Salim Yazan Bin Gulzar Mohamed	1.52	418,577	–	–	418,577
Asrul Hazli Bin Salleh	1.02	147,979	–	–	147,979
	1.42	260,180	–	–	260,180
Koh Ai Hoon	1.00	268,111	–	–	268,111
	1.42	109,014	–	–	109,014
Tamin Bin Jafeeri	1.42	321,298	–	–	321,298
Adzahar Bin Abdul Khalid	1.00	222,516	–	–	222,516
	1.42	66,232	–	–	66,232
Nor Azam Bin M. Taib	1.02	108,991	–	–	108,991
	1.42	173,480	–	–	173,480
Azlina Binti Mohd Abdul Karim @ Alias	1.52	276,643	–	–	276,643
Md Azhar Bin Md Ali	1.52	276,643	–	–	276,643
Hasliza Binti Ismail	1.52	276,643	–	–	276,643

OTHER STATUTORY INFORMATION

(a) Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

OTHER STATUTORY INFORMATION (CONT'D.)

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and of the Company as disclosed in Note 38 to the financial statements.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

DIRECTORS' REPORT

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office. The auditors' remuneration are disclosed in Note 29 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 January 2018.

Tan Sri Abdul Halim bin Ali
Chairman

Aw Hong Boo
Director

Kuala Lumpur, Malaysia

STATEMENT BY DIRECTORS

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

We, Tan Sri Abdul Halim bin Ali and Aw Hong Boo, being two of the directors of Malaysia Building Society Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 168 to 293 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of the financial performance and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 January 2018.

Tan Sri Abdul Halim bin Ali
Chairman

Aw Hong Boo
Director

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

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

I, Tang Yow Sai, being the officer primarily responsible for the financial management of Malaysia Building Society Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 168 to 293 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Tang Yow Sai at
Kuala Lumpur in the Federal
Territory on 30 January 2018

Tang Yow Sai

Before me,

INDEPENDENT AUDITORS' REPORT

To the Members of Malaysia Building Society Berhad (Incorporated in Malaysia)

OPINION

We have audited the financial statements of Malaysia Building Society Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 168 to 293.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

BASIS FOR OPINION

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

INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis of our audit opinion on the accompanying financial statements.

ADEQUACY OF IMPAIRMENT ALLOWANCE FOR LOANS, ADVANCES AND FINANCING

The determination of impairment allowance for loans, advances and financing requires management of the Group and the Company to use significant assumptions and make subjective judgement over the timing and quantum of expected recoveries. As loans, advances and financing represent approximately 71% and 67% of the Group's and the Company's total assets respectively as at 31 December 2017, we consider this as a key audit matter. The relevant information relating to impairment allowance for loans, advances and financing have been disclosed in notes 9(vi) and 32 to the financial statements.

In the determination of the amount of impairment loss allowance to be made, the Group and the Company apply its judgement on the key assumptions as follows:

- For individual impairment allowance – the estimated time horizon for recoveries, valuation of the underlying collateral and anticipated future cash flows or sources of repayments of the borrowers; and
- For collective impairment allowance – the appropriateness of the base models and methodologies used for the various segments of loans, advances and financing and the appropriate data set to use.

Our audit procedures include the following:

- For individual impairment, we reviewed the appropriateness of the assumptions used by comparing them with historical evidence available for the underlying assets and publicly-available economic and market data. We have also performed a sensitivity analysis by stressing the future and/or anticipated cash flow streams (including values given for collateral recovery, where applicable), the time to recovery and recovery cost; and
- For collective impairment, we assessed the design and propriety of the base models used by comparing them with other practices and experience of companies in the same or similar industry as the Group and with general requirements of the relevant MFRS. We have also performed the data extraction, data grouping and data processing processes to ascertain the appropriateness of data used and recomputed the Group's collective impairment. We have also compared the Group's loss ratios against available and comparable industry data taking into consideration additional adjustments made to the Group's base models.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The information comprises the profiles of key management personnel and those charged with governance, Statement of Corporate Governance, key financial highlights, corporate social responsibility and Statement on Risk Management and Internal Control, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of Malaysia Building Society Berhad (Incorporated in Malaysia)

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS (CONT'D.)

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTER

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

Ernst & Young
AF: 0039
Chartered Accountants

Yeo Beng Yean
No. 03013/10/2018 J
Chartered Accountant

Kuala Lumpur, Malaysia
30 January 2018

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000
Assets			
Cash and short-term funds	5(a)	**7,787,132**	6,639,369
Deposits and placements with financial institutions	5(b)	**747,403**	1,076,078
Trade receivables	6	**295**	542
Other receivables	7	**218,413**	150,553
Inventories	8	**103,242**	103,201
Loans, advances and financing	9	**32,006,244**	32,193,478
Financial assets held-for-sale	10	**38,409**	–
Financial investments available-for-sale	13	**3,171,913**	2,364,750
Property, plant and equipment	14	**168,504**	141,713
Land use rights	15	**5,423**	5,584
Tax recoverable		**517,177**	549,248
Intangible assets	16	**14,633**	15,415
Deferred tax assets	22	**31,359**	28,113
Total assets		**44,810,147**	43,268,044
Liabilities and shareholders' equity			
Deposits from customers	17	**32,755,137**	30,611,324
Bank borrowings	18	**–**	575,275
Trade payables	19	**210**	187
Other payables	20	**377,327**	303,986
Provision for taxation and zakat		**16,410**	7,814
Recourse obligation on loans/financing sold	21	**2,238,167**	2,420,175
Sukuk – MBSB Structured Covered ("SC") Murabahah	11(a)	**2,287,877**	2,615,807
Deferred tax liabilities	22	**10,156**	9,428
Total liabilities		**37,685,284**	36,543,996
Share capital	23	**6,172,051**	5,798,774
Share premium	23	**–**	198,449
Other reserves	24	**(395)**	20,957
Retained earnings		**953,207**	705,868
Total equity		**7,124,863**	6,724,048
Total liabilities and shareholders' equity		**44,810,147**	43,268,044

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

	Note	Company 2017 RM'000	Company 2016 RM'000
Assets			
Cash and short-term funds	5(a)	**7,768,634**	6,620,990
Deposits and placements with financial institutions	5(b)	**51,368**	462,206
Other receivables	7	**234,815**	157,924
Inventories	8	**900**	900
Loans, advances and financing	9	**32,006,244**	32,200,665
Financial assets held-for-sale	10	**38,409**	–
Sukuk Commodity Murabahah	11(b)	**3,245,851**	3,577,143
Investments in subsidiaries	12(a)	**7,397**	22,331
Financing to subsidiaries	12(b)	**305,140**	280,503
Financial investments available-for-sale	13	**3,171,913**	2,364,750
Property, plant and equipment	14	**34,096**	38,631
Intangible assets	16	**14,588**	15,369
Tax recoverable		**517,177**	549,248
Deferred tax assets	22	**21,187**	18,710
Total assets		**47,417,719**	46,309,370
Liabilities and shareholders' equity			
Deposits from customers	17	**32,755,137**	30,611,324
Bank borrowings	18	**–**	575,275
Other payables	20	**3,278,537**	3,525,341
Provision for zakat		**13,374**	4,778
Recourse obligation on loans/financing sold	21	**2,238,167**	2,420,175
Sukuk – MBSB SC Murabahah	11(a)	**2,287,877**	2,615,807
Total liabilities		**40,573,092**	39,752,700
Share capital	23	**6,172,051**	5,798,774
Share premium	23	**–**	198,449
Other reserves	24	**(395)**	20,957
Retained earnings		**672,971**	538,490
Total equity		**6,844,627**	6,556,670
Total liabilities and shareholders' equity		**47,417,719**	46,309,370

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

STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	25	**3,259,763**	3,274,795	**3,008,175**	2,997,599
Income derived from investment of general investment deposits and Islamic capital funds		**2,634,924**	2,630,086	**2,549,107**	2,526,580
Income attributable to depositors		**(1,077,119)**	(1,001,417)	**(1,077,119)**	(1,001,417)
Income attributable to securitisation		**(96,978)**	(125,748)	**(96,978)**	(125,748)
Income attributable to sukuk		**(328,835)**	(370,663)	**(328,835)**	(370,663)
Net income from Islamic financing operations	43	**1,131,992**	1,132,258	**1,046,175**	1,028,752
Interest income	26	**472,333**	473,654	**435,078**	439,811
Interest expense	27	**(152,299)**	(253,823)	**(152,299)**	(253,823)
Net interest income		**320,034**	219,831	**282,779**	185,988
Operating income		**1,452,026**	1,352,089	**1,328,954**	1,214,740
Net other income	28	**33,377**	56,878	**26,075**	49,779
Net income		**1,485,403**	1,408,967	**1,355,029**	1,264,519
Other operating expenses	29	**(336,060)**	(293,281)	**(316,722)**	(263,434)
Operating profit		**1,149,343**	1,115,686	**1,038,307**	1,001,085
Allowance for impairment losses on loans, advances and financing	32	**(598,611)**	(777,265)	**(606,382)**	(777,265)
Profit before taxation and zakat		**550,732**	338,421	**431,925**	223,820
Taxation	33	**(121,735)**	(136,028)	**(115,786)**	(130,199)
Zakat		**(11,871)**	(981)	**(11,871)**	(981)
Profit for the year		**417,126**	201,412	**304,268**	92,640
Other comprehensive income – AFS revaluation reserve, which may be reclassified subsequently to profit or loss		**13,154**	(21,376)	**13,154**	(21,376)
Total comprehensive income for the year, net of tax		**430,280**	180,036	**317,422**	71,264
Earnings per share (sen)					
Basic	34 (a)	**7.10**	4.90		
Diluted	34 (b)	**7.10**	4.90		

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

STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 31 December 2017

Group	Share Capital RM'000	Share Premium[#1] RM'000	Capital Reserve[#2] (Note 24) RM'000	Warrants Reserve (Note 24) RM'000	Capital Redemption Reserve[#3] Redeemable Cumulative Preference Shares (Note 24) RM'000	Other Reserves: Share Option Reserve (Note 24) RM'000	Other Reserves: Available-for-sale Reserve RM'000	Other Reserves: Total RM'000	Retained profits RM'000	Total RM'000
At 1 January 2016	2,838,551	1,392,980	17,838	3,633	12,486	5,210	1,566	6,776	589,276	4,861,540
Profit for the year	–	–	–	–	–	–	–	–	201,412	201,412
Other comprehensive income for the year	–	–	–	–	–	–	(21,376)	(21,376)	–	(21,376)
Total comprehensive income for the year	–	–	–	–	–	–	(21,376)	(21,376)	201,412	180,036
Dividends (Note 35)	–	–	–	–	–	–	–	–	(85,278)	(85,278)
Share options granted under ESOS recognised in profit or loss (Note 30)	–	–	–	–	–	2,058	–	2,058	–	2,058
Issuance of ordinary shares pursuant to exercise of rights issue (Note 23)	2,899,387	(1,202,056)	–	–	–	–	–	–	–	1,697,331
Issuance of ordinary shares pursuant to exercise of DRP	50,169	7,525	–	–	–	–	–	–	–	57,694
Issuance of ordinary shares pursuant to exercise of warrants	10,667	–	–	–	–	–	–	–	–	10,667
Transfer of share option reserve to retained profits upon expiry of share options	–	–	–	–	–	(458)	–	(458)	458	–
At 31 December 2016	5,798,774	198,449	17,838	3,633	12,486	6,810	(19,810)	(13,000)	705,868	6,724,048
Profit for the year	–	–	–	–	–	–	–	–	417,126	417,126
Other comprehensive income for the year	–	–	–	–	–	–	13,154	13,154	–	13,154
Total comprehensive income for the year	–	–	–	–	–	–	13,154	13,154	417,126	430,280
Dividends (Note 35)	–	–	–	–	–	–	–	–	(173,963)	(173,963)
Issuance of ordinary shares pursuant to exercise of DRP	144,491	–	–	–	–	–	–	–	–	144,491
Issuance of ordinary shares pursuant to exercise of ESOS	13	–	–	–	–	(6)	–	(6)	–	7
Transfer of share option reserve to retained profits upon expiry of share options	–	–	–	–	–	(543)	–	(543)	543	–
Transfer of share premium to share capital	198,449	(198,449)	–	–	–	–	–	–	–	–
Transfer of warrant reserve to retained profits	–	–	–	(3,633)	–	–	–	–	3,633	–
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	12,486	–	–	–	(12,486)	–	–	–	–	–
Transfer of capital reserve to share capital	17,838	–	(17,838)	–	–	–	–	–	–	–
At 31 December 2017	6,172,051	–	–	–	–	6,261	(6,656)	(395)	953,207	7,124,863

#1 Pursuant to subsection 618(3) and 618(4) of the Companies Act 2016 ("New Act"), the Group may exercise its right to use the credit amount being transferred from the share premium account within 24 months after the commencement of the New Act.

#2 Capital reserve arose out of the transfer of Malaya Borneo Building Society Limited as at 29 February 1972 to the Company on 1 March 1972 via a Scheme of Arrangement.

#3 Capital redemption reserve arose out of the redemption of redeemable cumulative preference shares of the Company.

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

STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 31 December 2017

Company	Share Capital RM'000	Share Premium[#1] RM'000	Capital Reserve[#2] (Note 24) RM'000	Warrants Reserve (Note 24) RM'000	Capital Redemption Reserve[#3] Redeemable Cumulative Preference Shares (Note 24) RM'000	Other Reserves: Share Option Reserve (Note 24) RM'000	Other Reserves: Available-for-sale Reserve RM'000	Other Reserves: Total RM'000	Retained profits RM'000	Total RM'000
At 1 January 2016	2,838,551	1,392,980	17,838	3,633	12,486	5,210	1,566	6,776	530,670	4,802,934
Profit for the year	–	–	–	–	–	–	–	–	92,640	92,640
Other comprehensive income for the year	–	–	–	–	–	–	(21,376)	(21,376)	–	(21,376)
Total comprehensive income for the year	–	–	–	–	–	–	(21,376)	(21,376)	92,640	71,264
Dividends (Note 35)	–	–	–	–	–	–	–	–	(85,278)	(85,278)
Share options granted under ESOS recognised in profit or loss (Note 29)	–	–	–	–	–	2,058	–	2,058	–	2,058
Issuance of ordinary shares pursuant to exercise of rights issue (Note 23)	2,899,387	(1,202,056)	–	–	–	–	–	–	–	1,697,331
Issuance of ordinary shares pursuant to exercise of DRP	50,169	7,525	–	–	–	–	–	–	–	57,694
Issuance of ordinary shares pursuant to exercise of warrants	10,667	–	–	–	–	–	–	–	–	10,667
Transfer of share option reserve to retained profits upon expiry of share options	–	–	–	–	–	(458)	–	(458)	458	–
At 31 December 2016	5,798,774	198,449	17,838	3,633	12,486	6,810	(19,810)	(13,000)	538,490	6,556,670
Profit for the year	–	–	–	–	–	–	–	–	304,268	304,268
Other comprehensive income for the year	–	–	–	–	–	–	13,154	13,154	–	13,154
Total comprehensive income for the year	–	–	–	–	–	–	13,154	13,154	304,268	317,422
Dividends (Note 35)	–	–	–	–	–	–	–	–	(173,963)	(173,963)
Issuance of ordinary shares pursuant to exercise of DRP	144,491	–	–	–	–	–	–	–	–	144,491
Issuance of ordinary shares pursuant to exercise of ESOS	13	–	–	–	–	(6)	–	(6)	–	7
Transfer of share option reserve to retained profits upon expiry of share options	–	–	–	–	–	(543)	–	(543)	543	–
Transfer of share premium to share capital	198,449	(198,449)	–	–	–	–	–	–	–	–
Transfer of warrant reserve to retained profits	–	–	–	(3,633)	–	–	–	–	3,633	–
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	12,486	–	–	–	(12,486)	–	–	–	–	–
Transfer of capital reserve to share capital	17,838	–	(17,838)	–	–	–	–	–	–	–
At 31 December 2017	6,172,051	–	–	–	–	6,261	(6,656)	(395)	672,971	6,844,627

[#1] Pursuant to subsection 618(3) and 618(4) of the Companies Act 2016 ("New Act"), the Group may exercise its right to use the credit amount being transferred from the share premium account within 24 months after the commencement of the New Act.

[#2] Capital reserve arose out of the transfer of Malaya Borneo Building Society Limited as at 29 February 1972 to the Company on 1 March 1972 via a Scheme of Arrangement.

[#3] Capital redemption reserve arose out of the redemption of redeemable cumulative preference shares of the Company.

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

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2017

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from operating activities				
Profit before taxation	**550,732**	338,421	**431,925**	223,820
Adjustments for:				
Depreciation of property, plant and equipment	**11,008**	13,573	**8,225**	10,504
Amortisation:				
– land use rights	**161**	162	**–**	–
– intangible assets	**10,841**	13,500	**10,823**	13,451
Loss on disposal of property, plant and equipment and land use rights	**9**	456	**9**	457
Loss on liquidation of subsidiaries	**–**	–	**15,018**	–
Gain on disposal of foreclosed properties	**(2,095)**	–	**(2,095)**	–
Allowance for impairment of:				
– investments in subsidiaries	**–**	–	**2**	1
– financing to subsidiaries	**–**	–	**34,420**	15,816
– amount due from subsidiaries	**–**	–	**4,686**	2,960
– provision for diminution from foreclosed properties	**652**	1,482	**652**	1,482
– trade receivables	**8**	–	**–**	–
– unsecured advances in respect of certain projects	**41,945**	36,515	**–**	–
Allowance for impairment losses on loans, advances and financing	**598,611**	777,265	**606,382**	777,265
Accruals during the year	**22,485**	6,507	**22,420**	5,873
Interest/profit income on:				
– loans, advance and financing	**(24,215)**	14,924	**(24,215)**	14,924
– profit payable on financial investments AFS	**(7,880)**	(20,186)	**(7,880)**	(20,186)
– Sukuk – MBSB SC Murabahah	**(4)**	(1,277)	**(4)**	(1,277)
– Sukuk Commodity Murabahah	**–**	–	**(121,612)**	(133,108)
Operating profit before working capital changes	**1,202,258**	1,181,342	**978,756**	911,982
Working capital changes:				
Decrease/(increase) in deposits with financial institutions with maturity of more than one month	**328,675**	(669,549)	**410,838**	(460,079)
Increase in loans, advances and financing	**(387,162)**	(1,198,902)	**(387,746)**	(1,138,400)
Increase in financial assets held-for-sale	**(38,409)**	–	**(38,409)**	–
(Increase)/decrease in inventories	**(41)**	86	**–**	–
Decrease in trade receivables	**239**	277	**–**	–
(Increase)/decrease in other receivables	**(111,575)**	6,528	**(83,400)**	(24,859)
Increase in deposits from customers	**2,143,813**	2,025,937	**2,143,813**	2,025,937
Increase/(decrease) in trade payables	**23**	(27)	**–**	–
Increase/(decrease) in other payables	**50,856**	(28,489)	**(269,224)**	(328,867)
Increase in financing to subsidiaries	**–**	–	**(59,057)**	(40,919)
Cash generated from operations	**3,188,677**	1,317,203	**2,695,571**	944,795
Tax paid	**(92,291)**	(203,547)	**(86,333)**	(198,429)
Zakat paid	**(3,275)**	(4,017)	**(3,275)**	(4,017)
Net cash generated from operating activities	**3,093,111**	1,109,639	**2,605,963**	742,349

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2017

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash flows from investing activities				
Purchase of property, plant and equipment	**(37,832)**	(17,816)	**(3,723)**	(533)
Purchase of intangible assets	**(10,059)**	(236)	**(10,042)**	(230)
Proceeds from disposal of foreclosed properties	**3,315**	–	**3,315**	–
Proceeds from disposal of property, plant and equipment and land use rights	**24**	126	**24**	118
Purchase of financial investments available-for-sale	**(786,128)**	(1,382,586)	**(786,129)**	(1,382,586)
Proceeds from maturity of Sukuk Commodity Murabahah	**–**	–	**452,903**	348,716
Net cash used in investing activities	**(830,680)**	(1,400,512)	**(343,652)**	(1,034,515)
Cash flows from financing activities				
Repayment of bank borrowings	**(575,275)**	(1,070,316)	**(575,275)**	(1,070,316)
Repayment of other borrowings	**–**	(50,181)	**–**	(50,181)
Repayment from recourse obligation on loans/financing sold	**(182,008)**	(347,067)	**(182,008)**	(347,067)
Repayment of Sukuk – MBSB SC Murabahah	**(327,926)**	(210,871)	**(327,926)**	(210,871)
Dividends paid on ordinary shares	**(173,963)**	(85,278)	**(173,963)**	(85,278)
Net proceeds from issuance of ordinary shares	**144,504**	1,765,692	**144,504**	1,765,692
Net cash (used in)/generated from financing activities	**(1,114,668)**	1,979	**(1,114,668)**	1,979
Net increase/(decrease) in cash and cash equivalents	**1,147,763**	(288,894)	**1,147,644**	(290,187)
Cash and cash equivalents at beginning of year	**6,639,369**	6,928,263	**6,620,990**	6,911,177
Cash and cash equivalents at end of year (Note 5(a))	**7,787,132**	6,639,369	**7,768,634**	6,620,990
Cash and cash equivalents is represented by:				
Cash and short-term funds	**7,787,132**	6,634,848	**7,768,634**	6,620,990
Cash held pursuant to Section 7A of the Housing Development Act (Note 5)	**–**	4,521	**–**	–
Cash and cash equivalents at end of year (Note 5(a))	**7,787,132**	6,639,369	**7,768,634**	6,620,990

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

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2017

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated under the Companies Act, 2016 in Malaysia, domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 11th Floor, Wisma MBSB, 48, Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur.

The immediate and ultimate holding body of the Company is Employees Provident Fund, a statutory body established in Malaysia.

The Company is principally engaged in investment holding, money market activities, provision of financing, advances and financial guarantees on a secured and unsecured basis, which includes Islamic financing, and other related financial services.

The principal activities of the subsidiaries are described in Note 12. There have been no significant changes in the nature of the principal activities of the Company and its subsidiaries during the financial year.

The consolidated and separate financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated and separate financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements of the Group and of the Company have been prepared on a historical cost basis except as disclosed in the accounting policies below. The financial statements incorporate those activities relating to Islamic banking operations which have been undertaken by the Group and by the Company. Islamic banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah. Disclosures relating to the Islamic banking operations are disclosed in Note 43.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

(b) Subsidiaries and basis of consolidation

(i) Subsidiaries

A subsidiary is an entity over which the Group has all of the following:

- power over the investee;
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power to affect those returns.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Subsidiaries and basis of consolidation (cont'd.)

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j) below. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in profit or loss. Dividends received from subsidiaries are recorded as a component of revenue in the Company's profit or loss.

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December of each financial year.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. In preparing the consolidated financial statements, all intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The assessment of control is performed continuously to determine if control exists or continues to exist over an entity. Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The identifiable assets acquired and the liabilities assumed are measured at their fair values at the acquisition date. Acquisition costs incurred are expensed and included in administrative expenses.

The difference between these fair values and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or discount on acquisition. The accounting policy for goodwill is set out in Note 2(c)(i) below. Discount on acquisition which represents negative goodwill is recognised immediately in profit or loss.

In business combinations achieved in stages, previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at the acquisition date either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Changes in the Group's equity interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their respective interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in shareholders' equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Subsidiaries and basis of consolidation (cont'd.)

(ii) Basis of consolidation (cont'd.)

If the Group loses control over a subsidiary, at the date the Group loses control, it:

– Derecognises the assets (including goodwill) and liabilities of the subsidiary at their respective carrying amounts;
– Derecognises the carrying amount of any non-controlling interest;
– Derecognises the cumulative translation differences recorded in equity;
– Recognises the fair value of the consideration or distribution received;
– Recognises the fair value of any investment retained;
– Recognises any surplus or deficit in profit or loss; and
– Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(iii) Transactions with non-controlling interests

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners.

(c) Intangible assets

(i) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units ("CGU") that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. This is done by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Intangible assets (cont'd.)

(i) Goodwill (cont'd.)

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the disposed operations and the portion of the cash-generating unit retained.

(ii) Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives, or which are not yet available for use, are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Software licences

The useful life of software licences is assessed to be finite and is amortised on a straight-line basis over 5 years.

Land use rights

Land use rights are distinct and separate from land ownership.

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over their lease terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(d) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced, the Group recognises such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land has an unlimited useful life and therefore is not depreciated.

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Building in progress	0%*
Buildings	2.5%
Building renovation	20.0%
Furniture and equipment	20.0%
Motor vehicles	20.0%
Data processing equipment	20.0%

* Building in progress will not be depreciated until it becomes ready for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"), a defined contribution pension scheme. Such contributions are recognised as an expense in profit or loss when incurred.

(iii) Employee share option scheme

The Malaysia Building Society Berhad's Employee Share Option Scheme ("ESOS"), an equity-settled, share-based compensation plan, allows the employees of subsidiaries of the Group (including executive directors), other than subsidiaries which are dormant, to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to the share capital account, or until the option expires, upon which it will be transferred directly to retained earnings.

(f) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation rate is at 2.5% per annum.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rental or for capital appreciation or both.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Investment properties (cont'd.)

Investment properties are derecognised when either it has been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the financial year of retirement or disposal.

Transfers are made to or from investment property only when there is change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment up to the date of change in use. At the date of change in use, the property is recorded at the net book value when the property is transferred to investment property.

(g) Inventories

Inventories of the Group comprise completed properties and hotel inventories. Inventories of completed properties are stated at the lower of cost (determined on specific identification basis) and net realisable value. Costs include costs associated with the acquisition of land, direct costs and appropriate development overheads.

Hotel inventories comprising food, beverage and hotel supplies are stated at the lower of cost (determined on a first-in, first-out basis) and net realisable value.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Cash and cash equivalents

Cash and short-term funds in the statements of financial position comprise cash at bank and on hand, demand deposits and short-term deposits with original maturities of one month or less which are subject to an insignificant risk of change in value.

For the purposes of the statements of cash flows, cash and cash equivalents consist of cash and short-term funds as defined above, excluding deposits and monies held in trust and net of outstanding bank overdrafts.

(j) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation and/or amortisation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss. Impairment loss on goodwill is not reversed in a subsequent period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of their financial assets at initial recognition, and the categories include loans and receivables and available-for-sale investments.

(i) Financing/Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Financial assets classified in this category include cash and short-term funds, deposits and placement with financial institutions, loans, advances and financing, Sukuk Commodity Murabahah and trade and other receivables.

Subsequent to initial recognition, financing/loans and receivables are measured at amortised cost using the effective interest method, less accumulated impairment losses. Gains and losses are recognised in profit or loss when the financing/loans and receivables are derecognised or impaired, and through the amortisation process.

(ii) Financial investments available-for-sale ("AFS")

Financial investments AFS include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial investments AFS are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income ("OCI") in the "AFS reserve" until the investment is derecognised, at which time the cumulative gain or loss is recognised in "other operating income". If the investment is determined to be impaired, the cumulative loss is reclassified from the "AFS reserve" to profit or loss in "impairment losses on financial investments". Interest earned whilst holding financial investments AFS is reported as interest income using the effective interest rate ("EIR") method.

The Company evaluates whether the ability and intention to sell its financial investments AFS in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Company may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and the Company has the intent and ability to hold these investments for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Financial assets (cont'd.)

(ii) Financial investments available-for-sale ("AFS") (cont'd.)

For financial investments reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes their new amortised cost and any previous gain or loss on the investments that has been recognised in equity are amortised to the profit or loss over the remaining life of the investments using the EIR method. Any difference between the new amortised cost and the maturity amounts are also amortised over the remaining life of the investments using the EIR method. If the investments are subsequently determined to be impaired, then the amount recorded in equity are reclassified to profit or loss.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset.

(l) Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Impairment of financial assets (cont'd.)

Trade and other receivables and other financial assets carried at amortised cost (cont'd.)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, advances and financing and trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivables or loans, advances and financing becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

Reclassification of financial assets

The Group and the Company may choose to reclassify non-derivative assets out of the financial assets under the FVTPL category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Group and the Company may also choose to reclassify financial assets that would meet the definition of loans and receivables out of the financial assets under the FVTPL category or financial investments AFS if the Group and the Company have the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable.

For a financial asset reclassified out of the financial investments AFS, any previous gain or loss on that asset that has been recognised in equity is amortised to the profit or loss over the remaining life of the asset using the effective interest method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the profit or loss.

Reclassification is at the election of management and is determined on an instrument-by-instrument basis. The Group and the Company do not reclassify any financial instrument into the FVTPL category after initial recognition or reclassify any financial instrument out of financial investments AFS during the financial year ended 31 December 2017.

(m) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities are recognised in the statements of financial position when, and only when, the Group and/or the Company become a party to the contractual provisions of the financial instrument.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(m) Financial liabilities (cont'd.)

The Group's and the Company's financial liabilities include Sukuk – MBSB SC Murabahah, trade payables, other payables, bank and other borrowings, recourse obligations on loans sold to Cagamas Berhad and deposits from customers. Deposits from customers are stated at placement values.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Bank and other borrowings and recourse obligations on loans sold to Cagamas Berhad are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Sukuk – MBSB SC Murabahah issued by the Company is classified as other financial liabilities as there is a contractual obligation by the Company to make cash payments of either principal or profit or both to holders of the Sukuk – MBSB SC Murabahah and the Company is contractually obliged to settle the financial instrument in cash.

Subsequent to initial recognition, Sukuk issued is recognised at amortised cost, with any difference between proceeds net of transaction costs and the redemption value being recognised in profit or loss over the period of the Sukuk – MBSB SC Murabahah using the effective profit method.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(n) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as a liability and deducted from equity in the period in which all relevant approvals have been obtained.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(o) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company to disburse loans, advances and financing to its borrowers as and when they choose to drawdown. Prior to this drawdown, financial guarantee contracts are recognised as commitment and contingencies. Subsequent to a drawdown, financial guarantees shall be recognised as loans, advances and financing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and/or the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and profit from operations of Islamic business

Interest income is recognised in profit or loss for all interest bearing assets on an accrual basis using the effective interest method. Profit from the Islamic business operations is recognised on an accrual basis using the effective profit method in accordance with the principles of Shariah.

(ii) Fee income

Loan arrangement fees, commissions and insurance fees are recognised as income at the time the underlying transactions are completed and there are no other contingencies associated with the fees.

Commitment and processing fees are recognised as income based on the amortised cost method.

(iii) Dividend income

Dividend income is recognised when the Group's and/or the Company's right to receive payment is established.

(iv) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(v) Other income

Revenue from rental of hotel rooms, sale of food and beverage, group tours and hotel arrangements are recognised upon invoices being issued and services rendered.

(q) Income tax

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(q) Income tax (cont'd.)

(ii) Deferred tax (cont'd.)

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

– where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses can be utilised except:

– where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(r) Fair value measurement

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

– in the principal market for the asset or liability; or

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

3. CHANGES IN ACCOUNTING POLICIES

(a) Amendments to MFRSs effective for annual periods on or after 1 January 2017

On 1 January 2017, the Group and the Company adopted the following Amendments to MFRSs mandatory for annual financial periods beginning on or after 1 January 2017:

- Disclosure Initiative (Amendments to MFRS 107)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)
- Annual improvements to MFRS standards 2014 - 2016 Cycle-Amendments to MFRS 112 Disclosure of Interest in Other Entities: Clarification of the scope of disclosure requirements in MFRS 12

The adoption of these new and revised MFRSs did not result in any significant effect on the consolidated and separate financial statements.

(b) Standards and interpretations issued but not yet effective

The following are standards and Issues Committee ("IC") Interpretations issued by MASB, but not yet effective, up to the date of issuance of the Group's and the Company's financial statements. The Group and the Company intend to adopt these standards and interpretations, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments (2014)	1 January 2018
MFRS 15 Revenue from Contracts with Customers; and	
Clarifications to MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019

The Directors of the Company do not anticipate that the application of the above will have a material impact on the financial statements of the Group and Company except as disclosed below.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards and interpretations issued but not yet effective (cont'd.)

Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

The amendments provide guidance on how to account for the following situations:

– The effects of vesting and non-vesting conditions on the measurement of a cash settled share-based payments;

– The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and

– A modification to the terms and conditions of a share-based payment transaction that changes the classification of the transaction from cash-settled to equity-settled.

As the Group and the Company currently do not have any cash-settled share-based payment transactions, the adoption of these amendments will not have any financial impact on the Group and the Company.

MFRS 9 Financial Instruments

This final version of MFRS 9 replaces all previous versions of MFRS 9. Retrospective application is required, but comparative information is not compulsory. The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The approach for classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held with two measurement categories – amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For financial liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of derivatives. The main change is that, in cases where the fair value option is taken for embedded financial liabilities, the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain loan commitments as well as financial guarantee contracts. At initial recognition, allowance for impairment is required for expected credit losses (''ECL'') resulting from default events that are possible within the next 12 months (''12 month ECL''). In the event of a significant increase in credit risk, allowance for impairment is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

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3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards and interpretations issued but not yet effective (cont'd.)

Hedge accounting

Under MFRS 9, the general hedge accounting requirements have been simplified for hedge effectiveness testing and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project.

MFRS 9 introduces significant changes in the way the Group and the Company account for financial instruments, particularly on the accounting policy on allowance for loans, advances and financing.

Effect to the Group and the Company

The adoption of the requirements on classification and measurement will have an effect on the classification and measurement of the financial assets of the Group and of the Company, but is not expected to have any impact on the classification and measurement of the financial liabilities of the Group and of the Company.

The recognition and measurement of impairment under MFRS 9 is intended to be more forward-looking than under MFRS 139 and will result in an increase in the allowances for loans, advances and financing as more financial assets (MFRS 9 includes loan commitments and financial guarantee contracts) will be assessed for impairment and allowances for impairment will be made for at least 12 month ECL.

MFRS 9 allows entities to continue with the hedge accounting under MFRS 139 even when other elements of MFRS 9 become effective on 1 January 2018.

The preparation for MFRS 9 by the Group and the Company had started in 2015 with the setting up of a MFRS 9 Project Team headed by the Chief Financial Officer of the Group and the Company, and with assistance from external consultants on the implementation of MFRS 9. The Group and the Company have completed the gap assessment and started on the development of MFRS 9 compliant impairment models for all impacted credit exposures in 2016. As at 31 December 2017, the Group and the Company have completed the development of MFRS 9 compliant impairment models.These models are currently being validated and refined. Significant business operations that are affected by MFRS 9 have been adapted to be aligned with MFRS 9. The Group and the Company have completed its preliminary assessment on the classification and measurement and expect minimal impact to the classification of its financial assets and liabilities. While the Group and the Company's impairment models are being refined, preliminary assessment suggests that the Group and the Company anticipate higher future credit costs for the business with the implementation of MFRS 9. Upon the initial adoption of MFRS 9, the Group and the Company expects their allowance for impairment to increase and this will be recognised directly in the retained profits as of 1 January 2018.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards and interpretations issued but not yet effective (cont'd.)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with customers. The core principle of MFRS 15 is that an entity recognises revenue in a manner which reflects the consideration an entity expects to be entitled in exchange for goods or services.

The main sources of income for the Group and the Company are income from servicing financial assets which are not within the scope of MFRS 15. Other sources of income are mainly contractual and short term in nature. Therefore, the Group and the Company do not expect the adoption of MFRS 15 to have material impact on the financial statements of the Group and of the Company.

Transfer of Investment Property (Amendments to MFRS 140)

The amendments clarify the existing provisions in the Standard on transfer to, or from the investment property category. The adoption of these amendments is not expected to have any material financial impact on the financial statements of the Group and of the Company.

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The IC Interpretation addresses the issue on which exchange rate is to be used in reporting foreign currency transactions that involve advance consideration paid or received. The adoption of the IC Interpretation is not expected to have any material financial impact on the financial statements of the Group and of the Company.

Annual Improvements to MFRS Standards 2015 - 2017 Cycle

The Annual Improvements to MFRS Standards 2015 - 2017 Cycle include a number of amendments to various MFRSs, which are summarised below. These amendments do not have a significant impact on the Group's and the Company's financial statements.

MFRS 123 Borrowing Costs – Borrowing costs eligible for capitalisation

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies these amendments to borrowing costs incurred on or after the beginning of the annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

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3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Standards and interpretations issued but not yet effective (cont'd.)

MFRS 16 Leases

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Group and the Company are required to account for major part of their operating leases in the balance sheet by recognising the 'right-of-use' assets and the lease liability, thus increasing the assets and liabilities of the Group and of the Company.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amount recognised in the financial statements.

Assessment of derecognition of Personal Financing – Islamic ("PFI") sold to Jana Kapital Sdn. Bhd. ("JKSB")

In determining if the sale meets the derecognition criteria, management has evaluated the extent to which the Company retains the risks and rewards of ownership of the PFI. As the Principal Terms and Conditions require the replacement of defaulted PFI with performing PFI, management had concluded that the risks and rewards of ownership of the PFI continue to be retained by the Company. Accordingly, the sale of the PFI to JKSB does not meet the criteria for derecognition and has not been derecognised in the financial statements of the Company. Instead, an amount equivalent to the carrying value of the the pledged PFI has been recognised in the financial statements of the Company as an amount due to JKSB included in other payable, and, conversely, in JKSB's books, an equivalent amount has been recognised as an amount due from the Company. Management is of the opinion that the described accounting treatment provides a more comprehensive and accurate representation of the arrangement between the Company and JKSB.

In line with the Principal Terms and Condition of the Sukuk – MBSB SC Murabahah programme of the Group (as detailed in Note 11(a)), Sukuk – MBSB SC Murabahah and Sukuk Commodity Murabahah will be issued in tranches from time to time, as decided by management and each tranche is required to be backed by a portfolio of identified PFI held by JKSB. The portfolio of identified PFI is purchased by JKSB from the Company on an arm's length basis. Management has considered the derecognition criteria prescribed in MFRS 139 *Financial Instruments: Recognition and Measurement*, and concluded, as described above, that the sale of PFI by the Company to JKSB has not met the derecognition criteria as stipulated in the standard.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

(b) Key source of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the reporting date, that has a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, is discussed below:

Impairment of loans, advances and financing and other receivables

The Group and the Company review its individually significant loans, advances and financing and other receivables at each reporting date to assess whether an impairment loss should be recorded in profit or loss.

In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group and the Company make judgements about the borrower's or the customer's financial situation and the net realisable value of collateral and future recoverable cash flows in workout/restructuring agreements. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowances.

Loans, advances and financing and receivables that have been assessed individually and found not to be impaired, and all individually insignificant loans, advances and financing, are then grouped based on similar risk characteristics and assessed collectively, to determine whether allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The amount of collective impairment required is determined based on the amount of data available from the Group's and the Company's current and past portfolios of loans, advances and financing. Such data include, but not limited to, credit policies, practices and quality, historical loss experiences and levels of arrears. Determination of collective impairment allowances also involve the use of credit models which are subjected to the further use of certain bases and assumptions. Included in the models used, and consequently in the quantum of collective impairment losses, are adjustments made to compensate for some of the possible inherent limitations of a model-based approach.

The amount of impairment loss provided by the Group and the Company is disclosed in Notes 6, 7 and 9.

NOTES TO THE FINANCIAL STATEMENTS
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5. CASH AND SHORT TERM FUNDS AND DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(a) Cash and short-term funds:				
Cash at banks and on hand	**265,196**	228,298	**250,492**	213,603
Deposits and placements with financial institutions with original maturity of less than one month	**7,521,936**	6,411,071	**7,518,142**	6,407,387
Total cash and short-term funds	**7,787,132**	6,639,369	**7,768,634**	6,620,990
(b) Deposits and placements with financial institutions with original maturity of more than one month	**747,403**	1,076,078	**51,368**	462,206
Total cash and short-term funds and deposits and placements financial institutions	**8,534,535**	7,715,447	**7,820,002**	7,083,196

Short-term deposits are made for varying periods of between 1 day and 1 month depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate as at 31 December 2017 for the Group and the Company was 3.37% (2016: 3.56%) and 3.45% (2016: 3.60%) per annum, respectively. The average maturity as at 31 December 2017 for the Group and the Company was 48 days (2016: 71 days) and 19 days (2016: 37 days), respectively.

As at 31 December 2017, the Housing Development Account ("H.D.A") included in the cash and short term funds of the Group held pursuant to Section 7A of the Housing Development (Control and Licensing) Act, 1966, is NIL (2016: RM4.521 million).

6. TRADE RECEIVABLES

	Group	
	2017 RM'000	2016 RM'000
Gross balance	**25,112**	25,351
Less: Allowance for impairment	**(24,817)**	(24,809)
Net balance	**295**	542

6. TRADE RECEIVABLES (CONT'D.)

Movements in allowance for impairment are as follows:

	Group	
	2017 **RM'000**	**2016** **RM'000**
Balance as at 1 January	**24,809**	24,809
Impairment losses (Note 29)	**8**	–
Balance as at 31 December	**24,817**	24,809

Trade receivables are non-interest bearing and credit terms provided are generally on 7 to 30 days (2016: 7 to 30 days) term.

7. OTHER RECEIVABLES

	Group		Company	
	2017 **RM'000**	**2016** **RM'000**	**2017** **RM'000**	**2016** **RM'000**
Advances in respect of certain projects	**416,848**	374,903	**–**	–
Loan commitment fees	**8,740**	8,740	**8,740**	8,740
Amount due from subsidiaries	**–**	–	**68,919**	58,228
Foreclosed properties	**135,405**	138,658	**135,405**	138,658
Prepayments and deposits	**72,417**	4,702	**71,655**	3,978
Sundry receivables	**45,891**	43,658	**40,847**	35,564
Public Low Cost Housing Payment (PLCHP)	**23,337**	23,277	**23,337**	23,277
Deferred expenses due to issuance of Sukuk Commodity Murabahah	**141**	155	**–**	–
Deferred expenses due to issuance of Sukuk – MBSB SC Murabahah	**2,733**	2,995	**2,733**	2,995
	705,512	597,088	**351,636**	271,440
Less: Allowance for impairment	**(487,099)**	(446,535)	**(116,821)**	(113,516)
	218,413	150,553	**234,815**	157,924

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

7. OTHER RECEIVABLES (CONT'D.)

Movements in allowance for impairment are as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balance as at 1 January	**446,535**	348,986	**113,516**	109,074
Charge/(reversal) for the year:				
Reclassification of other receivables from loans, advances and financing	**–**	59,552	**–**	–
(Write back of)/provision for impairment losses for foreclosed properties	**(1,381)**	1,482	**(1,381)**	1,482
Advances in respect of certain projects (Note 29)	**41,945**	36,515	**–**	–
Amount due from subsidiaries (Note 29)	**–**	–	**4,686**	2,960
Balance as at 31 December	**487,099**	446,535	**116,821**	113,516

Details of allowance for impairment are as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Advances in respect of certain projects	**412,660**	370,715	**–**	–
Loan commitment fees	**8,740**	8,740	**8,740**	8,740
Amount due from subsidiaries	**–**	–	**46,571**	41,885
Public Low Cost Housing Payment (PLCHP)	**23,118**	23,118	**23,118**	23,118
Sundry receivables	**12,493**	12,493	**8,304**	8,304
Foreclosed properties	**30,088**	31,469	**30,088**	31,469
	487,099	446,535	**116,821**	113,516

The unsecured advances in respect of certain projects relate to monies advanced and interest charged on these advances by a subsidiary of the Company to a third party. These advances bear interest of 10.50% (2016: 10.50%) per annum.

The amount due from subsidiaries is unsecured, bears weighted average effective interest rate of 6.75% (2016: 6.80%) per annum and is repayable on demand.

7. OTHER RECEIVABLES (CONT'D.)

The credit risk of other receivables of the Group and the Company are mitigated by the collateral held against the other receivables and would reduce the extent of impairment allowance for the assets subject to impairment review. In this respect, the individual impairment allowance as at the reporting date would have been higher by approximately RM105,316,000 (2016: RM107,189,000) without the mitigating effect of collateral held.

Included in prepayments and deposits of the Group and of the Company are rental deposits paid to the Employees Provident Fund ("EPF"), the ultimate holding body, amounting to RM96,524 (2016: RM94,125).

Other than the unsecured advances in respect of certain projects, the Group and the Company have no significant concentration of credit risk within other receivables that may arise from exposure to a single debtor or to groups of debtors.

8. INVENTORIES

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
At cost:				
Hotel inventories	**179**	138	**–**	–
At net realisable value:				
Freehold land held for sale	**103,063**	103,063	**900**	900
	103,063	103,063	**900**	900
Total inventories	**103,242**	103,201	**900**	900

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9. LOANS, ADVANCES AND FINANCING

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
End finance:				
Normal housing programme	**3,197,981**	3,382,205	**3,197,981**	3,382,205
Low cost housing programme	**16,580**	17,414	**16,580**	17,414
Islamic:				
Property	**2,407,876**	2,080,177	**2,407,876**	2,080,177
Personal	**22,505,977**	22,822,210	**22,505,977**	22,822,210
Auto finance	**281,574**	334,524	**281,574**	334,524
Bridging, structured and term loans and financing	**7,260,549**	6,599,879	**7,260,549**	6,607,066
Staff loans	**43,685**	48,205	**43,685**	48,205
Reclassification to assets held-for-sale (Note 10)	**(1,513,043)**	–	**(1,513,043)**	–
Gross loans, advances and financing	**34,201,179**	35,284,614	**34,201,179**	35,291,801
Allowance for impairment:				
– Collectively assessed (net of reclassification to assets held-for-sale)	**(1,892,818)**	(2,809,131)	**(1,892,818)**	(2,809,131)
– Individually assessed	**(302,117)**	(282,005)	**(302,117)**	(282,005)
Net loans, advances and financing (Note 41(a))	**32,006,244**	32,193,478	**32,006,244**	32,200,665

Included in Islamic personal financing are amounts that have been charged for financing facilities granted to the Company as shown below:

	Group and Company	
	2017 RM'000	**2016 RM'000**
Islamic financing facility granted by:		
Cagamas Berhad – Recourse obligation on loans/financing sold (Note 21)	**2,196,993**	1,933,321
Sukuk – MBSB SC Murabahah* (Note 11(a))	**2,891,912**	3,193,633

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

* The Islamic personal financing charged to Sukuk – MBSB SC Murabahah relate to Islamic personal financing sold to a subsidiary, Jana Kapital Sdn Bhd ("JKSB"), amounting to:

		Company	
		2017 RM'000	**2016 RM'000**
Tranche	**Selling date**	**Selling price**	**Selling price**
1	1 December 2013	**570,637**	570,637
2	1 November 2014	**833,045**	833,045
3	1 May 2015	**1,232,642**	1,232,642
4	1 October 2015	**1,239,677**	1,239,677
		3,876,001	3,876,001

(i) The maturity structure of loans, advances and financing is as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Maturing within one year	**1,028,128**	843,533	**1,028,128**	843,533
One year to three years	**1,655,580**	1,410,298	**1,655,580**	1,410,298
Three years to five years	**2,123,963**	1,788,154	**2,123,963**	1,788,154
Over five years	**29,393,508**	31,242,629	**29,393,508**	31,249,816
	34,201,179	35,284,614	**34,201,179**	35,291,801

(ii) Loans, advances and financing categorised according to their purpose are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Purchase of residential properties	**4,937,712**	5,194,235	**4,937,712**	5,194,235
Purchase of non-residential properties	**301,205**	309,683	**301,205**	309,683
Personal use	**21,417,605**	22,844,358	**21,417,605**	22,844,358
Property development	**4,031,832**	3,548,616	**4,031,832**	3,548,616
Working capital	**2,563,760**	2,402,615	**2,563,760**	2,402,615
Purchase of transport vehicles	**284,109**	336,457	**284,109**	336,457
Others	**664,956**	648,650	**664,956**	655,837
	34,201,179	35,284,614	**34,201,179**	35,291,801

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

(iii) Loans, advances and financing categorised according to type of customer are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Domestic business enterprises:				
– Small medium enterprises	**2,540,062**	3,734,289	**2,540,062**	3,734,289
– Others	**4,850,648**	2,976,192	**4,850,648**	2,983,379
Individuals	**26,810,469**	28,574,133	**26,810,469**	28,574,133
	34,201,179	35,284,614	**34,201,179**	35,291,801

(iv) Loans, advances and financing categorised according to interest/profit rate sensitivity are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Fixed rate:				
Personal financing	**20,598,230**	22,631,668	**20,598,230**	22,631,668
Auto finance	**284,109**	336,457	**284,109**	336,457
Mortgage and property Islamic	**667,953**	802,211	**667,953**	802,211
Bridging, structured and term loans and financing	**1,291,123**	921,733	**1,291,123**	921,733
Variable rate:				
Personal financing	**819,376**	212,690	**819,376**	212,690
Mortgage and property Islamic	**4,570,963**	4,701,707	**4,570,963**	4,701,707
Bridging, structured and term loans and financing	**5,969,425**	5,678,148	**5,969,425**	5,685,335
	34,201,179	35,284,614	**34,201,179**	35,291,801

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

(v) Movements in impaired loans, advances and financing are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Balance as at 1 January	**2,829,626**	2,519,633	**2,836,814**	2,587,063
Classified as impaired during the year	**757,166**	884,443	**749,978**	824,202
Reclassified as non-impaired	**(417,763)**	(524,430)	**(417,763)**	(524,431)
Amount recovered	**(85,696)**	(50,006)	**(85,696)**	(50,006)
Amount written off	**(288)**	(14)	**(288)**	(14)
Reclassification to assets held-for-sale	**(1,509,870)**	–	**(1,509,870)**	–
Balance as at 31 December	**1,573,175**	2,829,626	**1,573,175**	2,836,814
* Collective allowance	**(2,121,500)**	(1,700,602)	**(2,121,500)**	(1,700,602)
Reclassification to assets held-for-sale	**1,474,087**	–	**1,474,087**	–
Individual allowance	**(251,226)**	(205,951)	**(251,226)**	(205,951)
Allowance for impairment	**(898,639)**	(1,906,553)	**(898,639)**	(1,906,553)
Net impaired loans, advances and financing	**674,536**	923,073	**674,536**	930,261
Net impaired loans as a percentage of net loans, advances and financing	**2.1%**	2.9%	**2.1%**	2.9%

* The collective allowance included in the computation of net impaired loans, advances and financing pertain to the collective allowance recognised on loans and financing categorised as impaired.

(vi) Movements in the allowance for impairment are as follows:

	Group and Company	
	2017 RM'000	**2016 RM'000**
Collective Impairment		
Balance as at 1 January	**2,809,131**	2,045,943
Impairment during the year (Note 32)	**558,321**	763,188
Reclassification to assets held-for-sale (Note 10)	**(1,474,634)**	–
Balance as at 31 December	**1,892,818**	2,809,131

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9. LOANS, ADVANCES AND FINANCING (CONT'D.)

(vi) Movements in the allowance for impairment are as follows: (cont'd.)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Individual Impairment				
Balance as at 1 January	**282,005**	277,916	**282,005**	277,916
Impairment during the year (Note 32)	**20,400**	4,103	**20,400**	4,103
Written-off	**(288)**	(14)	**(288)**	(14)
Balance as at 31 December	**302,117**	282,005	**302,117**	282,005

(vii) Impaired loans, advances and financing by economic purpose are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Purchase of residential properties	**352,177**	843,810	**352,177**	843,810
Purchase of non-residential properties	**39,167**	76,123	**39,167**	76,123
Personal use	**471,700**	1,401,579	**471,700**	1,401,579
Property development	**409,295**	268,719	**409,295**	268,719
Working capital	**78,384**	56,184	**78,384**	56,184
Purchase of transport vehicles	**42,445**	37,903	**42,445**	37,903
Others	**180,007**	145,308	**180,007**	152,496
	1,573,175	2,829,626	**1,573,175**	2,836,814

9. LOANS, ADVANCES AND FINANCING (CONT'D.)

(viii) Impaired loans, advances and financing by type of customer are as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Domestic business enterprises:				
– Small medium enterprises	**134,249**	371,034	**134,249**	371,034
– Others	**548,771**	128,428	**548,771**	135,616
Individuals	**890,155**	2,330,164	**890,155**	2,330,164
	1,573,175	2,829,626	**1,573,175**	2,836,814

The credit risk of financial assets of the Group and the Company is mitigated by the collateral held against the financial assets and would reduce the extent of impairment allowance for the assets subject to impairment review. In this respect, the individual impairment allowance as at the reporting date would have been higher by approximately RM207,491,454 (2016: RM158,569,000) without the mitigating effect of collateral held.

10. FINANCIAL ASSETS HELD-FOR-SALE

Assets held-for-sale comprise non-impaired and impaired loans, advances and financing in relation to end finance, islamic property and personal financing, which have been identified for sale and for which a firm commitment has been received from an external party as at 31 December 2017. The gross amounts are categorised according to their purpose as follows:

	Group and Company
	RM'000
Purchase of residential properties	367,759
Purchase of non-residential properties	36,183
Personal use	1,109,101
	1,513,043

	Group and Company
	2017 RM'000
Reclassification from gross loans, advances and financing (Note 9)	1,513,043
Less: Allowance for impairment collectively assessed (Note 9(vi))	(1,474,634)
Net assets held-for-sale (Note 41(a))	38,409

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10. FINANCIAL ASSETS HELD-FOR-SALE (CONT'D.)

The disposal of the assets is expected to be completed within the second quarter of 2018 for an expected price of RM45,900,000.

11. SUKUK – MBSB STRUCTURED COVERED ("SC") MURABAHAH AND SUKUK COMMODITY MURABAHAH

(a) Sukuk – MBSB SC Murabahah

	Group and Company	
	2017 RM'000	**2016 RM'000**
Sukuk – MBSB SC Murabahah (Note 41(a))	**2,287,877**	2,615,807
Maturity of Sukuk – MBSB SC Murabahah:		
Within one year	**514,909**	433,933
More than one year	**1,772,968**	2,181,874
	2,287,877	2,615,807

On 25 October 2013, MBSB's Sukuk – MBSB SC Murabahah programme ("the Programme") was approved by the Securities Commission of Malaysia. The salient terms of the Programme as prescribed in its Principal Terms and Conditions are as follows:

(i) The Programme is available for issue within a period of 5 years from the first issuance date and is issued in tranches ("Tranche") from time to time, at the discretion of MBSB;

(ii) Each Tranche will consist of multiple series of Sukuk with different maturities;

(iii) Each Tranche will be backed by an identified pool of Financing Receivables ("Tranche Cover Assets") held by the Company's Special Purpose Vehicle ("SPV"), Jana Kapital Sdn. Bhd. ("JKSB"); JKSB who will issue an unconditional and irrevocable Covered Sukuk Guarantee to the holders of the Sukuk – MBSB SC Murabahah;

(iv) Tranche Cover Assets will be pledged by JKSB as security for the Covered Sukuk Guarantee. These Tranche Cover Assets are assigned to the Sukuk Trustee for this purpose;

(v) In the event of default as defined in the Principal Terms and Conditions, the Tranche Cover Assets will be liquidated by the Sukuk Trustee in favour of the holders of the Sukuk – MBSB SC Murabahah; and

(vi) From time to time, additional Tranche Cover Assets will be purchased by JKSB in line with additional Tranches drawndown by MBSB.

As at the reporting date, the carrying amount of Financing Receivables identified to back the outstanding Sukuk MBSB SC– Murabahah amounted to RM2,891,912,000 (2016: RM3,193,633,000) as disclosed in Note 9.

11. SUKUK – MBSB STRUCTURED COVERED ("SC") MURABAHAH AND SUKUK COMMODITY MURABAHAH (CONT'D.)

(b) Sukuk Commodity Murabahah

	Company	
	2017 **RM'000**	**2016** **RM'000**
Sukuk Commodity Murabahah (Note 41(a))	**3,245,851**	3,577,143

As part of the Programme, Jana Kapital Sdn Bhd ("JKSB") will issue a Sukuk Commodity Murabahah to raise funds necessary for the purchase of Tranche Cover Assets from the Company. The salient terms of the Sukuk Commodity Murabahah are as follows:

(i) The Sukuk Commodity Murabahah will be issued in Tranches corresponding to each Tranche of Sukuk – MBSB SC Murabahah;

(ii) The tenure of the Sukuk Commodity Murabahah will be equivalent to the tenure of each Tranche of the Sukuk – MBSB SC Murabahah plus an additional year;

(iii) The profit rates of each Tranche of the Sukuk Commodity Murabahah will be equivalent to the profit rates of the corresponding Sukuk – MBSB SC Murabahah.

On 24 December 2013, the first drawdown of the Programme amounting to approximately RM495 million was made by the Company with an equivalent issuance by JKSB amounting to approximately RM579 million to the Company. The first Tranche is secured against Tranche Cover Assets amounting to RM570,637,000 sold to JKSB on 1 December 2013. The first Tranches of the Sukuk – MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 8 and 9 years from their drawdown dates respectively and both instruments carry profit rates ranging from 3.84% to 4.68% per annum, payable semi-annually in arrears.

On 10 December 2014, the second drawdown of the Programme amounting to approximately RM700 million was made by the Company with an equivalent issuance by JKSB amounting to approximately RM931 million to the Company. The second Tranche is secured against Tranche Cover Assets amounting to RM833,045,000 sold to JKSB on 1 November 2014. The second Tranches of the Sukuk – MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 10 and 11 years from their drawdown dates respectively and both instruments carry profit rates ranging from 4.00% to 5.00% per annum, payable semi-annually in arrears.

On 29 May 2015, the third drawdown of the Programme amounting to approximately RM900 million was made by the Company with an equivalent issuance by JKSB amounting to approximately RM1510 million to the Company. The third Tranche is secured against Tranche Cover Assets amounting to RM1,232,642,000 sold to JKSB on 1 May 2015. The third Tranches of the Sukuk – MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 9 and 10 years from their drawdown dates respectively and both instruments carry profit rates ranging from 4.30% to 5.20% per annum, payable semi-annually in arrears.

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11. SUKUK – MBSB STRUCTURED COVERED ("SC") MURABAHAH AND SUKUK COMMODITY MURABAHAH (CONT'D.)

(b) Sukuk Commodity Murabahah (cont'd.)

On 21 October 2015, the fourth drawdown of the Programme amounting to approximately RM900 million was made by the Company with an equivalent issuance by JKSB amounting to approximately RM900 million to the Company. The fourth Tranche is secured against Tranche Cover Assets amounting to RM1,239,677,000 sold to JKSB on 1 October 2015. The fourth Tranches of the Sukuk – MBSB SC Murabahah and the Sukuk Commodity Murabahah have a tenure of 12 and 13 years from their drawdown dates respectively and both instruments carry profit rates ranging from 4.30% to 5.50% per annum, payable semi-annually in arrears.

12. INVESTMENTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2017 RM'000	**2016 RM'000**
Unquoted shares at cost	**102,443**	118,394
Less: Accumulated impairment losses	**(95,046)**	(96,063)
	7,397	22,331

Movements in the impairment losses are as follows:

	2017 RM'000	2016 RM'000
Balance as at 1 January	**96,063**	96,062
Impairment during the year (Note 29)	**2**	1
Write off due to disposal	**(1,019)**	–
Balance as at 31 December	**95,046**	96,063

12. INVESTMENTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES (CONT'D.)

(a) Investments in subsidiaries

Details of the subsidiaries are as follows:

	Effective interest held (%)		
Name of subsidiaries	**2017**	**2016**	**Principal activities**
MBSB Properties Sdn. Bhd.	**100**	100	Leasing of real property
MBSB Development Sdn. Bhd.	**100**	100	Property development
Prudent Legacy Sdn. Bhd.	**92**	92	Dormant
Sigmaprise Sdn. Bhd.	**100**	100	Hotel operations
Ganesha Sdn. Bhd.#	**100**	100	In liquidation
MBSB Project Management Sdn. Bhd.	**100**	100	Ceased operations
Definite Pure Sdn. Bhd.	**100**	100	Dormant
Malaya Borneo Building Society Limited ("MBBS")*	**100**	100	Dormant
Farawide Sdn. Bhd.	**100**	100	Hotel operations services
Idaman Usahamas Sdn. Bhd.	**100**	100	Property development
Raynergy Sdn. Bhd.^	**–**	100	Liquidated
Trimonds Sdn. Bhd.^	**–**	100	Liquidated
Springtide Sdn. Bhd.^	**–**	100	Liquidated
Ombak Pesaka Sdn. Bhd.	**100**	100	Hotel operations
MBSB Tower Sdn. Bhd.	**100**	100	Property development
Home Approach Sdn. Bhd.#	**100**	100	In liquidation
Jana Kapital Sdn. Bhd.	**100**	100	Investment holding
88 Legacy Sdn. Bhd.	**100**	100	Property development

* Audited by a firm of auditors other than Ernst & Young.

\# These subsidiaries in liquidation did not give rise to significant impact to the results of the Company and Group.

^ These subsidiaries have been liquidated during the year which resulted a loss on liquidation of RM15,018,000.

All the above subsidiaries are incorporated in Malaysia except for MBBS which is incorporated in Singapore.

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12. INVESTMENTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES (CONT'D.)

(b) Financing to subsidiaries

	Company	
	2017 RM'000	**2016 RM'000**
Secured	**250,336**	206,837
Unsecured	**236,003**	220,445
	486,339	427,282
Less: Allowance for impairment	**(181,199)**	(146,779)
	305,140	280,503

Movements in the allowance for impairment are as follows:

	Company	
	2017 RM'000	**2016 RM'000**
Balance as at 1 January	**146,779**	130,963
Charge for the year		
Secured	**937**	883
Unsecured	**33,483**	14,933
Total charge for the year (Note 29)	**34,420**	15,816
Balance as at 31 December	**181,199**	146,779

Details of the allowance for impairment are as follows:

	Company	
	2017 RM'000	**2016 RM'000**
Secured	**10,035**	9,097
Unsecured	**171,164**	137,682
	181,199	146,779

The financing to subsidiaries are repayable on demand and certain financing to subsidiaries are secured against landed properties. The weighted average effective interest rates of financing to subsidiaries at the reporting date was 6.75% (2016: 6.80%) per annum.

13. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE ("AFS")

	Group and Company	
	2017	**2016**
	RM'000	**RM'000**
At fair value	**3,171,913**	2,364,750
Money Market Instruments		
Malaysian Government Investment Issues	**1,111,691**	972,180
Debt Securities:		
Private and Islamic debt securities	**685,123**	181,242
Government Guaranteed debt securities	**1,375,099**	1,211,328
	3,171,913	2,364,750

The maturity profile of financial investment available-for-sale is as follows:

	Group and Company	
	2017	**2016**
	RM'000	**RM'000**
Within one year	**205,198**	140,309
One year to three years	**960,405**	384,203
Three years to five years	**1,038,966**	651,363
After five years	**967,344**	1,188,875
	3,171,913	2,364,750

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14. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Building in progress RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost								
At 1 January 2017	6,217	73,324	103,718	31,091	31,924	832	33,997	281,103
Additions	–	33,871	–	271	355	–	3,335	37,832
Disposals	–	–	–	(24)	(463)	–	(734)	(1,221)
At 31 December 2017	6,217	107,195	103,718	31,338	31,816	832	36,598	317,714
Accumulated depreciation and impairment losses								
At 1 January 2017:								
Accumulated depreciation	–	–	17,641	26,953	29,355	739	30,044	104,732
Accumulated impairment losses	371	–	34,287	–	–	–	–	34,658
	371	–	51,928	26,953	29,355	739	30,044	139,390
Depreciation charge for the year (Note 29)	–	–	3,080	2,940	1,640	98	3,250	11,008
Disposals	–	–	–	(18)	(436)	(5)	(729)	(1,188)
At 31 December 2017	371	–	55,008	29,875	30,559	832	32,565	149,210
Analysed as:								
Accumulated depreciation	–	–	20,721	29,875	30,559	832	32,565	114,552
Accumulated impairment losses	371	–	34,287	–	–	–	–	34,658
	371	–	55,008	29,875	30,559	832	32,565	149,210
Net book value								
At 31 December 2017	5,846	107,195	48,710	1,463	1,257	–	4,033	168,504

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Group	Freehold land RM'000	Building in progress RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost								
At 1 January 2016	6,217	56,133	103,718	35,837	32,430	868	34,073	269,276
Additions	–	17,191	–	277	156	–	192	17,816
Disposals	–	–	–	(5,046)	(656)	(36)	(268)	(6,006)
Reversal	–	–	–	23	(6)	–	–	17
At 31 December 2016	6,217	73,324	103,718	31,091	31,924	832	33,997	281,103
Accumulated depreciation and impairment losses								
At 1 January 2016:								
Accumulated depreciation	–	–	14,561	27,791	27,743	649	25,822	96,566
Accumulated impairment losses	371	–	34,287	–	–	–	–	34,658
	371	–	48,848	27,791	27,743	649	25,822	131,224
Depreciation charge for the year (Note 29)	–	–	3,080	3,811	2,080	119	4,483	13,573
Disposals	–	–	–	(4,672)	(468)	(29)	(261)	(5,430)
Reversal	–	–	–	23	–	–	–	23
At 31 December 2016	371	–	51,928	26,953	29,355	739	30,044	139,390
Analysed as:								
Accumulated depreciation	–	–	17,641	26,953	29,355	739	30,044	104,732
Accumulated impairment losses	371	–	34,287	–	–	–	–	34,658
	371	–	51,928	26,953	29,355	739	30,044	139,390
Net book value								
At 31 December 2016	5,846	73,324	51,790	4,138	2,569	93	3,953	141,713

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– 31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Company	Freehold land RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost							
At 1 January 2017	**9,968**	**18,946**	**24,018**	**17,689**	**580**	**33,005**	**104,206**
Additions	**–**	**–**	**162**	**232**	**–**	**3,329**	**3,723**
Disposals	**–**	**–**	**(24)**	**(463)**	**–**	**(734)**	**(1,221)**
At 31 December 2017	**9,968**	**18,946**	**24,156**	**17,458**	**580**	**35,600**	**106,708**
Accumulated depreciation							
At 1 January 2017:							
Accumulated depreciation	**–**	**2,962**	**18,269**	**14,665**	**402**	**29,277**	**65,575**
Depreciation charge for the year (Note 29)	**–**	**474**	**2,922**	**1,510**	**82**	**3,237**	**8,225**
Disposals	**–**	**–**	**(18)**	**(441)**	**–**	**(729)**	**(1,188)**
At 31 December 2017	**–**	**3,436**	**21,173**	**15,734**	**484**	**31,785**	**72,612**
Net book value							
At 31 December 2017	**9,968**	**15,510**	**2,983**	**1,724**	**96**	**3,815**	**34,096**

Company	Freehold land RM'000	Buildings RM'000	Building renovation RM'000	Furniture and equipment RM'000	Motor vehicles RM'000	Data processing equipment RM'000	Total RM'000
Cost							
At 1 January 2016	9,968	18,946	28,765	18,275	580	33,092	109,626
Additions	–	–	276	76	–	181	533
Disposals	–	–	(5,046)	(656)	–	(268)	(5,970)
Reversal	–	–	23	(6)	–	–	17
At 31 December 2016	9,968	18,946	24,018	17,689	580	33,005	104,206
Accumulated depreciation							
At 1 January 2016:							
Accumulated depreciation	–	2,488	19,325	13,238	318	25,080	60,449
Depreciation charge for the year (Note 29)	–	474	3,593	1,895	84	4,458	10,504
Disposals	–	–	(4,672)	(468)	–	(261)	(5,401)
Reversal	–	–	23	–	–	–	23
At 31 December 2016	–	2,962	18,269	14,665	402	29,277	65,575
Net book value							
At 31 December 2016	9,968	15,984	5,749	3,024	178	3,728	38,631

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Included in freehold land and buildings are the net book value of properties which are:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Pending subdivision of titles	**754**	793	**184**	193

15. LAND USE RIGHTS

	Group	
	2017	**2016**
	RM'000	**RM'000**
Cost:		
At 1 January/31 December	**8,428**	8,428
Accumulated amortisation:		
At 1 January	**2,844**	2,682
Amortisation for the year (Note 29)	**161**	162
At 31 December	**3,005**	2,844
Net carrying amount	**5,423**	5,584
Amount to be amortised:		
Not later than one year	**161**	162
Later than one year but not later than five years	**644**	648
Later than five years	**4,618**	4,774
	5,423	5,584

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16. INTANGIBLE ASSETS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Software licences				
Cost				
At 1 January	**78,040**	77,804	**77,599**	77,369
Additions	**10,059**	236	**10,042**	230
At 31 December	**88,099**	78,040	**87,641**	77,599
Accumulated depreciation and impairment losses				
At 1 January	**62,625**	49,125	**62,230**	48,779
Amortisation for the year (Note 29)	**10,841**	13,500	**10,823**	13,451
At 31 December	**73,466**	62,625	**73,053**	62,230
Net book value				
At 31 December	**14,633**	15,415	**14,588**	15,369

17. DEPOSITS FROM CUSTOMERS

	Group and Company	
	2017 RM'000	2016 RM'000
By type of products:		
Savings	**96,751**	97,444
Fixed deposits	**32,658,386**	30,513,880
	32,755,137	30,611,324
By type of customers:		
Government and statutory bodies	**15,276,437**	12,690,543
Business enterprises	**14,672,905**	15,435,413
Individuals	**2,805,795**	2,485,368
	32,755,137	30,611,324
Maturity of deposits from customers:		
Within one year	**30,129,603**	28,639,144
More than one year	**2,625,534**	1,972,180
	32,755,137	30,611,324

18. BANK BORROWINGS

	Group and Company	
	2017 **RM'000**	**2016** **RM'000**
Bank borrowings	–	575,275
Maturity of bank borrowings:		
Within one year	–	575,275

The weighted average effective interest rates of bank borrowings (per annum) at the reporting date were as follows:

	Group and Company	
	2017 **%**	**2016** **%**
Bank borrowings	–	4.35

Bank borrowings represent unsecured revolving credit facilities from licensed commercial banks. The interest charged on these borrowings is based on the lenders' cost of funds plus 0.50% to 1.00% (2016: 0.50% to 1.00%) per annum.

19. TRADE PAYABLES

Trade payables are unsecured and non-interest bearing. The normal trade credit terms granted to the Group range from 30 to 60 (2016: 30 to 60) days.

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20. OTHER PAYABLES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")	**–**	–	**2,891,912**	3,193,632
Due to other subsidiaries	**–**	–	**13,187**	30,712
Al-Mudharabah security deposit	**112,629**	109,058	**112,629**	109,058
Accruals	**69,272**	46,787	**68,573**	46,153
Deferred income	**33,831**	44,799	**33,831**	44,799
Others	**161,595**	103,342	**158,405**	100,987
	377,327	303,986	**3,278,537**	3,525,341

The amount due to a subsidiary, JKSB, relates to the sale of a portfolio of PFI that does not meet the derecognition criteria prescribed under MFRS 139 as detailed in Note 4(a).

The amounts due to other subsidiaries are unsecured, interest-free and are repayable on demand.

21. RECOURSE OBLIGATION ON LOANS/FINANCING SOLD

	Group and Company	
	2017 RM'000	2016 RM'000
Repayments due within 12 months	**477,918**	1,436,699
Repayments due after 12 months	**1,760,249**	983,476
	2,238,167	2,420,175

These amounts relate to proceeds received from the sale of conventional and Islamic housing loan/financing and Islamic personal financing to intermediary banks which the intermediary banks will onward sell the loan/financing portfolios to Cagamas Berhad with recourse to the Company. Under the agreement, the Company undertakes to administer the loans/financing on behalf of the intermediary banks and Cagamas Berhad and to buy back any loans/financing which are regarded as defective based on a set of pre-determined criteria. In November 2014, the Company started its first sale of loan/financing portfolios with recourse directly to Cagamas Berhad without participation of intermediary banks.

The recourse obligation on loans or financing sold facilities granted by Cagamas Berhad are secured on a portfolio of mortgage loan and financing amounting to RM2,196,993,000 (2016: RM1,933,321,000) as disclosed in Note 9.

22. DEFERRED TAX (ASSETS)/LIABILITIES

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
At 1 January	**(18,685)**	(496,970)	**(18,710)**	(496,548)
Recognised in profit or loss (Note 33)	**(2,518)**	478,285	**(2,477)**	477,838
At 31 December	**(21,203)**	(18,685)	**(21,187)**	(18,710)
Presented, after appropriate offsetting, as follows:				
Deferred tax liabilities	**10,156**	9,428	**–**	–
Deferred tax assets	**(31,359)**	(28,113)	**(21,187)**	(18,710)
	(21,203)	(18,685)	**(21,187)**	(18,710)

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

Group	**Fair value adjustment arising from business combination RM'000**	**Accelerated capital allowances RM'000**	**Collective allowances RM'000**	**Others RM'000**	**Total RM'000**
Deferred Tax Assets					
At 1 January 2016	–	(1,424)	(491,025)	(18,601)	(511,050)
Recognised in profit or loss	–	44	491,025	(8,132)	482,937
At 1 January 2017	–	(1,380)	–	(26,733)	(28,113)
Recognised in profit or loss	–	214	–	(3,460)	(3,246)
At 31 December 2017	–	(1,166)	–	(30,193)	(31,359)
Deferred Tax Liabilities					
At 1 January 2016	5,026	11,076	–	(2,022)	14,080
Recognised in profit or loss	–	(5,099)	–	447	(4,652)
At 1 January 2017	5,026	5,977	–	(1,575)	9,428
Recognised in profit or loss	–	(837)	–	1,565	728
At 31 December 2017	5,026	5,140	–	(10)	10,156

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22. DEFERRED TAX (ASSETS)/LIABILITIES (CONT'D.)

The components and movements of deferred tax assets and liabilities during the year prior to offsetting were as follows: (cont'd.)

Company	Fair value adjustment arising from business combination RM'000	Accelerated capital allowances RM'000	Collective allowances RM'000	Others RM'000	Total RM'000
Deferred Tax Assets					
At 1 January 2016	–	(1,424)	(491,025)	(15,175)	(507,624)
Recognised in profit or loss	–	44	491,025	(8,132)	482,937
At 1 January 2017	–	(1,380)	–	(23,307)	(24,687)
Recognised in profit or loss	–	213	–	(3,460)	(3,247)
At 31 December 2017	–	(1,167)	–	(26,767)	(27,934)
Deferred Tax Liabilities					
At 1 January 2016	–	11,076	–	–	11,076
Recognised in profit or loss	–	(5,099)	–	–	(5,099)
At 1 January 2017	–	5,977	–	–	5,977
Recognised in profit or loss	–	(837)	–	1,607	770
At 31 December 2017	–	5,140	–	1,607	6,747

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Unused tax losses	**131,681**	167,202	**–**	–
Unabsorbed capital allowances	**46,079**	42,433	**–**	–
Others	**35,779**	27,174	**3,527**	2,963

The availability of the unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of the Company's subsidiaries are subject to no substantial changes in shareholdings of the Company and of those subsidiaries under Section 44(5A) and (5B) of the Income Tax Act, 1967 in Malaysia.

23. SHARE CAPITAL AND SHARE PREMIUM

Share capital Group and Company	Number of Shares 2017 Units'000	 2016 Units'000	Amount 2017 RM'000	 2016 RM'000
Ordinary shares Issued and fully paid:				
At 1 January	**5,798,774**	2,838,551	**5,798,774**	2,838,551
Issued during the year:				
Issue of ordinary shares pursuant to rights issue	**–**	2,899,387	**–**	2,899,387
Issue of ordinary shares pursuant to DRP	**125,644**	50,169	**144,491**	50,169
Issue of ordinary shares pursuant to ESOS	**7**	–	**13**	–
Issue of ordinary shares pursuant to warrants	**–**	10,667	**–**	10,667
Transfer of share premium to share capital	**–**	–	**198,449**	–
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	**–**	–	**12,486**	–
Transfer of capital reserve to share capital	**–**	–	**17,838**	–
At 31 December	**5,924,425**	5,798,774	**6,172,051**	5,798,774

Share premium Group and Company	Amount 2017 RM'000	 2016 RM'000
At 1 January	**198,449**	1,392,980
Issue of ordinary shares pursuant to right issue	**–**	(1,202,056)
Issue of ordinary shares pursuant to DRP	**–**	7,525
Transfer of share premium to share capital	**(198,449)**	–
At 31 December	**–**	198,449

Pursuant to subsection 618(3) and 618(4) of the Companies Act 2016 ("New Act"), the Company may exercise its right to use the credit amount being transferred from the share premium account within 24 months after the commencement of the New Act.

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23. SHARE CAPITAL AND SHARE PREMIUM (CONT'D.)

(a) Employee Share Option Scheme ("ESOS")

The Malaysia Building Society Berhad's ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 29 April 2010. The ESOS was implemented on 12 August 2010 and is in force for a period of 10 years from the date of implementation.

The salient features of the ESOS are as follows:

(i) Eligible persons are employees of the Group who are on the payroll of the Group other than a subsidiary which is dormant;

(ii) The total number of shares to be issued under the ESOS shall not exceed, in aggregate, 10% of the issued share capital of the Company at any point of time during the tenure of the ESOS;

(iii) The option price for each share shall be the average of the main market quotation of the shares of the Company in the daily official list issued by Bursa Malaysia Securities Berhad for the five trading days preceding the date of offer, or the par value of the shares of the Company of RM1, whichever is higher;

(iv) The actual number of new shares which may be offered to an eligible employee shall be at the discretion of the Option Committee and, subject to any adjustments that may be made under Clause 15 of the by-laws, shall not be less than 100 shares but not more than the maximum allowable allocation and shall always be in multiples of 100 shares; and

(v) An option granted under the ESOS shall be capable of being exercised by the grantee by notice in writing to the Company commencing from the date of the offer but before the expiry of five years from 12 August 2010 in respect of all or any part of the Company's shares comprised in the option, such part being in multiples of 100 shares. Any partial exercise of an option shall not preclude the grantee from exercising the option in respect of the balance of the Company's shares comprised in the option.

(vi) No option shall be granted to a Director of the Company unless the specific grant of option and the related allotment of the Company's shares to the Executive Director shall have first been approved by the shareholders of the Company in an Annual General Meeting.

The number of the 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.

No option has been granted to any of the Directors of the Company since the implementation of the scheme. As at 31 December 2014, the maximum allocation applicable to senior management of the Company was not more than 50% of the ESOS 2010/2015 Aggregate Maximum Allocation.

The number of shares allocated to any individual Director or employee who, either individually or collectively through persons connected (which term shall have the same meaning as that assigned to "a person connected with a director" in Section 122A of the Companies Act, 1965 in Malaysia), holds 20% or more in the issued and paid-up share capital of the Company shall not exceed 10% of the total shares available under the Scheme;

23. SHARE CAPITAL AND SHARE PREMIUM (CONT'D.)

(a) Employee Share Option Scheme ("ESOS") (cont'd.)

(vii) The persons to whom the options have been granted have no right to participate by virtue of the options in any share issue of any other company;

(viii) In respect of the ESOS granted in 11.9.2010, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period;

(ix) In respect of the ESOS granted in 9.3.2012, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period;

(x) In respect of the ESOS granted in 15.11.2012, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period;

(xi) In respect of the ESOS granted in 9.3.2014, 100% of the options granted are exercisable during the validity of the option provided that the employee has been in continuous service with the Group throughout the period; and

(xii) All new ordinary shares issued upon exercise of the options granted under the ESOS will rank *pari passu* in all respects with the existing ordinary shares of the Company other than as may be specified in a resolution approving the distribution of dividends prior to their exercise dates.

Movement of ESOS during the financial year

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, ESOS during the year:

	Group			
	2017		2016	
	No.'000	WAEP (RM)	No.'000	WAEP (RM)
Outstanding at 1 January	**28,166**	**–**	21,533	–
– Adjusted*/granted	**–**	**–**	8,618	1.45
– Exercised	**(7)**	**1.02**	–	–
– Lapsed	**(2,249)**	**1.48**	(1,985)	1.50
Outstanding at 31 December	**25,910**	**1.44**	28,166	1.45
Exercisable at 31 December	**25,910**	**1.44**	28,166	1.45

– The weighted average fair value of options during the financial year was RM0.31 (2016: RM0.31).

– The weighted average exercise price for options outstanding at the end of the year was RM1.44 (2016: RM1.45). The weighted average remaining contractual life for these options is 2.60 years (2016: 3.60 years).

* In 2016, the number of ESOS options was adjusted to reflect the changes in the fraction to the ESOS options in accordance with the issuance of the Rights Issue with an entitlement date of 24 June 2016.

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23. SHARE CAPITAL AND SHARE PREMIUM (CONT'D.)

(a) Employee Share Option Scheme ("ESOS") (cont'd.)

ESOS exercised during the financial year

The exercise of the ESOS during the financial year resulted in the issuance of 7,000 (2016: nil) ordinary shares.

Fair value of ESOS granted

The fair value of ESOS granted was estimated using a binomial model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used:

	Granted on 9.3.2014	Granted on 15.11.2012	Granted on 09.03.2012	Granted on 11.09.2010
Fair value per ESOS granted (RM)	0.25	0.16	0.83	0.35
Weighted average share price (RM)	2.14	2.32	1.66	1.44
Weighted average exercise price (RM)	2.15	2.33	1.67	1.45
Expected volatility (%)	22.36	16.17	34.05	26.77
Expected life (years)	7	8	9	10
Risk free rate (%)	4.11	3.49	3.64	3.91
Expected dividend yield (%)	4.52	4.09	3.85	3.00

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

(b) Warrants

Pursuant to an abridged prospectus dated 6 May 2011, the Company had issued rights shares, together with detachable warrants, which can be separately traded on Bursa Securities. The warrants were to be issued free to entitled shareholders who subscribe for the rights shares. Each warrant entitles the registered holder to subscribe for 1 new Company share at any time during the exercise period in accordance with the provisions of the deed poll. The expiry date of the warrants is 5 years from and including the date of issue of the warrants. The exercise price is RM1.00 for each new Company share. The registered holder of the warrants shall pay cash equivalent to the exercise price when exercising the warrants for new Company shares. The holders of the warrants are not entitled to any voting rights or to participate in any distribution and/or offer of further securities. The new Company shares to be issued upon exercise of the warrants shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing Company shares.

During the financial year, nil (2016: 10,667,001) warrants were exercised by the warrant holders and 3,431,233 (2016: 3,431,233) warrants have expired as at 31 December 2017.

24. OTHER RESERVES

Group and Company	Capital Reserve RM'000 Note (a)	Share Option Reserve RM'000 Note (b)	Warrants Reserve RM'000 Note (c)	Capital Redemption Reserve – Redeemable Cumulative Preference Shares RM'000 Note (d)	Financial investments available-for-sale Reserve RM'000	Total RM'000
At 1 January 2017	**17,838**	**6,810**	**3,633**	**12,486**	**(19,810)**	**20,957**
Issue of ordinary shares pursuant to ESOS	**–**	**(6)**	**–**	**–**	**–**	**(6)**
Transfer of share option reserve to retained profits upon lapsed of share options	**–**	**(543)**	**–**	**–**	**–**	**(543)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**13,154**	**13,154**
Transfer of warrant reserve to retained profits upon expiry of warrants	**–**	**–**	**(3,633)**	**–**	**–**	**(3,633)**
Transfer of capital redemption reserve redeemable cumulative preference shares to share capital	**–**	**–**	**–**	**(12,486)**	**–**	**(12,486)**
Transfer of capital reserve to share capital	**(17,838)**	**–**	**–**	**–**	**–**	**(17,838)**
At 31 December 2017	**–**	**6,261**	**–**	**–**	**(6,656)**	**(395)**
At 1 January 2016	17,838	5,210	3,633	12,486	1,566	40,733
Share options granted under ESOS recognised in profit or loss (Note 30)	–	2,058	–	–	–	2,058
Transfer of share option reserve to retained profits upon lapsed of share options	–	(458)	–	–	–	(458)
Other comprehensive loss for the year	–	–	–	–	(21,376)	(21,376)
At 31 December 2016	17,838	6,810	3,633	12,486	(19,810)	20,957

(a) The capital reserve arose out of the transfer of the reserves of Malaya Borneo Building Society Limited as at 29 February 1972 to the Company on 1 March 1972 via a Scheme of Arrangement and is not distributable as cash dividends.

(b) The share option reserve relates to the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded on grant of share options and is transferred to retained earnings upon expiry of the share options.

(c) The warrants reserve represents the cumulative fair value of the warrants yet to be exercised. The warrants have expired on 31 December 2017.

(d) The capital redemption reserve arose out of the redemption of redeemable cumulative preference shares of the Company and is not distributable as cash dividends.

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

25. REVENUE

Revenue of the Company comprises interest income, fee and commission income, other income and financing income as disclosed in Notes 26, 28 and 43.

Revenue of the Group comprises all types of revenue derived from the business of granting of financing and loans, property development, property management, renting of real property and hotel operations.

26. INTEREST INCOME

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Interest income from:				
– Loans, advances and financing	**362,096**	398,857	**324,841**	365,014
– Deposits and placements with banks and other financial institutions	**110,237**	74,797	**110,237**	74,797
	472,333	473,654	**435,078**	439,811

27. INTEREST EXPENSE

	Group and Company	
	2017 RM'000	**2016 RM'000**
Bank borrowings	**993**	3,103
Deposits from customers	**151,306**	250,720
	152,299	253,823

28. NET OTHER INCOME

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Rental income	**182**	168	**18**	8
Revenue from hotel operations	**6,914**	6,739	**–**	–
Loan related fees	**14,578**	24,674	**14,578**	24,674
Insurance commission	**4,676**	4,772	**4,676**	4,772
Legal notice fees	**49**	1,696	**49**	1,696
Sundry income	**4,892**	19,285	**4,752**	19,086
(Loss)/gain from disposal of:				
Property, plant and equipment and land use rights	**(9)**	(456)	**(9)**	(457)
Foreclosed properties	**2,095**	–	**2,095**	–
Subsidiaries	**–**	–	**(84)**	–
	33,377	56,878	**26,075**	49,779

29. OTHER OPERATING EXPENSES

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Personnel expenses (Note 30)	**161,648**	132,783	**157,256**	128,697
Establishment related expenses	**13,926**	14,327	**12,941**	13,720
Promotion and marketing related expenses	**6,085**	11,631	**5,965**	11,489
General administrative expenses	**82,449**	67,353	**71,453**	60,079
Angkasa charges	**29,347**	29,190	**29,347**	29,190
Allowance for impairment of:				
Investments in subsidiaries (Note 12(a))	**–**	–	**2**	1
Financing to subsidiaries (Note 12(b))	**–**	–	**34,420**	15,816
Amount due from subsidiaries (Note 7)	**–**	–	**4,686**	2,960
Foreclosed properties	**652**	1,482	**652**	1,482
Impairment losses on advances in respect of certain projects (Note 7)	**41,945**	36,515	**–**	–
Trade receivables (Note 6)	**8**	–	**–**	–
	336,060	293,281	**316,722**	263,434

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29. OTHER OPERATING EXPENSES (CONT'D.)

Included in other operating expenses are the following:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Auditors' remuneration:				
– Audit				
– Parent auditors	**667**	626	**574**	533
– Regulated related services				
– Parent auditors	**5**	5	**5**	5
– Other services				
– Parent auditors	**518**	458	**518**	458
Professional fees	**8,957**	1,783	**8,957**	1,783
Amortisation:				
– land use rights (Note 15)	**161**	162	**–**	–
– intangible assets (Note 16)	**10,841**	13,500	**10,823**	13,451
Depreciation:				
– property, plant and equipment (Note 14)	**11,008**	13,573	**8,225**	10,504
Directors' remuneration (Note 31)	**2,576**	2,077	**2,576**	2,077
Rental of buildings	**5,987**	6,433	**6,886**	7,437

30. PERSONNEL EXPENSES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Wages and salaries	**128,211**	102,769	**124,564**	99,435
Social security costs	**990**	893	**952**	856
Pension costs – Employees Provident Fund	**20,701**	16,427	**20,390**	16,133
Share options granted under ESOS (Note 24)	**–**	2,058	**–**	2,058
Mutual separation scheme	**–**	1,644	**–**	1,644
Other staff related expenses	**11,746**	8,992	**11,350**	8,571
	161,648	132,783	**157,256**	128,697

31. DIRECTORS' REMUNERATION

	Group and Company	
	2017 **RM'000**	**2016** **RM'000**
Directors of the Company		
Non-Executive:		
Fees	**1,363**	1,110
Other emoluments	**1,213**	967
Total	**2,576**	2,077

The number of directors of the Company whose total remuneration during the financial year fell within the following bands are analysed below:

	Number of Directors	
	2017	**2016**
Non-executive directors:		
RM1,000 - RM50,000	**–**	–
RM50,001 - RM100,000	**1**	–
RM100,001 - RM150,000	**–**	–
RM150,001 - RM200,000	**3**	–
RM200,001 - RM250,000	**3**	5
RM250,001 - RM300,000	**2**	2
RM300,001 - RM350,000	**1**	–
RM350,001 - RM400,000	**–**	1
RM400,001 - RM450,000	**1**	–

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31. DIRECTORS' REMUNERATION (CONT'D.)

Details of the directors' remuneration of each director during the financial year ended 31 December 2017 are as follows:

Directors	Director Fees RM'000	Allowance RM'000	Total RM'000
1. Tan Sri Abdul Halim bin Ali	**170**	**232**	**402**
2. Datuk Shahril Ridza bin Ridzuan	**125***	**114**	**239**
3. Datuk Syed Zaid bin Syed Jaffar Albar	**125**	**92**	**217**
4. Dato' Jasmy bin Ismail	**165**	**139**	**304**
5. Encik Aw Hong Boo	**165**	**125**	**290**
6. Encik Lim Tian Huat	**165**	**135**	**300**
7. Ir. Moslim Othman	**120**	**112**	**232**
8. Encik Sazaliza Zainuddin	**100***	**65**	**165**
9. Datuk Johar bin Che Mat	**95**	**90**	**185**
10. Puan Lynette Yeow Su Yin	**95**	**87**	**182**
11. Tunku Alina Alias	**38**	**22**	**60**
	1,363	**1,213**	**2,576**

* 50% of the directors' fees are paid to the organisation to whom the director represents.

31 December 2016 Directors	Director Fees RM'000	Allowance RM'000	Total RM'000
1. Tan Sri Abdul Halim bin Ali	170	215	385
2. Datuk Shahril Ridza bin Ridzuan	135*	109	244
3. Datuk Syed Zaid bin Syed Jaffar Albar	130	105	235
4. Dato' Jasmy bin Ismail	130	106	236
5. Encik Aw Hong Boo	155	123	278
6. Encik Lim Tian Huat	150	128	278
7. Ir. Moslim Othman	120	93	213
8. Cik Ravinder Kaur a/p Mahan Singh	120	88	208
	1,110	967	2,077

* 50% of the directors' fees are paid to the organisation to whom the director represents.

32. ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS, ADVANCES AND FINANCING

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Allowance for/(write back of) impairment on loans, advances and financing:				
– Collective impairment (Note 9(vi))	**558,321**	763,188	**558,321**	763,188
– Individual impairment (Note 9(vi))	**20,400**	4,103	**20,400**	4,103
– Write off	**44,666**	11,577	**44,666**	11,577
– Write back	**(24,776)**	(1,603)	**(17,005)**	(1,603)
	598,611	777,265	**606,382**	777,265

33. TAXATION

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Malaysian income tax:				
Current income tax	**128,222**	79,872	**122,211**	74,372
Over provision in prior years	**(3,969)**	(422,129)	**(3,948)**	(422,011)
	124,253	(342,257)	**118,263**	(347,639)
Deferred tax (Note 22):				
Under provision in prior years	**4,690**	492,696	**4,690**	492,162
Relating to origination and reversal of temporary differences	**(7,208)**	(14,411)	**(7,167)**	(14,324)
	(2,518)	478,285	**(2,477)**	477,838
Total income tax expense for the year	**121,735**	136,028	**115,786**	130,199

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

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33. TAXATION (CONT'D.)

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

Group	2017 RM'000	2016 RM'000
Profit before taxation and zakat	**550,732**	338,421
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	**132,176**	81,221
Effect of income not subject to tax	**(55,139)**	(29,698)
Effect of expenses not deductible for tax purposes	**49,616**	13,736
Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances	**(54)**	1,431
Deferred tax assets not recognised	**(5,585)**	(1,229)
Over provision of income tax in prior years	**(3,969)**	(422,129)
Under provision of deferred tax in prior years	**4,690**	492,696
Tax expense for the year	**121,735**	136,028

Company	2017 RM'000	2016 RM'000
Profit before taxation and zakat	**431,925**	223,820
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	**103,662**	53,717
Effect of income not subject to tax	**22**	110
Effect of expenses not deductible for tax purposes	**11,225**	6,107
Deferred tax assets not recognised	**135**	114
Over provision of income tax in prior years	**(3,948)**	(422,011)
Under provision of deferred tax in prior years	**4,690**	492,162
Tax expense for the year	**115,786**	130,199

34. EARNINGS PER SHARE

(a) Basic

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

	2017	2016
Net profit for the year (RM'000)	**417,126**	201,412
Weighted average number of ordinary shares in issue ('000)	**5,872,769**	4,107,971
Basic earnings per share (sen)	**7.10**	4.90

(b) Diluted

For the purpose of calculating diluted earnings per share, the net profit for the year and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, i.e. ESOS

	2017	2016
Net profit for the year (RM'000)	**417,126**	201,412
Weighted average number of ordinary shares in issue ('000)	**5,872,769**	4,107,971
Adjusted for assumed conversion of ESOS ('000)	**308**	–
Adjusted weighted average number of ordinary shares in issue ('000)	**5,873,077**	4,107,971
Diluted earning per share (sen)	**7.10**	4.90

35. DIVIDENDS

	Group and Company	
	2017 RM'000	**2016 RM'000**
Recognised during the financial year:		
Dividends on ordinary shares:		
In respect of the financial year ended 31 December 2016/2015:		
– Single-tier final dividend of 3.0% (2015: Final 3.0%) per share	**173,963**	85,278
	173,963	85,278

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35. DIVIDENDS (CONT'D.)

	Group and Company	
	2017 RM'000	**2016 RM'000**
Proposed but not recognised as a liability as at 31 December:		
Final dividend on ordinary shares:		
In respect of financial year ended 31 December 2017/2016:		
– Single-tier final dividend of 5.0% per share	**296,221**	–
– Single-tier final dividend of 3.0% per share	**–**	173,963
	296,221	173,963

The Board of Directors has recommended a single-tier final dividend of 5.0% (5.0 sen net per ordinary share) for the financial year ended 31 December 2017. Based on the total number of ordinary shares in issue of 5,924,425,200 as at 31 December 2017 the single-tier final dividend payable would be approximately RM296,221,260.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend will be accounted for in equity in the financial year ending 31 December 2018.

MBSB Dividend Reinvestment Plan

On 10 December 2013, the shareholders of the Company approved the Dividend Reinvestment Plan ("DRP") to enable the Company's efforts to enhance and maximise shareholders' value. The DRP is part of the Company's capital management plan in retaining capital for future expansion of the business.

It should be noted that the Company is not obliged to undertake the DRP and provide the option to reinvest for every dividend declared.

The Board of Directors has determined that the option to reinvest via the Dividend Reinvestment Plan ("DRP") shall apply to the entire portion of the proposed single-tier final dividend of 5.0% for the financial year ended 31 December 2017. The approval for the proposed single-tier final dividend of 5.0% will be sought at the coming Annual General Meeting.

The DRP provides shareholders with the opportunity to reinvest their dividends in new MBSB shares in lieu of receiving cash. This provides greater flexibility for the shareholders in meeting their investment objective with the choice of receiving cash or reinvesting in the Company via the subscription of new additional MBSB shares.

35. DIVIDENDS (CONT'D.)

MBSB Dividend Reinvestment Plan (cont'd.)

Under the DRP, shareholders will have the following options in respect of the electable portion:

(a) elect to exercise the option to reinvest and thereby reinvest the entire electable portion (or a part thereof) at the issue price of the new MBSB shares ("DRP Price") and to receive cash for the remaining portion of the dividend (in the event that only part of the electable portion is reinvested); or

(b) elect not to exercise the option to reinvest and thereby receive their entire dividend entitlement wholly in cash.

There will be no brokerage fees and other related transaction costs payable by shareholders on the new MBSB shares allotted pursuant to the DRP.

The DRP Price shall be at a discount of not more than ten percent (10%) of the five (5)-day volume weighted average market price ("VWAP") of MBSB Shares immediately prior to the date of fixing of the DRP Price provided that the DRP Price shall not be less than the par value of MBSB Shares of RM1.00 each at the material time. The VWAP shall be adjusted ex-dividend before applying the discount in fixing the DRP Price. The DRP Price shall be announced on or before the announcement of the books closure date ("Books Closure Date") in relation to the above proposed single-tier dividend of 4.0% to which the option to reinvest applies.

An approval for the listing of and quotation for the new MBSB Shares on the Main Market of Bursa Securities pursuant to the DRP will be obtained from Bursa Securities and the announcement on the Books Closure Date will be made after receipt of the said approval from Bursa Securities and such approval from other relevant authorities (if any).

Subsequent to the Books Closure Date, a notice of election pursuant to the DRP ("Notice of Election") will be dispatched to shareholders. Instructions will be provided in the Notice of Election in respect of the action to be taken by shareholders should they wish to exercise the option to reinvest. The Notice of Election will also state, inter-alia, the last day (which will be a date to be fixed and announced by the Board) by which an election to be made by shareholders in relation to the electable portion must be received by the Company ("Expiry Date").

An announcement will also be made in respect of the day on which the new MBSB shares will be listed and quoted on the Main Market of Bursa Securities.

36. SIGNIFICANT RELATED PARTY TRANSACTIONS/BALANCES

(a) Transactions and balances with government-related entities are as follows:

EPF, the ultimate holding body, is a shareholder with control over the Group, with direct shareholdings of 65.56% (2016: 65.40%) as at 31 December 2017. EPF is also a government-linked entity. EPF and entities directly controlled by EPF are collectively referred to as government-related entities to the Group.

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36. SIGNIFICANT RELATED PARTY TRANSACTIONS/BALANCES (CONT'D.)

(a) Transactions and balances with government-related entities are as follows (cont'd.):

All the transactions entered into by the Group with government-related entities are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not government-related.

(i) Individually significant transactions and balances with EPF are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Expenses				
Interest on loans	**–**	850	**–**	850
Profit expense paid on Sukuk to EPF	**57,477**	57,794	**57,477**	57,794
Rental expense	**286**	280	**286**	280
Balances				
Sukuk MBSB – SC Murabahah	**1,126,387**	1,141,114	**1,126,387**	1,141,114
Rental deposit (Note 7)	**97**	94	**97**	94

(ii) Individually significant balances with the RHB Banking Group of companies, comprising RHB Bank Berhad and RHB Islamic Bank Berhad, being companies directly controlled by EPF, are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Income				
Interest/profit from deposit placements	**35,530**	45,998	**10,482**	23,144
Expenses				
Interest expense to depositors	**2,097**	10,056	**2,097**	10,056
Interest expenses for bank borrowing	**240**	571	**240**	571
Interest expenses for recourse obligation on loans/financing sold	**20,744**	25,800	**20,744**	25,800
Balances				
Deposits and placements with financial institutions	**749,944**	1,392,479	**50,274**	669,202
Deposits from customers	**7,377**	306,054	**7,377**	306,054
Bank borrowings	**–**	250,098	**–**	250,098
Recourse obligation on loans/financing sold	**–**	432,378	**–**	432,378

36. SIGNIFICANT RELATED PARTY TRANSACTIONS/BALANCES (CONT'D.)

(a) Transactions and balances with government-related entities are as follows (cont'd.):

(iii) Collectively, but not individually, significant balances:

The Group and the Company have balances with other government-related entities including but not limited to provision of loans, advances and financing, deposits placements and borrowings.

For the financial year ended 31 December 2017, the aggregate amount of the Group's and Company's significant balances with other government-related entities other than the RHB Banking Group of companies are as disclosed below:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Expenses				
Interest expense to depositors	**34,791**	24,850	**34,791**	24,850
Balances				
Deposits from customers	**868,544**	896,453	**868,544**	896,453

(b) Transactions and balances with subsidiaries of the Company are as follows:

	Company	
	2017 RM'000	**2016 RM'000**
Income/(expenses)		
Interest charged on loans/advances	**63,189**	79,178
Rental paid	**(899)**	(1,004)
Balances		
Loans to subsidiaries	**546,633**	486,982
Amount due from subsidiaries	**68,919**	58,228
Amount due to subsidiaries	**13,187**	30,712
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")	**2,891,912**	3,193,633

The directors are of the opinion that all the transactions and balances above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

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36. SIGNIFICANT RELATED PARTY TRANSACTIONS/BALANCES (CONT'D.)

(c) The remuneration of directors and other members of key management during the year is as follows:

	Group and Company	
	2017 **RM'000**	**2016** **RM'000**
Short-term employee benefits	**6,982**	5,871
Share-based payment	**–**	59
Pension costs: EPF	**719**	614
	7,701	6,544

Included in the total key management personnel are:

Directors' remuneration comprising fees and allowances (Note 31)	**2,576**	2,077
Chief Executive Officer's remuneration comprising salary, bonus, allowances and other emoluments	**3,553**	2,976

(d) Transactions and balances with directors and key management:

	Group and Company	
	2017 **RM'000**	**2016** **RM'000**
Expense		
Interest cost incurred on savings and deposits	**(55)**	(58)
Balance		
Amount due to in respect of savings and deposits	**1,381**	1,610

36. SIGNIFICANT RELATED PARTY TRANSACTIONS/BALANCES (CONT'D.)

(d) Transactions and balances with directors and key management: (cont'd.)

Directors and other members of key management of the Group and the Company have been granted the following number of options under the Employee Share Option Scheme:

	Group and Company	
	2017	**2016**
	'000	**'000**
At 1 January	**813**	574
Adjustments	**–**	239
Exercised	**–**	–
At 31 December*	**813**	813

* Adjusted for changes in number of ESOS options due to the Rights Issue where the effective date was on 29 July 2016 which was also the entitlement date for the Rights Issue.

The share options were granted on the same terms and conditions as those offered to other employees of the Group.

37. COMMITMENTS AND CONTINGENCIES

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
(i) Operational Commitments				
Loan commitments not yet recognised in the financial statements:				
End finance	**49,857**	115,127	**49,857**	115,127
Islamic properties	**153,279**	166,194	**153,279**	166,194
Islamic personal	**1,329**	483	**1,329**	483
Bridging, structured and term loans and financing	**6,405,576**	4,019,883	**6,405,576**	4,019,883
Financial guarantees	**743,732**	1,146,285	**743,732**	1,146,285
	7,353,773	5,447,972	**7,353,773**	5,447,972
Approved and contracted for property development	**421,528**	421,528	**1,667**	1,667
	421,528	421,528	**1,667**	1,667
Total	**7,775,301**	5,869,500	**7,355,440**	5,449,639

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37. COMMITMENTS AND CONTINGENCIES (CONT'D.)

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
(ii) Capital Commitments				
Property, plant and equipment:				
Approved and contracted for	**132,043**	165,914	**–**	–
Approved but not contracted for	**–**	–	**20,186**	8,455
	132,043	165,914	**20,186**	8,455

(iii) Lease Commitments

The Group and the Company have entered into operating lease agreements for the use of certain office premises. These non-cancellable leases have an average life of between 1 to 5 years with certain contracts carrying renewal options in the contracts.

Operating lease payments represent rental payables by the Group for use of building. Leases have an average life of 3 years with no renewal or purchase option included in the contracts.

The future aggregate minimum lease payments under operating leases contracted for as at the reporting date but not recognised as liabilities, are as follows:

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Future minimum rental payments:				
Not later than 1 year	**5,216**	5,242	**6,114**	6,246
Later than 1 year but less than 5 years	**1,389**	2,874	**4,982**	6,889
Later than 5 years	**–**	–	**4,491**	5,019
	6,605	8,116	**15,587**	18,154

The financial guarantees are secured by way of fixed charge over the borrowers' development project land or debenture created over the fixed and floating charge over the specific or entire assets of the borrower.

38. CONTINGENT LIABILITIES (UNSECURED)

(i) Bongsor Bina Sdn Bhd ("BBSB"), a contractor appointed by one of the Company's borrowers has instituted civil suits against the Company for an alleged breach of contract and is claiming damages amounting to RM2.54 million.

On conclusion of the Full Trial, the claim against the Company was dismissed with costs. BBSB's appeal to the Court of Appeal was allowed while the Company filed an application for leave to appeal to the Federal Court. On 31 May 2017, the Company's motion for leave to appeal to Federal Court was allowed with costs.

This matter is now fixed for Case Management on 7 March 2018 to update court on the filing of the Supplemental ROA.

The directors after obtaining advice from the Company's solicitors are of the opinion that the Company has a reasonably good case in respect of the claim against the Company.

(ii) KCSB Konsortium Sdn Bhd and Kausar Corporation Sdn Bhd (collectively referred to as "the Plaintiffs/the Appellant") have instituted a civil suit against the Company and its subsidiary for an alleged breach of facility agreement.

The High Court dismissed the Plaintiffs' claim with costs and allowed the Company's counterclaim. The Plaintiffs appealed to the Court of Appeal who on 1 November 2016, allowed the appeal with no order as to costs and sent the case back to the High Court for retrial before a different Judge on the Ground that the Judgment were wholly inadequate as they could not be certain as to the basis on which the decision was reached.

The High Court fixed the matter for full trial on 11, 12 and 15 September 2017. The parties filed Striking Out Applications on 18 July 2017. On 8 September 2017, the court found both claims were time barred and struck out both claims. Parties have appealed to the Court of Appeal. This matter has been fixed for further Case Management on 22 January 2018 pending extraction of the fair order from the High Court.

The High Court fixed this matter for hearing on 20 April 2018.

The directors after obtaining advice from the Company's solicitors are of the opinion that the Company has a reasonably fair chance in respect of the civil suit against the Company and its subsidiary.

39. FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives and policies

Risk management forms an integral part of the Group's and the Company's activities and remains an important feature in all its business, operations, delivery channels and decision-making processes. The extent to which the Group and the Company are able to identify, assess, monitor, manage and report each of the various types of risk is critical to its strength, soundness and profitability. The Group's and the Company's risk management function is independent of its operating units. All new businesses, introduction of new products, engagement in new activities or entrance into new strategic alliances are subject to endorsement by the Group Risk Management Division and submitted to the Audit Committee ("AC"), Risk Management Committee ("RMC") and/or Board Committees for approvals.

NOTES TO THE FINANCIAL STATEMENTS
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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

(a) Financial risk management objectives and policies (cont'd.)

In essence, the objectives of the Group's and the Company's risk management activities are to:

(i) Identify and monitor the various risk exposures and risk requirements;

(ii) Ensure risk taking activities are consistent with the approved policies and the aggregated risk positions are within the risk appetite as approved by the Board; and

(iii) Help create shareholder value through proper allocation of risk and the facilitation of independent risk assessments of new business and products.

(b) Risk management framework

The Group and the Company employ an Enterprise-wide Risk Management framework to manage its risks effectively. The framework involves an on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting the Group and the Company which is implemented through a number of committees established by the Board of Directors. This framework provides the Board and the management with a tool to anticipate and manage both existing and potential risks, taking into consideration dynamic risk profiles as dictated by changes in business strategies, regulatory environment and functional activities throughout the year.

(c) Risk organisation

At the apex of the Group's and the Company's risk management structure is the Board of Directors, which comprises non-executive directors of the Group and the Company. In line with best practices, the Board determines the risk policy objectives for the Group and the Company, and assumes responsibility for the supervision of risk management.

The day-to-day responsibility for risk management and control is delegated to the RMC which undertakes the oversight function for overall risk limits and ensures that the Group and the Company are within risk appetites as established by the Board. Other than the RMC, the Board is also supported by specialised and supervisory committees, the details of which are as follows:

(i) Executive Committee ("EXCO"): The EXCO assists the Board in evaluating and approving loan applications within their approval authority limits and deliberates on proposals for recovery of impaired loans, approves proposals within its authority and recommends to the Board on proposals beyond its authority. Additionally, the EXCO also monitors the progress of recovery of impaired loans and formulates recovery strategies. The EXCO also assists the Board in evaluating on all matters relating to impaired loans as well as the capital expenditure and operating expenditure of the Group and the Company.

(ii) Asset and Liability Committee ("ALCO"): The ALCO is responsible for the Group's and the Company's liquidity management by focusing on the maturity gap, liquidity position, loans portfolio concentration, deposits composition and depositors' concentration. The ALCO also manages the interest rate exposures and interest margin of the Group and the Company by reviewing the lending rates, cost of funds, interest margin and the repricing gaps.

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

(c) Risk organisation (cont'd.)

(iii) Credit and Rehabilitation Assessment Committee ("CARAC"): The CARAC deliberates and recommends to the relevant Board or Board Committee for Corporate Loan and Mortgage applications and decides whether to proceed with the preparation of the Board paper based on completed credit assessment reports. The CARAC also deliberates and recommends any appeal on variations to the terms and conditions as earlier approved by the Board or Board Committees and also deliberates and approves the submission of the relevant corporate rehabilitation papers for the Board or Board Committees.

(iv) Management Committee ("MANCO"): The MANCO deliberates the implementation of the enterprise-wide risk management framework which addresses credit, market and operational and strategic risks and also resolves operational issues within the policies established by the Board and recommends policy changes to the Board.

(d) Risk reporting and monitoring

The Group's and the Company's credit portfolios are monitored through early alert reporting to ensure credit deterioration is promptly detected and mitigated through the implementation of risk remediation strategies. All business units undertake regular and comprehensive analyses of their credit portfolios and report to the relevant committees and are overseen by the Group Risk Management Division ("GRM"). The GRM provides independent reporting to the business units and the Board to ensure independence in relation to the prompt identification and communication of emerging credit issues of the Group and the Company to the Board.

(e) Credit risk mitigation

All credit facilities are granted on the credit standing of the borrower, source of repayment, debt servicing ability and the collateral provided. The valuation of the collateral is conducted periodically. The main types of collateral taken by the Group and the Company are marketable securities, real estate, inventory and receivables. Personal guarantees are also taken as a part of the collateral to support moral commitment from the principal shareholders and directors. Corporate guarantees are often obtained when the borrower's credit worthiness is insufficient to justify the granting of credit facilities.

(f) Concentration risk

Concentration of credit risk arises when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group and the Company monitor their portfolios to identify and assess risk concentrations. The credit portfolios are monitored and periodically reviewed to identify, assess and guard against unacceptable risk concentrations. The GRM also applies single customer counterparty limits to protect against unacceptably large exposures to single risk. The GRM conducts analyses and reports concentration risk to the Board of Directors on a quarterly basis.

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk

Credit risk is the risk of loss to the Group and the Company due to the deterioration in credit worthiness of its borrowers and, consequently, their ability to discharge their contractual obligations to the Group and the Company. Credit risk remains the most significant risk to which the Group and the Company are exposed. The purpose of credit risk management is to keep credit risk exposure to an acceptable level in line with the Group's and the Company's risk appetite and to ensure that the returns are commensurate to the risk underwritten.

The primary objective of the Group and the Company's credit platform is to enhance the efficiency and effectiveness of the credit oversight and credit approval processes for all retail and corporate loans. Credit proposals are submitted to the relevant credit committees for approval or concurrence, and are subsequently submitted to the GRM for independent assessment. Credit exposures are evaluated by the GRM and are monitored against approved limits on a periodic basis on a portfolio and individual basis, individually and on a portfolio level.

(i) Maximum exposure to credit risk

The following analysis represents the Group and the Company's maximum exposure to credit risk on-balance sheet financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposure, the maximum exposure to credit risk is the maximum amount that the Group and the Company would have to pay if the obligations of the instruments issued are called upon.

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Financial Assets:				
Loans, Advances and Financing:				
Without taking collateral into account:				
End finance and Islamic property	**5,238,917**	5,503,919	**5,238,917**	5,503,919
Personal financing	**21,417,604**	22,844,359	**21,417,604**	22,844,359
Bridging, structured and term loans and financing	**7,260,549**	6,599,879	**7,260,549**	6,607,066
Auto finance	**284,109**	336,457	**284,109**	336,457
	34,201,179	35,284,614	**34,201,179**	35,291,801
Net of Impairment:				
End finance and Islamic property	**4,405,641**	4,316,876	**4,405,641**	4,316,876
Personal financing	**20,610,480**	21,459,477	**20,610,480**	21,459,477
Bridging, structured and term loans and financing	**6,782,192**	6,144,071	**6,782,192**	6,151,258
Auto finance	**207,931**	273,054	**207,931**	273,054
	32,006,244	32,193,478	**32,006,244**	32,200,665

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(i) Maximum exposure to credit risk (cont'd.)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits and placements with Financial Institutions and Bank Balances:				
Cash and short-term funds	**7,787,132**	6,639,369	**7,768,634**	6,620,990
Deposits and placements with financial institutions	**747,403**	1,076,078	**51,368**	462,206
	8,534,535	7,715,447	**7,820,002**	7,083,196
Other Financial Assets:				
Loans to subsidiaries	**–**	–	**305,140**	280,503
Financial investments available-for-sale	**3,171,913**	2,364,750	**3,171,913**	2,364,750
Trade receivables	**295**	542	**–**	–
Other receivables*	**40,679**	38,662	**57,843**	46,757
Sukuk Commodity Murabahah	**–**	–	**3,245,851**	3,577,143
Financial assets held-for-sale	**38,409**	–	**38,409**	–
	3,251,296	2,403,954	**6,819,156**	6,269,153
Total financial assets	**45,987,010**	45,404,015	**48,840,337**	48,644,150
Operational Commitments				
Financial guarantees	**743,732**	1,146,285	**743,732**	1,146,285

* Other receivables exclude foreclosed properties, prepayments and deposits as these items are classified as non-financial assets.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for net loans, advances and financing for the Group is 27.11% (2016: 26.08%) and the Company is at 27.11% (2016: 26.07%). The financial effect of collateral held for the remaining financial assets are not significant.

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality

The credit quality of financial assets are analysed as follows:

	2017							
		← Past due but not impaired →						
Group	Neither Past Due Nor Impaired RM'000	Past Due Up To < 1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	3,841,101	701,324	305,148	–	391,344	5,238,917	(833,276)	4,405,641
Personal financing	20,500,318	279,591	165,995	–	471,700	21,417,604	(807,124)	20,610,480
Auto finance	140,140	66,485	35,039	–	42,445	284,109	(76,178)	207,931
Bridging, structured and term loans and financing	6,492,757	–	100,106	–	667,686	7,260,549	(478,357)	6,782,192
	30,974,316	1,047,400	606,288	–	1,573,175	34,201,179	(2,194,935)	32,006,244
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	7,787,132	–	–	–	–	7,787,132	–	7,787,132
Deposits and placements with financial institutions	747,403	–	–	–	–	747,403	–	747,403
	8,534,535	–	–	–	–	8,534,535	–	8,534,535
Other Financial Assets:								
Financial investments available-for-sale	3,171,913	–	–	–	–	3,171,913	–	3,171,913
Trade receivables	–	132	140	23	24,817	25,112	(24,817)	295
Other receivables	40,538	141	–	–	457,011	497,690	(457,011)	40,679
Financial assets held-for-sale	38,409	–	–	–	–	38,409	–	38,409
	3,250,860	273	140	23	481,828	3,733,124	(481,828)	3,251,296

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

The credit quality of financial assets are analysed as follows: (cont'd.)

Group	2016							
		← Past due but not impaired →						
	Neither Past Due Nor Impaired RM'000	Past Due Up To < 1 Month RM'000	Past Due 1 To < 3 Months RM'000	Past Due 3 To < 6 Months RM'000	Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net RM'000
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	3,379,029	797,089	407,867	–	919,934	5,503,919	(1,187,043)	4,316,876
Personal financing	20,905,889	355,458	181,433	–	1,401,579	22,844,359	(1,384,882)	21,459,477
Auto finance	165,714	87,541	45,299	–	37,903	336,457	(63,403)	273,054
Bridging, structured and term loans and financing	5,502,882	–	626,787	–	470,210	6,599,879	(455,808)	6,144,071
	29,953,514	1,240,088	1,261,386	–	2,829,626	35,284,614	(3,091,136)	32,193,478
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	6,639,369	–	–	–	–	6,639,369	–	6,639,369
Deposits and placements with financial institutions	1,076,078	–	–	–	–	1,076,078	–	1,076,078
	7,715,447	–	–	–	–	7,715,447	–	7,715,447
Other Financial Assets:								
Financial investments available-for-sale	2,364,750	–	–	–	–	2,364,750	–	2,364,750
Trade receivables	–	445	92	5	24,809	25,351	(24,809)	542
Other receivables	38,507	155	–	–	415,066	453,728	(415,066)	38,662
	2,403,257	600	92	5	439,875	2,843,829	(439,875)	2,403,954

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

The credit quality of financial assets are analysed as follows: (cont'd.)

	2017							
		← Past due but not impaired →						
Company	**Neither Past Due Nor Impaired RM'000**	**Past Due Up To < 1 Month RM'000**	**Past Due 1 To < 3 Months RM'000**	**Past Due 3 To < 6 Months RM'000**	**Impaired RM'000**	**Total Gross RM'000**	**Impairment Allowances RM'000**	**Total Net RM'000**
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	3,841,101	701,324	305,148	–	391,344	5,238,917	(833,276)	4,405,641
Personal financing	20,500,318	279,591	165,995	–	471,700	21,417,604	(807,124)	20,610,480
Auto finance	140,140	66,485	35,039	–	42,445	284,109	(76,178)	207,931
Bridging, structured and term loans and financing	6,492,757	–	100,106	–	667,686	7,260,549	(478,357)	6,782,192
	30,974,316	1,047,400	606,288	–	1,573,175	34,201,179	(2,194,935)	32,006,244
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	7,768,634	–	–	–	–	7,768,634	–	7,768,634
Deposits and placements with financial institutions	51,368	–	–	–	–	51,368	–	51,368
	7,820,002	–	–	–	–	7,820,002	–	7,820,002
Other Financial Assets:								
Loans to subsidiaries	235,943	–	–	–	250,396	486,339	(181,199)	305,140
Financial investments available-for-sale	3,171,913	–	–	–	–	3,171,913	–	3,171,913
Other receivables	57,843	–	–	–	86,733	144,576	(86,733)	57,843
Sukuk Commodity Murabahah	3,245,851	–	–	–	–	3,245,851	–	3,245,851
Financial assets held-for-sale	38,409	–	–	–	–	38,409	–	38,409
	6,749,959	–	–	–	337,129	7,087,088	(267,932)	6,819,156

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

The credit quality of financial assets are analysed as follows: (cont'd.)

	2016							
		← Past due but not impaired →						
Company	**Neither Past Due Nor Impaired RM'000**	**Past Due Up To < 1 Month RM'000**	**Past Due 1 To < 3 Months RM'000**	**Past Due 3 To < 6 Months RM'000**	**Impaired RM'000**	**Total Gross RM'000**	**Impairment Allowances RM'000**	**Total Net RM'000**
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	3,379,029	797,089	407,867	–	919,934	5,503,919	(1,187,043)	4,316,876
Personal financing	20,905,889	355,458	181,433	–	1,401,579	22,844,359	(1,384,882)	21,459,477
Auto finance	165,714	87,541	45,299	–	37,903	336,457	(63,403)	273,054
Bridging, structured and term loans and financing	5,502,881	–	626,787	–	477,398	6,607,066	(455,808)	6,151,258
	29,953,513	1,240,088	1,261,386	–	2,836,814	35,291,801	(3,091,136)	32,200,665
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	6,620,990	–	–	–	–	6,620,990	–	6,620,990
Deposits and placements with financial institutions	462,206	–	–	–	–	462,206	–	462,206
	7,083,196	–	–	–	–	7,083,196	–	7,083,196
Other Financial Assets:								
Loans to subsidiaries	193,381	–	–	–	233,901	427,282	(146,779)	280,503
Financial investments available-for-sale	2,364,750	–	–	–	–	2,364,750	–	2,364,750
Other receivables	46,757	–	–	–	82,047	128,804	(82,047)	46,757
Sukuk Commodity Murabahah	3,577,143	–	–	–	–	3,577,143	–	3,577,143
	6,182,031	–	–	–	315,948	6,497,979	(228,826)	6,269,153

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Neither Past Due Nor Impaired

(a) High Grade

This refers to cash at banks and short-term deposits with banks and other financial institutions.

(b) Standard Grade

This refers to financial assets in respect of loans, advances and financing and financial investments available-for-sale which have been disbursed in previous years and are neither past due nor impaired. Standard Grade financial assets also include other financial assets that are neither past due nor impaired.

(c) New Loans During The Year

This refers to financial assets in respect of loans, advances and financing which were disbursed during the year and are neither past due nor impaired.

Credit quality of financial assets that are neither past due nor impaired by credit quality is as follows:

	2017			
Group	**High Grade RM'000**	**Standard Grade RM'000**	**New Loans During The Year RM'000**	**Total RM'000**
Financial Assets:				
Loans, Advances and Financing:				
End finance and Islamic property	–	3,011,474	829,627	3,841,101
Personal financing	–	19,853,757	646,561	20,500,318
Auto finance	–	139,429	711	140,140
Bridging, structured and term loans and financing	–	4,368,551	2,124,206	6,492,757
	–	27,373,211	3,601,105	30,974,316

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Credit quality of financial assets that are neither past due nor impaired by credit quality is as follows (cont'd.):

	2017			
Group	**High Grade RM'000**	**Standard Grade RM'000**	**New Loans During The Year RM'000**	**Total RM'000**
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	**265,196**	**–**	**–**	**265,196**
Deposits and placements with financial institutions:				
– with maturity of less than one month	**7,521,936**	**–**	**–**	**7,521,936**
– with maturity of more than one month	**747,403**	**–**	**–**	**747,403**
	8,534,535	**–**	**–**	**8,534,535**
Other Financial Asset:				
Financial investments available-for-sale	**–**	**3,171,913**	**–**	**3,171,913**
Other receivables	**–**	**40,538**	**–**	**40,538**
Financial assets held-for-sale	**–**	**38,409**	**–**	**38,409**
	–	**3,250,860**	**–**	**3,250,860**

	2016			
Group	**High Grade RM'000**	**Standard Grade RM'000**	**New Loans During The Year RM'000**	**Total RM'000**
Financial Assets:				
Loans, Advances and Financing:				
End finance and Islamic property	–	2,662,581	716,448	3,379,029
Personal financing	–	20,440,953	464,936	20,905,889
Auto finance	–	157,957	7,757	165,714
Bridging, structured and term loans and financing	–	3,693,287	1,809,595	5,502,882
	–	26,954,778	2,998,736	29,953,514

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Credit quality of financial assets that are neither past due nor impaired by credit quality is as follows (cont'd.):

	2016			
Group	**High Grade RM'000**	**Standard Grade RM'000**	**New Loans During The Year RM'000**	**Total RM'000**
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	228,298	–	–	228,298
Deposits and placements with financial institutions:				
– with maturity of less than one month	6,411,071	–	–	6,411,071
– with maturity of more than one month	1,076,078	–	–	1,076,078
	7,715,447	–	–	7,715,447
Other Financial Assets:				
Financial investments available-for-sale	–	2,364,750	–	2,364,750
Other receivables	–	38,507	–	38,507
	–	2,403,257	–	2,403,257

	2017			
Company	**High Grade RM'000**	**Standard Grade RM'000**	**New Loans During The Year RM'000**	**Total RM'000**
Financial Assets:				
Loans, Advances and Financing:				
End finance and Islamic property	**–**	**3,011,474**	**829,627**	**3,841,101**
Personal financing	**–**	**19,853,757**	**646,561**	**20,500,318**
Auto finance	**–**	**139,429**	**711**	**140,140**
Bridging, structured and term loans and financing	**–**	**4,368,551**	**2,124,206**	**6,492,757**
	–	**27,373,211**	**3,601,105**	**30,974,316**

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Credit quality of financial assets that are neither past due nor impaired by credit quality is as follows (cont'd.):

	2017			
Company	**High Grade RM'000**	**Standard Grade RM'000**	**New Loans During The Year RM'000**	**Total RM'000**
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	**250,492**	**–**	**–**	**250,492**
Deposits and placements with financial institutions:				
– with maturity of less than one month	**7,518,142**	**–**	**–**	**7,518,142**
– with maturity of more than one month	**51,368**	**–**	**–**	**51,368**
	7,820,002	**–**	**–**	**7,820,002**
Other Financial Assets:				
Loans to subsidiaries	**–**	**235,943**	**–**	**235,943**
Financial investments available-for-sale	**–**	**3,171,913**	**–**	**3,171,913**
Other receivables	**–**	**57,843**	**–**	**57,843**
Sukuk Commodity Murabahah	**–**	**3,245,851**	**–**	**3,245,851**
Financial assets held-for-sale	**–**	**38,409**	**–**	**38,409**
	–	**6,749,959**	**–**	**6,749,959**

	2016			
Company	**High Grade RM'000**	**Standard Grade RM'000**	**New Loans During The Year RM'000**	**Total RM'000**
Financial Assets:				
Loans, Advances and Financing:				
End finance and islamic property	–	2,662,581	716,448	3,379,029
Personal financing	–	20,440,953	464,936	20,905,889
Auto finance	–	157,957	7,757	165,714
Bridging, structured and term loans and financing	–	3,693,286	1,809,595	5,502,881
	–	26,954,777	2,998,736	29,953,513

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Credit quality of financial assets that are neither past due nor impaired by credit quality is as follows (cont'd.):

Company	2016 High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	Total RM'000
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	213,603	–	–	213,603
Deposits and placements with financial institutions:				
– with maturity of less than one month	6,407,387	–	–	6,407,387
– with maturity of more than one month	462,206	–	–	462,206
	7,083,196	–	–	7,083,196
Other Financial Assets:				
Loans to subsidiaries	–	193,381	–	193,381
Financial investments available-for-sale	–	2,364,750	–	2,364,750
Other receivables	–	46,757	–	46,757
Sukuk Commodity Murabahah	–	3,577,143	–	3,577,143
	–	6,182,031	–	6,182,031

Past Due But Not Impaired

Past due but not impaired financial assets are loans and receivables where the customer has failed to make a principal or interest payment when contractually due, and includes loans, advances and financing which are not past due or have no overdraft for a period of less than three months.

Impaired

This refers to financial assets in respect of loans, advances and financing for which exposures are assessed individually and considered impaired based on the Company's policies.

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(iii) Industry analysis

Group 31 December 2017	Property Development RM'000	Financial Services RM'000	Consumer RM'000	Oil and gas RM'000	Services[1] RM'000	Others RM'000	Total RM'000
Financial Assets:							
Cash and short-term funds	14,170	7,768,634	–	–	693	3,635	7,787,132
Deposits and placements with financial institutions	–	51,368	–	–	–	696,035	747,403
Trade receivables	–	–	–	–	295	–	295
Other receivables	2,709	–	–	–	673	37,297	40,679
Loans, advances and financing:							
– End finance and Islamic property	–	–	4,405,641	–	–	–	4,405,641
– Personal financing	–	–	20,610,480	–	–	–	20,610,480
– Auto finance	–	–	207,931	–	–	–	207,931
– Bridging, structured and term loans and financing	5,369,964	–	38,056	–	1,062,142	312,030	6,782,192
Financial assets held-for-sale	–	–	38,409	–	–	–	38,409
Financial investments available-for-sale	–	3,171,913	–	–	–	–	3,171,913
	5,386,843	10,991,915	25,300,517	–	1,063,803	1,048,997	43,792,075

Company 31 December 2017	Property Development RM'000	Financial Services RM'000	Consumer RM'000	Oil and gas RM'000	Services[1] RM'000	Others RM'000	Total RM'000
Financial Assets:							
Cash and short-term funds	–	7,768,634	–	–	–	–	7,768,634
Deposits and placements with financial institutions	–	51,368	–	–	–	–	51,368
Other receivables	–	–	–	–	–	57,843	57,843
Sukuk Commodity Murabahah	–	–	–	–	–	3,245,851	3,245,851
Loans, advances and financing:							
– End finance and Islamic property	–	–	4,405,641	–	–	–	4,405,641
– Personal financing	–	–	20,610,480	–	–	–	20,610,480
– Auto finance	–	–	207,931	–	–	–	207,931
– Bridging, structured and term loans and financing	5,369,964	–	38,056	–	1,062,142	312,030	6,782,192
Loans to subsidiaries	–	240,302	–	–	64,838	–	305,140
Financial assets held-for-sale	–	–	38,409	–	–	–	38,409
Financial investments available-for-sale	–	3,171,913	–	–	–	–	3,171,913
	5,369,964	11,232,217	25,300,517	–	1,126,980	3,615,724	46,645,402

[1] Services includes hotel operation.

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(iii) Industry analysis

Group 31 December 2016	Property Development RM'000	Financial Services RM'000	Consumer RM'000	Oil and gas RM'000	Services[1] RM'000	Others RM'000	Total RM'000
Financial Assets:							
Cash and short-term funds	12,932	6,620,990	–	–	1,498	3,949	6,639,369
Deposits and placements with financial institutions	–	462,206	–	–	–	613,872	1,076,078
Trade receivables	–	–	–	–	542	–	542
Other receivables	3,840	–	–	–	620	34,202	38,662
Loans, advances and financing:							
– End finance and Islamic property	–	–	4,316,876	–	–	–	4,316,876
– Personal financing	–	–	21,459,477	–	–	–	21,459,477
– Auto finance	–	–	273,054	–	–	–	273,054
– Bridging, structured and term loans and financing	4,849,520	–	34,980	–	1,049,932	209,639	6,144,071
Financial investments available-for-sale	–	2,364,750	–	–	–	–	2,364,750
	4,866,292	9,447,946	26,084,387	–	1,052,592	861,662	42,312,879

Company 31 December 2016	Property Development RM'000	Financial Services RM'000	Consumer RM'000	Oil and gas RM'000	Services[1] RM'000	Others RM'000	Total RM'000
Financial Assets:							
Cash and short-term funds	–	6,620,990	–	–	–	–	6,620,990
Deposits and placements with financial institutions	–	462,206	–	–	–	–	462,206
Other receivables	–	–	–	–	–	46,757	46,757
Sukuk Commodity Murabahah	–	–	–	–	–	3,577,143	3,577,143
Loans, advances and financing:							
– End finance and Islamic property	–	–	4,316,876	–	–	–	4,316,876
– Personal financing	–	–	21,459,477	–	–	–	21,459,477
– Auto finance	–	–	273,054	–	–	–	273,054
– Bridging, structured and term loans and financing	4,856,707	–	34,980	–	1,049,932	209,639	6,151,258
Loans to subsidiaries	–	197,740	–	–	82,763	–	280,503
Financial investments available-for-sale	–	2,364,750	–	–	–	–	2,364,750
	4,856,707	9,645,686	26,084,387	–	1,132,695	3,833,539	45,553,014

[1] Services includes hotel operation.

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(iv) Collateral

The credit risk of financial assets of the Group and the Company is mitigated by the collateral in respect of financial assets.

The collateral mitigates credit risk and would reduce the extent of impairment losses for assets subject to impairment review.

The main types of collateral obtained by the Group and the Company to mitigate credit risk are as follows:

– For conventional mortgage and property Islamic - charge over properties;

– For auto loan and financing - ownership claims over the vehicles financed;

– For project loans and financing - charges over the project being financed; and

– For others loan, advances and financing - charges over business assets such as premises, inventories, marketable securities, real estate, and trade receivables or deposits.

Market risk

Market risk is the risk of potential loss as a result of changes in the intrinsic value of financial instruments caused by movements in market variables such as interest rates, equity pricing and other related macro economic factors that will eventually affect the Group's and the Company's profitability and capital preservation.

The Group's and the Company's market risk management includes the monitoring of fluctuations in net interest income or investment value due to changes in relevant market risk factors. The ALCO monitors the exposure on a monthly basis through reports produced by the Treasury Division. The GRM, via its presence in the ALCO, provides advisory services and input on the Group's and the Company's market risk management.

In managing interest rate risk, the Group and the Company intend to maximise net interest income and net interest margin and minimise the significant volatilities that may arise in relation to the Group's and the Company's assets and liabilities.

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market risk (cont'd.)

Sensitivity analysis for interest/profit rate risk

At the reporting date, if interest/profit rates had been 100 basis points lower/higher, with all other variables held constant, the Group's and the Company's net profit and shareholders' equity would have been as per the following table, arising mainly as a result of changes in interest expenses from floating rate borrowings and fixed deposits placed by customers and interest income from floating rate loans, advances and financing.

		Group		Company	
Company	**Tax rate**	**+100 basis points RM'000**	**-100 basis points RM'000**	**+100 basis points RM'000**	**-100 basis points RM'000**
2017					
Impact to profit before tax		**(217,338)**	**217,338**	**(224,299)**	**224,299**
Impact to profit after tax and equity	24%	**(165,177)**	**165,177**	**(170,467)**	**170,467**
2016					
Impact to profit before tax		(208,271)	208,271	(214,337)	214,337
Impact to profit after tax and equity	24%	(158,286)	158,286	(162,896)	162,896

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market risk (cont'd.)

Interest/profit rate risk

The table below summarises the Group's and the Company's exposure to interest/profit rate risk. The table indicates effective average interest/profit rates at the reporting date and the periods in which the financial instruments reprice or mature, whichever is earlier. Assets classified as non-interest sensitive are either non-interest bearing or, if interest bearing, the cashflows arising from these assets are not expected to change significantly if interest/profit rates change.

Group 2017	Up To 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	Average interet rate % per annum
Assets								
Cash and short-term funds	–	–	–	–	–	7,787,132	7,787,132	
Deposits and placements with financial institutions	–	–	–	–	–	747,403	747,403	3.37
Trade receivables	–	–	–	–	–	295	295	
Other receivables	–	–	–	–	–	218,413	218,413	
Loans, advances and financing:								
– non-impaired	58,353	138,788	309,666	2,023,600	7,362,947	21,438,354	31,331,708	6.80
– impaired	–	–	–	–	–	674,536	674,536	
Financial assets held-for-sale	–	–	–	–	–	38,409	38,409	
Financial investments available-for-sale	–	–	–	–	–	3,171,913	3,171,913	4.02
Other assets	–	–	–	–	–	840,338	840,338	
Total assets	58,353	138,788	309,666	2,023,600	7,362,947	34,916,793	44,810,147	
Liabilities								
Deposits from customers	–	–	–	–	–	32,755,137	32,755,137	3.95
Trade payables	–	–	–	–	–	210	210	
Other payables	–	–	–	–	–	377,327	377,327	
Recourse obligation on loans/financing sold	–	–	–	–	–	2,238,167	2,238,167	4.51
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,287,877	2,287,877	4.83
Other liabilities	–	–	–	–	–	26,566	26,566	
Total liabilities	–	–	–	–	–	37,685,284	37,685,284	
Shareholders' equity	–	–	–	–	–	7,124,863	7,124,863	
Total liabilities and shareholders' equity	–	–	–	–	–	44,810,147	44,810,147	
On-balance sheet interest sensitivity gap	58,353	138,788	309,666	2,023,600	7,362,947	(9,893,354)	–	
Total interest/profit sensitivity gap	58,353	138,788	309,666	2,023,600	7,362,947	(9,893,354)	–	

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– 31 December 2017

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market risk (cont'd.)

Interest/profit rate risk (cont'd.)

Group 2016	**Up To 1 month RM'000**	**> 1 - 3 months RM'000**	**> 3 - 12 months RM'000**	**> 1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Total RM'000**	**Average interet rate % per annum**
Assets								
Cash and short-term funds	–	–	–	–	–	6,639,369	6,639,369	
Deposits and placements with financial institutions	–	–	–	–	–	1,076,078	1,076,078	3.56
Trade receivables	–	–	–	–	–	542	542	
Other receivables	–	–	–	–	–	150,553	150,553	
Loans, advances and financing:								
– non-impaired	56,917	39,355	235,018	1,913,546	6,634,785	22,390,784	31,270,405	7.52
– impaired	–	–	–	–	–	923,073	923,073	
Financial investments available-for-sale	–	–	–	–	–	2,364,750	2,364,750	3.98
Other assets	–	–	–	–	–	843,274	843,274	
Total assets	56,917	39,355	235,018	1,913,546	6,634,785	34,388,423	43,268,044	
Liabilities								
Deposits from customers	–	–	–	–	–	30,611,324	30,611,324	3.93
Bank borrowings	575,275	–	–	–	–	–	575,275	4.35
Trade payables	–	–	–	–	–	187	187	
Other payables	–	–	–	–	–	303,986	303,986	
Recourse obligation on loans/financing sold	–	–	–	–	–	2,420,175	2,420,175	4.40
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,615,807	2,615,807	5.04
Other liabilities	–	–	–	–	–	17,242	17,242	
Total liabilities	575,275	–	–	–	–	35,968,721	36,543,996	
Shareholders' equity	–	–	–	–	–	6,724,048	6,724,048	
Total liabilities and shareholders' equity	575,275	–	–	–	–	42,692,769	43,268,044	
On-balance sheet interest sensitivity gap	(518,358)	39,355	235,018	1,913,546	6,634,785	(8,304,346)	–	
Total interest/profit sensitivity gap	(518,358)	39,355	235,018	1,913,546	6,634,785	(8,304,346)	–	

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market risk (cont'd.)

Interest/profit rate risk (cont'd.)

Company 2017	Up To 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	Average interet rate % per annum
Assets								
Cash and short-term funds	–	–	–	–	–	7,768,634	7,768,634	
Deposits and placements with financial institutions	–	–	–	–	–	51,368	51,368	3.39
Other receivables (excluding amount due from subsidiaries)	–	–	–	–	–	212,467	212,467	
Amount due from subsidiaries	–	–	–	–	–	22,348	22,348	
Loans, advances and financing:								
– non-impaired	58,353	138,788	309,666	2,023,600	7,362,947	21,438,354	31,331,708	6.80
– impaired	–	–	–	–	–	674,536	674,536	
Financial assets held-for-sale	–	–	–	–	–	38,409	38,409	
Sukuk Commodity Murabahah	–	–	–	–	–	3,245,851	3,245,851	3.21
Loans to subsidiaries	–	–	–	–	–	305,140	305,140	
Financial investments available-for-sale	–	–	–	–	–	3,171,913	3,171,913	4.02
Other assets	–	–	–	–	–	595,345	595,345	
Total assets	58,353	138,788	309,666	2,023,600	7,362,947	37,524,365	47,417,719	
Liabilities								
Deposits from customers	–	–	–	–	–	32,755,137	32,755,137	3.95
Recourse obligation on loans/financing sold	–	–	–	–	–	2,238,167	2,238,167	4.51
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,287,877	2,287,877	4.83
Other liabilities	–	–	–	–	–	3,291,911	3,291,911	
Total liabilities	–	–	–	–	–	40,573,092	40,573,092	
Shareholders' equity	–	–	–	–	–	6,844,627	6,844,627	
Total liabilities and shareholders' equity	–	–	–	–	–	47,417,719	47,417,719	
On-balance sheet interest sensitivity gap	58,353	138,788	309,666	2,023,600	7,362,947	(9,893,354)	–	
Total interest/profit sensitivity gap	58,353	138,788	309,666	2,023,600	7,362,947	(9,893,354)	–	

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market risk (cont'd.)

Interest/profit rate risk (cont'd.)

Company 2016	Up To 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000	Average interet rate % per annum
Assets								
Cash and short-term funds	–	–	–	–	–	6,620,990	6,620,990	
Deposits and placements with financial institutions	–	–	–	–	–	462,206	462,206	3.60
Other receivables (excluding amount due from subsidiaries)	–	–	–	–	–	141,581	141,581	
Amount due from subsidiaries	–	–	–	–	–	16,343	16,343	
Loans, advances and financing:								
– non-impaired	56,917	39,355	235,018	1,913,546	6,634,785	22,390,783	31,270,404	7.52
– impaired	–	–	–	–	–	930,261	930,261	
Sukuk Commodity Murabahah	–	–	–	–	–	3,577,143	3,577,143	3.21
Loans to subsidiaries	–	–	–	–	–	280,503	280,503	
Financial investments available-for-sale	–	–	–	–	–	2,364,750	2,364,750	3.98
Other assets	–	–	–	–	–	645,189	645,189	
Total assets	56,917	39,355	235,018	1,913,546	6,634,785	37,429,749	46,309,370	
Liabilities								
Deposits from customers	–	–	–	–	–	30,611,324	30,611,324	3.93
Bank borrowings	575,275	–	–	–	–	–	575,275	4.35
Recourse obligation on loans/financing sold	–	–	–	–	–	2,420,175	2,420,175	4.40
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,615,807	2,615,807	5.04
Other liabilities	–	–	–	–	–	3,530,119	3,530,119	
Total liabilities	575,275	–	–	–	–	39,177,425	39,752,700	
Shareholders' equity	–	–	–	–	–	6,556,670	6,556,670	
Total liabilities and shareholders' equity	575,275	–	–	–	–	45,734,095	46,309,370	
On-balance sheet interest sensitivity gap	(518,358)	39,355	235,018	1,913,546	6,634,785	(8,304,346)	–	
Total interest/profit sensitivity gap	(518,358)	39,355	235,018	1,913,546	6,634,785	(8,304,346)	–	

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity risk

The Group's and the Company's liquidity risk management policy is to maintain high quality and well diversified portfolios of liquid assets and sources of funds under both normal business and stress conditions. Liquidity risk management of the Group and the Company is governed by established risk tolerance levels as defined in the Group's and the Company's Market Risk Framework. The ALCO would be informed by management action triggers to alert management to potential and emerging liquidity pressures. The Group's and the Company's early warning system and contingency funding plans are in place to alert and enable management to act effectively and efficiently during a liquidity crisis.

The ALCO meets at least once a month to discuss the liquidity risk and funding profile and is chaired by the Chief Executive Officer. The ALM and Funding Unit, which is responsible for the independent monitoring of the Group's and the Company's liquidity risk profile, works closely with the Treasury Division in the surveillance on market conditions and performs stress testing on liquidity positions.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	2017 RM'000			
Group	**On demand or within one year**	**One to five years**	**Over five years**	**Total**
Financial liabilities:				
Deposits from customers	**30,129,603**	**2,625,349**	**185**	**32,755,137**
Trade and other payables	**377,537**	**–**	**–**	**377,537**
Recourse obligation on loans/financing sold	**477,918**	**1,760,249**	**–**	**2,238,167**
Sukuk – MBSB SC Murabahah	**514,909**	**1,134,083**	**638,885**	**2,287,877**
	31,499,967	**5,519,681**	**639,070**	**37,658,718**
Operational commitments:				
Financial guarantees	**255,997**	**461,335**	**26,400**	**743,732**
	31,755,964	**5,981,016**	**665,470**	**38,402,450**

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39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity risk (cont'd.)

Analysis of financial instruments by remaining contractual maturities (cont'd.)

Group	2016 RM'000 On demand or within one year	One to five years	Over five years	Total
Financial liabilities:				
Deposits from customers	28,639,144	1,971,296	884	30,611,324
Bank borrowings	575,275	–	–	575,275
Trade and other payables	304,173	–	–	304,173
Recourse obligation on loans/financing sold	1,436,699	983,476	–	2,420,175
Sukuk – MBSB SC Murabahah	433,493	1,304,304	878,010	2,615,807
	31,388,784	4,259,076	878,894	36,526,754
Operational commitments:				
Financial guarantees	891,083	252,202	3,000	1,146,285
	32,279,867	4,511,278	881,894	37,673,039

Company	2017 RM'000 On demand or within one year	One to five years	Over five years	Total
Financial liabilities:				
Deposits from customers	**30,129,603**	**2,625,349**	**185**	**32,755,137**
Other payables	**3,278,537**	**–**	**–**	**3,278,537**
Recourse obligation on loans/financing sold	**477,918**	**1,760,249**	**–**	**2,238,167**
Sukuk – MBSB SC Murabahah	**514,909**	**1,134,083**	**638,885**	**2,287,877**
	34,400,967	**5,519,681**	**639,070**	**40,559,718**
Operational commitments:				
Financial guarantees	**255,997**	**461,335**	**26,400**	**743,732**
	34,656,964	**5,981,016**	**665,470**	**41,303,450**

39. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity risk (cont'd.)

Analysis of financial instruments by remaining contractual maturities (cont'd.)

Company	2016 RM'000 On demand or within one year	One to five years	Over five years	Total
Financial liabilities:				
Deposits from customers	28,639,144	1,971,296	884	30,611,324
Bank borrowings	575,275	–	–	575,275
Other payables	3,525,341	–	–	3,525,341
Recourse obligation on loans/financing sold	1,436,699	983,476	–	2,420,175
Sukuk – MBSB SC Murabahah	433,493	1,304,304	878,010	2,615,807
	34,609,952	4,259,076	878,894	39,747,922
Operational commitments:				
Financial guarantees	891,083	252,202	3,000	1,146,285
	35,501,035	4,511,278	881,894	40,894,207

40. CAPITAL MANAGEMENT

The primary objective of the Group's and the Company's capital management is to ensure that a strong credit rating and healthy capital ratios are maintained in order to support their business and maximise shareholder value.

The Group and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

The Group and the Company monitor their capital using both leverage ratio (which is computed using common equity Tier 1 divided by total assets including off balance sheet commitments) and risk weighted capital adequacy ratio ("RWCR") (which is computed using capital base divided by total risk weighted assets) as prescribed by Bank Negara Malaysia for licensed financial institutions in Malaysia.

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41. FAIR VALUES

(a) Fair values of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximations of fair value

		Group		Company	
	Note	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
2017					
Financial assets					
Loans, advances and financing	9	**32,006,244**	**30,628,298**	**32,006,244**	**30,628,298**
Sukuk Commodity Murabahah	11(b)	**–**	**–**	**3,245,851**	**2,854,387**
Financial liabilities					
Sukuk – MBSB SC Murabahah	11(a)	**2,287,877**	**1,924,105**	**2,287,877**	**1,924,105**
Recourse obligation on loans/financing sold	21	**2,238,167**	**2,545,901**	**2,238,167**	**2,545,901**

		Group		Company	
	Note	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
2016					
Financial assets					
Loans, advances and financing	9	**32,193,478**	**30,252,799**	**32,200,665**	**30,252,799**
Sukuk Commodity Murabahah	11(b)	**–**	**–**	**3,577,143**	**3,307,290**
Financial liabilities					
Sukuk – MBSB SC Murabahah	11(a)	**2,615,807**	**2,373,664**	**2,615,807**	**2,373,664**
Recourse obligation on loans/financing sold	21	**2,420,175**	**2,513,375**	**2,420,175**	**2,513,375**

41. FAIR VALUES (CONT'D.)

(a) Fair values of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximations of fair value (cont'd.)

Loans, advances and financing

The fair value of fixed rate loans with remaining maturities of less than one year and variable rate loans are estimated to approximate the carrying amount. For fixed rate loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at prevailing rates offered for similar loans to new borrowers with similar credit profiles as at the reporting date.

The fair value of impaired fixed and variable rate loans is represented by their carrying amount, net of individual impairment provisions, being the expected recoverable amount.

Sukuk Commodity Murabahah and Sukuk – MBSB SC Murabahah

The fair values of both Sukuk Commodity Murabahah and Sukuk – MBSB SC Murabahah are estimated by discounting expected future cash flows at the effective profit rate of similar instruments.

Other borrowings

The fair values of other borrowings are estimated by discounting expected future cash flows at market incremental lending rates for similar types of lending, borrowing or leasing arrangements at the reporting date.

Recourse obligation on loans/financing sold

The fair values for recourse obligations on loans/financing sold to Cagamas Berhad are determined based on discounted cash flows of future instalment payments at prevailing rates quoted by Cagamas Berhad as at reporting date.

NOTES TO THE FINANCIAL STATEMENTS
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41. FAIR VALUES (CONT'D.)

(b) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value:

	Note
Cash and short-term funds	5(a)
Deposits and placements with financial institutions	5(b)
Trade receivables	6
Other receivables (excluding foreclosed properties, and prepayments and deposits)	7
Financing to subsidiaries	12(b)
Financial assets held-for-sale	10
Financial investments available for sale	13
Deposits from customers	17
Bank borrowings	18
Trade payables	19
Other payables	20

The carrying amounts of these financial assets and liabilities are reasonable approximations of fair values, either due to their short-term nature or the fact that these are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

41. FAIR VALUES (CONT'D.)

Determination of fair value and fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities:

		Fair value measurement using		
Group	**Total RM'000**	**Quoted prices in active markets (Level 1) RM'000**	**Significant observable inputs (Level 2) RM'000**	**Significant unobservable inputs (Level 3) RM'000**
31 December 2017				
Assets carried at fair values				
Financial investments available-for-sale	**3,171,913**	**–**	**3,171,913**	**–**
Assets for which fair values are disclosed				
Loans, advances and financing	**30,628,298**	**–**	**23,825,277**	**6,803,021**
Liabilities for which fair values are disclosed				
Sukuk – MBSB SC Murabahah	**1,924,105**	**–**	**1,924,105**	**–**
Recourse obligation on loans/financing sold	**2,545,901**	**–**	**–**	**2,545,901**
Total	**4,470,006**	**–**	**1,924,105**	**2,545,901**
31 December 2016				
Assets carried at fair values				
Financial investments available-for-sale	2,364,750	–	2,364,750	–
Assets for which fair values are disclosed				
Loans, advances and financing	30,252,799	–	24,066,976	6,185,823
Liabilities for which fair values are disclosed				
Sukuk – MBSB SC Murabahah	2,373,664	–	2,373,664	–
Recourse obligation on loans/financing sold	2,513,375	–	–	2,513,375
Total	4,887,039	–	2,373,664	2,513,375

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41. FAIR VALUES (CONT'D.)

Determination of fair value and fair value hierarchy (cont'd.)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities. (cont'd.)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities: (cont'd.)

		Fair value measurement using		
Company	**Total RM'000**	**Quoted prices in active markets (Level 1) RM'000**	**Significant observable inputs (Level 2) RM'000**	**Significant unobservable inputs (Level 3) RM'000**
31 December 2017				
Assets carried at fair values				
Financial investments available-for-sale	**3,171,913**	**–**	**3,171,913**	**–**
Assets for which fair values are disclosed				
Loans, advances and financing	**30,628,298**	**–**	**23,825,277**	**6,803,021**
Sukuk Commodity Murabahah	**2,854,387**	**–**	**2,854,387**	**–**
Total	**33,482,685**	**–**	**26,679,664**	**6,803,021**
Liabilities for which fair values are disclosed				
Sukuk – MBSB SC Murabahah	**1,924,105**	**–**	**1,924,105**	**–**
Recourse obligation on loans/financing sold	**2,545,901**	**–**	**–**	**2,545,901**
Total	**4,470,006**	**–**	**1,924,105**	**2,545,901**
31 December 2016				
Assets carried at fair values				
Financial investments available-for-sale	2,364,750	–	2,364,750	–
Assets for which fair values are disclosed				
Loans, advances and financing	30,252,799	–	24,066,976	6,185,823
Sukuk Commodity Murabahah	3,307,290	–	3,307,290	–
Total	33,560,089	–	27,374,266	6,185,823
Liabilities for which fair values are disclosed				
Sukuk – MBSB SC Murabahah	2,373,664	–	2,373,664	–
Recourse obligation on loans/financing sold	2,513,375	–	–	2,513,375
Total	4,887,039	–	2,373,664	2,513,375

41. FAIR VALUES (CONT'D.)

Determination of fair value and fair value hierarchy (cont'd.)

In relation to assets where the fair values are measured under level 3 of the fair value hierarchy, a description of the significant unobservable inputs asset in the valuation is as follows:

	Valuation technique	Significant unobservable input	Range (weighted average)
Bridging, structured and term loans and financing	*DCF method	Interest/ profit rate	6.1% - 11.5% (6.7%)
Other borrowings	*DCF method	Interest/ profit rate	5.5% (5.5%)
Recourse obligation on loans/financing sold	*DCF method	Interest/ profit rate	4.8% - 5.8% (5.2%)

* DCF method refers to the discounted cash flows method where future expected cash flows are discounted at rates prevailing at the reporting date.

41. FAIR VALUES (CONT'D.)

Movement of significant unobservable inputs (Level 3)

The following tables present additional information about Level 3 financial assets and financial liabilities measured at fair value on a recurring basis:

Group	At 1 January RM'000	Repayment RM'000	Drawdown RM'000	Repurchase RM'000	Disbursement RM'000	Interest RM'000	Collections RM'000	Write off RM'000	Reclassification RM'000	Impairment RM'000	At 31 December RM'000
2017											
Financial assets											
Bridging, structured and term loans and financing	6,185,823	–	–	–	3,434,604	506,432	(3,274,429)	(40)	(13,082)	(36,287)	6,803,021
	6,185,823	–	–	–	3,434,604	506,432	(3,274,429)	(40)	(13,082)	(36,287)	6,803,021
Financial liabilities											
Recourse obligation on loans/financing sold	2,513,375	(1,539,969)	1,260,984	3,777	–	–	–	–	–	–	2,238,167
	2,513,375	(1,539,969)	1,260,984	3,777	–	–	–	–	–	–	2,238,167

Company	At 1 January RM'000	Repayment RM'000	Drawdown RM'000	Repurchase RM'000	Disbursement RM'000	Interest RM'000	Collections RM'000	Write off RM'000	Reclassification RM'000	Impairment RM'000	At 31 December RM'000
2017											
Financial assets											
Bridging, structured and term loans and financing	6,185,823	–	–	–	3,434,604	506,432	(3,274,429)	(40)	(13,082)	(36,287)	6,803,021
	6,185,823	–	–	–	3,434,604	506,432	(3,274,429)	(40)	(13,082)	(36,287)	6,803,021
Financial liabilities											
Recourse obligation on loans/financing sold	2,513,375	(1,539,969)	1,260,984	3,777	–	–	–	–	–	–	2,238,167
	2,513,375	(1,539,969)	1,260,984	3,777	–	–	–	–	–	–	2,238,167

41. FAIR VALUES (CONT'D.)

Movement of significant unobservable inputs (Level 3) (cont'd.)

The following tables present additional information about Level 3 financial assets and financial liabilities measured at fair value on a recurring basis: (cont'd.)

Group	At 1 January RM'000	Repayment RM'000	Drawdown RM'000	Repurchase RM'000	Disbursement RM'000	Interest RM'000	Collections RM'000	Write off RM'000	Reclassification RM'000	Impairment RM'000	At 31 December RM'000
2016											
Financial assets											
Bridging, structured and term loans and financing	4,804,327	–	–	–	3,047,337	418,923	(2,007,699)	7	–	(77,072)	6,185,823
	4,804,327	–	–	–	3,047,337	418,923	(2,007,699)	7	–	(77,072)	6,185,823
Financial liabilities											
Recourse obligation on loans/financing sold	2,873,330	(1,051,788)	580,000	111,833	–	–	–	–	–	–	2,513,375
	2,873,330	(1,051,788)	580,000	111,833	–	–	–	–	–	–	2,513,375

Company	At 1 January RM'000	Repayment RM'000	Drawdown RM'000	Repurchase RM'000	Disbursement RM'000	Interest RM'000	Collections RM'000	Write off RM'000	Impairment RM'000	At 31 December RM'000
2016										
Financial assets										
Bridging, structured and term loans and financing	4,804,327	–	–	–	3,047,337	418,923	(2,007,699)	7	(77,072)	6,185,823
	4,804,327	–	–	–	3,047,337	418,923	(2,007,699)	7	(77,072)	6,185,823
Financial liabilities										
Recourse obligation on loans/financing sold	2,873,330	(1,051,788)	580,000	111,833	–	–	–	–	–	2,513,375
	2,873,330	(1,051,788)	580,000	111,833	–	–	–	–	–	2,513,375

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42. SEGMENT INFORMATION

The Group is organised into four major business segments:

(i) Financing – the granting of loans on the security of freehold and leasehold properties and provision of retail financing and related services;

(ii) Property development – the development of residential and commercial properties;

(iii) Leasing of real property – the letting of office buildings; and

(iv) Hotel operations – the leasing of hotel rooms, sale of food and beverage and other related income.

Other business segments include project management and investment holding, none of which are of a sufficient size to be reported separately.

The directors are of the opinion that all inter-segment transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

42. SEGMENT INFORMATION (CONT'D.)

(a) Business segments

	Financing		Property development		Letting of real property		Hotel operations		Investment holding		Others		Eliminations		Consolidated	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue and expenses																
Revenue																
External sales	**2,980,399**	2,972,892	**41,352**	36,308	**–**	–	**6,914**	6,739	**231,098**	258,856	**–**	–	**–**	–	**3,259,763**	3,274,795
Inter-segment sales	**27,776**	24,707	**–**	–	**899**	1,004	**3,802**	3,580	**–**	–	**–**	–	**(32,477)**	(29,291)	**–**	–
Total revenue															**3,259,763**	3,274,795
Result																
Segment results	**431,925**	223,820	**(64,312)**	(49,421)	**(14,860)**	(12,823)	**(18,954)**	(16,087)	**106,775**	124,700	**(194)**	(205)	**110,352**	68,437	**550,732**	338,421
Taxation															**(121,735)**	(136,028)
Zakat															**(11,871)**	(981)
Net profit for the year															**417,126**	201,412
Assets																
Segment assets	**47,417,719**	46,309,370	**228,146**	210,791	**6,198**	6,472	**66,792**	70,026	**3,594,110**	3,815,929	**372**	372	**(6,503,190)**	(7,144,916)	**44,810,147**	43,268,044
Consolidated total assets															**44,810,147**	43,268,044
Liabilities																
Segment liabilities	**40,573,092**	39,752,700	**747,279**	657,612	**160,460**	145,875	**189,850**	174,097	**3,265,894**	3,588,529	**3,291**	3,097	**(7,254,582)**	(7,777,914)	**37,685,284**	36,543,996
Consolidated total liabilities															**37,685,284**	36,543,996

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42. SEGMENT INFORMATION (CONT'D.)

(a) Business segments (cont'd.)

	Financing		Property development		Letting of real property		Hotel operations		Investment holding		Others		Eliminations		Consolidated	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Other Information																
Capital expenditure	**3,723**	533	**33,871**	17,191	**-**	–	**238**	92	**-**	–	**-**	–	**-**	–	**37,832**	17,816
Depreciation property, plant and equipment	**8,225**	10,504	**-**	–	**186**	186	**2,369**	2,655	**-**	–	**-**	–	**228**	228	**11,008**	13,573
Amortisation of land used rights and intangible assets	**10,823**	13,451	**-**	–	**18**	20	**161**	191	**-**	–	**-**	–	**-**	–	**11,002**	13,662
Impairment for investments in subsidiaries	**2**	2	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**(2)**	(2)	**-**	–
Non-cash expenses other than depreciation and amortisation	**646,140**	797,523	**41,945**	36,514	**-**	–	**8**	–	**-**	–	**-**	–	**(55,204)**	(18,776)	**632,889**	815,261

(b) Geographical segments

The Group's activities are in Malaysia, therefore segmental reporting is not analysed by geographical locations.

43. THE OPERATIONS OF ISLAMIC BUSINESS

Statements of financial position as at 31 December 2017

		Group		Company	
		2017	**2016**	**2017**	**2016**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Assets					
Cash and short-term funds	**(a)**	**6,732,883**	4,398,300	**6,729,248**	4,394,353
Deposits and placements with financial institutions	**(a)**	**747,100**	763,329	**51,065**	149,457
Financing	**(b)**	**28,553,830**	28,106,938	**28,553,830**	28,106,938
Financial assets held-for-sale	**(c)**	**8,734**	–	**8,734**	–
Other receivables	**(d)**	**1,958,135**	262,532	**1,955,569**	258,018
Sukuk Commodity Murabahah		**–**	–	**3,245,851**	3,577,143
Financial investments available-for-sale		**3,171,913**	2,364,750	**3,171,913**	2,364,750
Financing to subsidiaries		**–**	–	**305,140**	280,503
Amount due from a subsidiary		**–**	–	**19,367**	10,893
Total assets		**41,172,595**	35,895,849	**44,040,717**	39,142,055
Liabilities					
Deposits from customers	**(e)**	**31,940,055**	24,149,761	**31,940,055**	24,149,761
Other payables	**(f)**	**2,432,036**	4,337,318	**2,690,541**	4,595,380
Bank borrowings		**–**	400,211	**–**	400,211
Recourse obligation on financing sold		**1,269,652**	1,385,248	**1,269,652**	1,385,248
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")		**–**	–	**2,891,912**	3,193,633
Sukuk – MBSB SC Murabahah		**2,287,877**	2,615,807	**2,287,877**	2,615,807
Provision for taxation		**60,605**	81,398	**60,605**	81,067
Provision for zakat		**13,377**	4,780	**13,377**	4,780
Total liabilities		**38,003,602**	32,974,523	**41,154,019**	36,425,887
Islamic fund		**4,000**	4,000	**4,000**	4,000
AFS reserve		**(6,656)**	(19,810)	**(6,656)**	(19,810)
Retained profits		**3,171,649**	2,937,136	**2,889,354**	2,731,978
		3,168,993	2,921,326	**2,886,698**	2,716,168
Total liabilities and Islamic fund		**41,172,595**	35,895,849	**44,040,717**	39,142,055

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43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

Statements of comprehensive income for the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Income derived from investment of general investment, deposits and Islamic capital funds	**(g)**	**2,634,924**	2,630,086	**2,549,107**	2,526,580
Income attributable to depositors		**(1,077,119)**	(1,001,417)	**(1,077,119)**	(1,001,417)
Income attributable to securitisation		**(96,978)**	(125,748)	**(96,978)**	(125,748)
Income attributable to sukuk		**(328,835)**	(370,663)	**(328,835)**	(370,663)
Net income from financing operations		**1,131,992**	1,132,258	**1,046,175**	1,028,752
Other income		**19,757**	36,053	**19,757**	36,053
Profit expenses		**(959)**	(462)	**–**	–
Other expenses	**(h)**	**(271,002)**	(171,489)	**(269,240)**	(170,903)
Allowance for losses on financing		**(566,840)**	(557,194)	**(566,840)**	(557,194)
Profit before taxation and zakat		**312,948**	439,166	**229,852**	336,708
Taxation	**(j)**	**(66,564)**	(86,381)	**(60,605)**	(81,068)
Zakat		**(11,871)**	(981)	**(11,871)**	(981)
Profit for the year		**234,513**	351,804	**157,376**	254,659
Other comprehensive income – AFS revaluation reserve, which may be reclassified subsequently to profit or loss		**13,154**	(21,376)	**13,154**	(21,376)
Total comprehensive income for the year, net of tax		**247,667**	330,428	**170,530**	233,283

43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

Statements of changes in equity for the year ended 31 December 2017

Group	Islamic fund RM'000	Retaied profits RM'000	AFS reserve RM'000	Total RM'000
At 1 January 2016	4,000	2,585,332	1,566	2,590,898
Profit for the year	–	351,804	–	351,804
Other comprehensive income for the year	–	–	(21,376)	(21,376)
At 31 December 2016	4,000	2,937,136	(19,810)	2,921,326
At 1 January 2017	**4,000**	**2,937,136**	**(19,810)**	**2,921,326**
Profit for the year	**–**	**234,513**	**–**	**234,513**
Other comprehensive income for the year	**–**	**–**	**13,154**	**13,154**
At 31 December 2017	**4,000**	**3,171,649**	**(6,656)**	**3,168,993**

Company	Islamic fund RM'000	Retaied profits RM'000	AFS reserve RM'000	Total RM'000
At 1 January 2016	4,000	2,477,319	1,566	2,482,885
Profit for the year	–	254,659	–	254,659
Other comprehensive income for the year	–	–	(21,376)	(21,376)
At 31 December 2016	4,000	2,731,978	(19,810)	2,716,168
At 1 January 2017	**4,000**	**2,731,978**	**(19,810)**	**2,716,168**
Profit for the year	**–**	**157,376**	**–**	**157,376**
Other comprehensive income for the year	**–**	**–**	**13,154**	**13,154**
At 31 December 2017	**4,000**	**2,889,354**	**(6,656)**	**2,886,698**

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43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

Statements of cash flows for the year ended 31 December 2017

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash flows from operating activities				
Profit before taxation and zakat	**312,948**	439,166	**229,852**	336,708
Adjustments for:				
Profit income adjustments on:				
Financing	**(24,174)**	15,614	**(24,174)**	15,614
Sukuk Commodity Murabahah	**–**	–	**(121,612)**	(133,108)
Sukuk – MBSB SC Murabahah	**(4)**	(1,277)	**(4)**	(1,277)
Profit payable on Financial Investment AFS	**(7,880)**	(20,186)	**(7,880)**	(20,186)
Profit on subsidiaries	**–**	–	**34,420**	15,816
Allowance for impairment losses on financing	**566,840**	557,194	**566,840**	557,194
Operating profit before working capital changes	**847,730**	990,511	**677,442**	770,761
Decrease/(increase) in deposits with financial institutions	**16,229**	(358,927)	**98,392**	(149,457)
Increase in financing	**(989,558)**	(1,527,592)	**(989,558)**	(1,527,592)
Increase in assets held-for-sale	**(8,734)**	–	**(8,734)**	–
(Increase)/decrease in other receivables	**(1,695,603)**	410,305	**(1,697,551)**	409,164
Decrease in Sukuk Commodity Murabahah	**–**	–	**452,903**	348,716
Increase in financial investments available-for-sale	**(786,129)**	(1,382,587)	**(786,129)**	(1,382,587)
Increase in deposits from customers	**7,790,294**	1,657,977	**7,790,294**	1,657,977
Decrease in bank borrowings	**(400,211)**	(350,208)	**(400,211)**	(350,208)
Decrease in other borrowings	**–**	(50,181)	**–**	(50,181)
Decrease in amount due to SPV	**–**	–	**(301,721)**	(301,230)
Decrease in amount due from subsidiary	**–**	–	**(8,474)**	(6,140)
Financing to subsidiaries	**–**	–	**(59,057)**	(296,319)
Decrease in other payables	**(1,905,612)**	(530,575)	**(1,904,837)**	(270,078)
Decrease in Sukuk – MBSB SC Murabahah	**(327,926)**	(210,871)	**(327,926)**	(210,871)
Decrease in recourse obligation on financing sold	**(115,596)**	(48,197)	**(115,596)**	(48,197)
Cash generated from/(used in) operations	**2,424,884**	(1,400,345)	**2,419,237**	(1,406,242)
Taxation paid	**(87,026)**	(223,781)	**(81,067)**	(218,663)
Zakat paid	**(3,275)**	(4,017)	**(3,275)**	(4,017)
Net cash generated from/(used in) operating activities	**2,334,583**	(1,628,143)	**2,334,895**	(1,628,922)
Net increase/(decrease) in cash and cash equivalents	**2,334,583**	(1,628,143)	**2,334,895**	(1,628,922)
Cash and cash equivalents at beginning of financial year	**4,398,300**	6,026,443	**4,394,353**	6,023,275
Cash and cash equivalents at end of financial year	**6,732,883**	4,398,300	**6,729,248**	4,394,353

43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(a) Cash and short-term funds and deposits and placements with financial institutions

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Cash and short-term funds:				
Cash at banks	**1,207,493**	1,191,496	**1,203,858**	1,187,549
Deposits and placements with financial institutions with maturity less than one month	**5,525,390**	3,206,804	**5,525,390**	3,206,804
	6,732,883	4,398,300	**6,729,248**	4,394,353
Deposits and placements with financial institutions with maturity of more than one month	**747,100**	763,329	**51,065**	149,457
	7,479,983	5,161,629	**6,780,313**	4,543,810

The weighted average effective yield rate of deposits with financial institutions at the reporting date was 3.26% (2016: 3.40%) per annum.

(b) Financing

	Group and Company	
	2017 RM'000	**2016 RM'000**
(i) By type:		
Term financing		
Corporate financing	**11,310,360**	9,625,862
Property financing	**7,058,100**	5,936,416
Personal financing	**33,958,447**	35,398,821
Auto financing	**300,651**	359,625
Staff financing	**18,571**	19,960
Less: Unearned income	**(21,651,643)**	(21,362,958)
Reclassification to AHS	**(1,144,160)**	–
Gross financing	**29,850,326**	29,977,726
Allowance for impairment:		
– Collectively assessed (net of reclassification to AHS)	**(1,296,061)**	(1,870,623)
– Individual allowance	**(435)**	(165)
Net financing	**28,553,830**	28,106,938

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43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(b) Financing (cont'd.)

		Group and Company	
		2017	**2016**
		RM'000	**RM'000**
(ii)	By contract:		
	Bai Bithaman Ajil (deferred payment sale)	**2,372,817**	2,080,179
	Bai Al-Inah (cost-plus)	**11,789,974**	13,640,302
	Tawarruq	**9,892,992**	9,513,046
	Contract financing	**5,794,543**	4,744,199
		29,850,326	29,977,726
(iii)	Impaired financing:		
	Balance as at 1 January	**1,657,995**	1,426,173
	Classified as impaired during the year	**517,959**	557,491
	Reclassified as non-impaired during the year	**(326,361)**	(320,053)
	Amount recovered	**(8,174)**	(5,616)
	Reclassification to AHS	**(1,143,808)**	–
	Balance as at 31 December	**697,611**	1,657,995
	Collective allowance	**(1,515,803)**	(1,139,713)
	Reclassification to AHS	**1,135,338**	–
	Individual allowance	**(435)**	(165)
	Allowance for impairment	**(380,900)**	(1,139,878)
	Net impaired financing	**316,711**	518,117
	Net impaired financing as a percentage of net financing	**1.1%**	1.8%
(iv)	Movements in allowance for impairment are as follows:		
	Collective impairment		
	Balance as at 1 January	**1,870,623**	1,323,066
	Impairment during the year	**560,864**	547,557
	Reclassification to AHS	**(1,135,426)**	–
	Balance as at 31 December	**1,296,061**	1,870,623
	Individual Impairment		
	Balance as at 1 January	**165**	–
	Impairment during the year	**270**	165
	Balance as at 31 December	**435**	165

43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(c) Financial assets held-for-sale

	Group and Company	
	2017	**2016**
	RM'000	**RM'000**
Reclassification from gross financing	**1,144,160**	–
Less: Allowance for impairment collectively assessed	**(1,135,426)**	–
Net assets held-for-sale	**8,734**	–

Assets held-for-sale represents impaired financing which have been identified and for which a firm commitment has been received from an external party as at 31 December 2017. The gross amounts are categorised according to their purpose as follows:

	RM'000
Purchase of residential properties	33,958
Purchase of non-residential properties	1,101
Personal use	1,109,101
	1,144,160

(d) Other receivables

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deferred expenses due to issuance of Sukuk Commodity Murabahah	**141**	169	**–**	–
Deferred expenses due to issuance of Sukuk – MBSB SC Murabahah	**2,733**	2,995	**2,733**	2,995
Inter-branch transaction	**1,029,512**	–	**1,029,512**	–
Others	**925,749**	259,368	**923,324**	255,023
	1,958,135	262,532	**1,955,569**	258,018

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43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(e) Deposits from customers

(i) By type of deposit:

	Group and Company	
	2017 RM'000	**2016 RM'000**
Al-Wadiah savings account	**56,728**	51,895
Mudharabah fund	**31,883,327**	24,097,866
	31,940,055	24,149,761

(ii) By type of customer:

	Group and Company	
	2017 RM'000	**2016 RM'000**
Business enterprises	**29,797,831**	23,545,255
Individuals	**2,142,224**	604,506
	31,940,055	24,149,761

(iii) By maturity of deposits from customers:

	Group and Company	
	2017 RM'000	**2016 RM'000**
Within one year	**29,571,999**	23,205,596
More than one year	**2,368,056**	944,165
	31,940,055	24,149,761

43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(f) Other payables

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Interbranch balances	**–**	2,295,658	**–**	2,295,658
Al-Mudharabah security deposits	**112,629**	109,058	**112,629**	109,058
Disbursement payable	**100,489**	86,073	**100,489**	86,073
Proportionate operating expenses	**998,732**	803,021	**998,732**	803,021
Others	**1,220,186**	1,043,508	**1,478,691**	1,301,570
	2,432,036	4,337,318	**2,690,541**	4,595,380

(g) Income derived from investment of general investment deposits and Islamic capital funds

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Financing	**2,142,811**	2,122,741	**2,142,811**	2,122,741
Profit income from Sukuk Commodity Murabahah	**206,170**	236,113	**121,612**	133,108
Financial investment AFS	**116,767**	69,381	**116,767**	69,381
Deposits with financial institutions	**163,156**	197,605	**138,218**	174,862
Profit on subsidiaries	**6,020**	4,246	**29,699**	26,488
	2,634,924	2,630,086	**2,549,107**	2,526,580

(h) Other expenses

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Personnel expenses (Note 43(i))	**133,681**	83,493	**133,681**	83,493
Promotion and marketing related expenses	**5,070**	7,453	**5,070**	7,453
General administrative expenses	**132,251**	80,543	**130,489**	79,957
	271,002	171,489	**269,240**	170,903

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43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(i) Personnel expenses

	Group and Company	
	2017 RM'000	**2016 RM'000**
Wages and salaries	**115,539**	72,472
Social security costs	**809**	555
Pension costs – Employees Provident Fund	**17,333**	10,466
	133,681	83,493

(j) Taxation

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Malaysian income tax:				
Current income tax	**66,564**	86,381	**60,605**	81,068
Over provision in prior years	**–**	317,536	**–**	317,536
	66,564	403,917	**60,605**	398,604
Deferred tax:				
Over provision in prior years	**–**	(317,536)	**–**	(317,536)
	–	(317,536)	**–**	(317,536)
Total income tax expense for the year	**66,564**	86,381	**60,605**	81,068

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

43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(j) Taxation (cont'd.)

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

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Profit before taxation and zakat	**312,948**	439,166	**229,852**	336,708
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	**55,165**	86,123	**55,165**	80,810
Expenses not deductible for tax purposes	**11,399**	258	**5,440**	258
Under provision of deferred tax in prior years	**–**	317,536	**–**	317,536
Over provision of income tax expense in prior years	**–**	(317,536)	**–**	(317,536)
Tax expense for the year	**66,564**	86,381	**60,605**	81,068

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43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(k) Yield/profit rate risk

The table below summarises the Group's and the Company's exposure to yield/profit rate risk for the Islamic business operations. The table indicates effective average yield/profit rates at the reporting date and the periods in which the financial instruments either reprice or mature, whichever is earlier.

Group 2017	Up To 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	–	–	–	–	–	6,732,883	6,732,883	
Deposits and placements with financial institutions	–	–	–	–	–	747,100	747,100	3.26
Financing:								
– non-impaired	58,317	28,322	260,135	1,880,408	4,653,645	21,356,292	28,237,119	6.82
– impaired	–	–	–	–	–	316,711	316,711	
Other receivables	–	–	–	–	–	1,958,135	1,958,135	
Financial investments available-for-sale	–	–	–	–	–	3,171,913	3,171,913	4.02
Financial assets held-for-sale	–	–	–	–	–	8,734	8,734	
Total assets	58,317	28,322	260,135	1,880,408	4,653,645	34,291,768	41,172,595	
Liabilities								
Deposits from customers	–	–	–	–	–	31,940,055	31,940,055	3.94
Recourse obligation on financing sold	–	–	–	–	–	1,269,652	1,269,652	
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,287,877	2,287,877	4.83
Other liabilities	–	–	–	–	–	2,506,018	2,506,018	
Total liabilities	–	–	–	–	–	38,003,602	38,003,602	
Equity	–	–	–	–	–	3,168,993	3,168,993	
Total liabilities and equity	–	–	–	–	–	41,172,595	41,172,595	
On-balance sheet yield/profit sensitivity gap	58,317	28,322	260,135	1,880,408	4,653,645	(6,880,827)	–	
Total yield/profit sensitivity gap	58,317	28,322	260,135	1,880,408	4,653,645	(6,880,827)	–	

43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(k) Yield/profit rate risk (cont'd.)

Company 2017	Up To 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	–	–	–	–	–	6,729,248	6,729,248	
Deposits and placements with financial institutions	–	–	–	–	–	51,065	51,065	3.25
Financing:								
– non-impaired	58,317	28,322	260,135	1,880,408	4,653,645	21,356,292	28,237,119	6.82
– impaired	–	–	–	–	–	316,711	316,711	
Sukuk Commodity Murabahah	–	–	–	–	–	3,245,851	3,245,851	
Other receivables	–	–	–	–	–	2,280,076	2,280,076	
Financial investments available-for-sale	–	–	–	–	–	3,171,913	3,171,913	4.02
Financial assets held-for-sale	–	–	–	–	–	8,734	8,734	
Total assets	58,317	28,322	260,135	1,880,408	4,653,645	37,159,890	44,040,717	
Liabilities								
Deposits from customers	–	–	–	–	–	31,940,055	31,940,055	3.94
Recourse obligation on financing sold	–	–	–	–	–	1,269,652	1,269,652	
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,287,877	2,287,877	4.83
Amount due to SPV	–	–	–	–	–	2,891,912	2,891,912	
Other liabilities	–	–	–	–	–	2,764,523	2,764,523	
Total liabilities	–	–	–	–	–	41,154,019	41,154,019	
Equity	–	–	–	–	–	2,886,698	2,886,698	
Total liabilities and equity	–	–	–	–	–	44,040,717	44,040,717	
On-balance sheet yield/profit sensitivity gap	58,317	28,322	260,135	1,880,408	4,653,645	(6,880,827)	–	
Total yield/profit sensitivity gap	58,317	28,322	260,135	1,880,408	4,653,645	(6,880,827)	–	

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43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(k) Yield/profit rate risk (cont'd.)

Group 2016	Up To 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	–	–	–	–	–	4,398,300	4,398,300	
Deposits and placements with financial institutions	–	–	–	–	–	763,329	763,329	3.39
Financing:								
– non-impaired	21,742	35,716	78,271	1,568,103	3,649,785	22,235,289	27,588,906	7.14
– impaired	–	–	–	–	–	518,032	518,032	
Other receivables	–	–	–	–	–	262,532	262,532	
Financial investments available-for-sale	–	–	–	–	–	2,364,750	2,364,750	
Total assets	21,742	35,716	78,271	1,568,103	3,649,785	30,542,232	35,895,849	
Liabilities								
Deposits from customers	–	–	–	–	–	24,149,761	24,149,761	
Recourse obligation on financing sold	–	–	–	–	–	1,385,248	1,385,248	
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,615,807	2,615,807	
Other liabilities	–	–	–	–	–	5,081,968	5,081,968	
Total liabilities	–	–	–	–	–	33,232,784	33,232,784	
Equity	–	–	–	–	–	2,663,065	2,663,065	
Total liabilities and equity	–	–	–	–	–	35,895,849	35,895,849	
On-balance sheet yield/profit sensitivity gap	21,742	35,716	78,271	1,568,103	3,649,785	(5,353,617)	–	
Total yield/profit sensitivity gap	21,742	35,716	78,271	1,568,103	3,649,785	(5,353,617)	–	

43. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(k) Yield/profit rate risk (cont'd.)

Company 2016	Up To 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Non-yield/ profit rate sensitive RM'000	Total RM'000	Average yield/profit rate % per annum
Assets								
Cash and short-term funds	–	–	–	–	–	4,394,353	4,394,353	
Deposits and placements with financial institutions	–	–	–	–	–	149,457	149,457	3.46
Financing:								
– non-impaired	21,742	35,716	78,271	1,568,103	3,649,785	22,235,289	27,588,906	7.14
– impaired	–	–	–	–	–	518,032	518,032	
Sukuk Commodity Murabahah	–	–	–	–	–	3,577,143	3,577,143	
Other receivables	–	–	–	–	–	549,414	549,414	
Financial investments available-for-sale	–	–	–	–	–	2,364,750	2,364,750	
Total assets	21,742	35,716	78,271	1,568,103	3,649,785	33,788,438	39,142,055	
Liabilities								
Deposits from customers	–	–	–	–	–	24,149,761	24,149,761	
Recourse obligation on financing sold	–	–	–	–	–	1,385,248	1,385,248	
Sukuk – MBSB SC Murabahah	–	–	–	–	–	2,615,807	2,615,807	
Amount due to SPV	–	–	–	–	–	3,193,633	3,193,633	
Other liabilities	–	–	–	–	–	5,081,438	5,081,438	
Total liabilities	–	–	–	–	–	36,425,887	36,425,887	
Equity	–	–	–	–	–	2,716,168	2,716,168	
Total liabilities and equity	–	–	–	–	–	39,142,055	39,142,055	
On-balance sheet yield/profit sensitivity gap	21,742	35,716	78,271	1,568,103	3,649,785	(5,353,617)	–	
Total yield/profit sensitivity gap	21,742	35,716	78,271	1,568,103	3,649,785	(5,353,617)	–	

NOTES TO THE FINANCIAL STATEMENTS
– 31 December 2017

44. SIGNIFICANT EVENTS

(a) Acquisition of Asian Finance Bank Berhad ("AFB")

On 21 December 2016, the Company announced that Bank Negara Malaysia ("BNM") had vide its letter on the same date, informed the Company that it has no objection-in-principle for the Company to commence negotiations with the shareholders of AFB namely, Qatar Islamic Bank, Financial Assets Bahrain W.L.L, RUSD Investment Bank Inc and Tadhamon International Islamic Bank (collectively, the "Vendors") for the proposed merger of MBSB and Asian Finance Bank Berhad ("AFB") ("BNM Letter"). BNM had, in its letter stipulated a deadline of six (6) months from the date of the BNM Letter for the Company to complete negotiations for the proposed merger of MBSB and AFB.

On 19 June 2017, the Board of Directors ("Board") announced that the Company had on the same date, submitted an application to BNM within the stipulated timeframe, to seek the approvals of BNM and/or the Ministry of Finance, Malaysia ("MOF") for the proposed merger of MBSB and AFB. On 18 August 2017, the Board annouced that the MOF (through BNM), had vide BNM's letter dated 18 August 2017 granted its approval to the Company for the proposed acquisition by MBSB of 100% equity interest in AFB ("MOF/BNM Approval")

On 6 November 2017, RHB Investment Bank Berhad ("RHB Invest") and AmInvestment Bank Berhad ("AM Invest") on behalf of the Board, announced that the Company had on the same date entered into the conditional share purchase agreement with the Vendors, for the proposed acquisition by the Company of the entire equity interest in AFB from the Vendors 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 new ordinary shares of the Company ("Consideration Shares(s)") at an issue price of RM1.10 per Consideration Share ("Announcement").

On 20 December 2017, RHB Investment Bank and AmInvestment Bank had on behalf of the Board, announced that the High Court had granted an order for the convening of the court convened meeting ("CCM") for the purpose of considering and, if thought fit, approving a scheme of arrangement, as per the terms of Circular/Explanatory Statement.

On 28 December 2017, RHB Investment Bank and AmInvestment Bank had, on behalf of the Board, announced that Bursa Securities had vide its letter dated 28 December 2017, approved the listing of and quotation for 225,507,974 Consideration Shares on the Main Market of Bursa Securities, subject to the conditions as set out in Section 8(i)(d) of the Circular and Explanatory Statement (Pursuant to Section 369 of the Companies Act, 2016).

44. SIGNIFICANT EVENTS (CONT'D.)

(b) New Companies Act 2016 ("New Act")

Companies Act 2016 ("CA 2016") was enacted to replace Companies Act 1965 ("CA 1965"), and all of the provisions in CA 2016 other than Section 241 and Division 8 of Part III came into operations on 31 January 2017.

Amongst others, CA 2016 abolished the concept of par or nominal value of shares that was applied under CA 1965. Concepts tied to par value under CA 1965, such as authorised share capital, share premium and capital redemption reserve have similarly been abolished. Accordingly, the Group and the Company is no longer required to maintain a share premium account from 31 January 2017, and any amount standing to the credit of the share premium account as of that date has become part of the Company's share capital, as presented in the statement of changes in equity.

In addition, the disclosure requirements under the Ninth Schedule of CA 1965 have also been removed upon the commencement of CA 2016. This change is applicable to all financial statements for the financial year ending on or after 31 January 2017. Nevertheless, this change will not result in any significant impact to the financial statements of the Group and the Company for the financial year ended 31 December 2017 as a majority of the disclosure requirements under the Ninth Schedule of CA 1965 are also required by the applicable approved accounting standards.

ANALYSIS OF SHAREHOLDINGS

As at 30 March 2018

Total number of Issued Shares	:	6,149,933,174 Ordinary Shares
Class of Shares	:	Ordinary Shares
Voting Rights	:	One Vote per Ordinary Share

ANALYSIS OF ORDINARY SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
1 – 99	927	3.061	27,681	0.000
100 – 1,000	4,779	15.781	4,102,742	0.066
1,001 – 10,000	14,094	46.540	71,588,698	1.164
10,001 – 100,000	8,893	29.366	275,636,850	4.481
100,001 – 307,496,657	1,589	5.247	1,914,498,235	31.130
307,496,658 and Above	1	0.003	3,884,078,968	63.156
TOTAL	30,283	100.00	6,149,933,174	100.00

DIRECTORS' DIRECT AND INDIRECT INTERESTS IN SHARES IN THE COMPANY

	Direct Interest		Indirect Interest		Total Shareholdings	
Name	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
Tan Sri Abdul Halim bin Ali	238,667	0.004	–	–	238,667	0.004

Note:
Tan Sri Abdul Halim bin Ali, by virtue of his total direct interests of 238,667 shares in MBSB, is deemed interested in the shares in all MBSB's subsidiaries to the extend that MBSB has interest.

GROUP PRESIDENT AND CHIEF EXECUTIVE OFFICERS' DIRECT AND INDIRECT INTERESTS IN SHARES IN THE COMPANY

	Direct Interest		Indirect Interest		Total Shareholdings	
Name	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
Datuk Seri Ahmad Zaini bin Othman	510,000	0.008	–	–	510,000	0.008

Note:
Datuk Seri Ahmad Zaini bin Othman, by virtue of his total direct interests of 510,000 shares in MBSB, is deemed interested in the shares in all MBSB's subsidiaries to the extend that MBSB has interest

SUBSTANTIAL SHAREHOLDERS

Name	No. of Shares Held	% of Issued Shares
Employees Provident Fund Board	3,884,078,968	63.156
Tan Sri Dato' Chua Ma Yu	519,863,650	8.453

Note:

(1) *Total direct interest of EPF held under Citigroup Nominees (Tempatan) Sdn Bhd*

(2) *Total direct interest of Tan Sri Dato' Chua Ma Yu held under Cimsec Nominees (Tempatan) Sdn Bhd exempt an for CIMB Securities (Singapore) Pte Ltd (Retail Clients) and Maybank Securities Nominees (Tempatan) Sdn Bhd*

(3) *Total indirect interest of Tan Sri Dato' Chua Ma Yu held under Maybank Securities Nominees (Asing) Sdn Bhd, Maybank Kim Eng Securities Pte Ltd for CMY Global Ltd., Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for CMY Incubator Sdn Bhd, CMY Equity Sdn Bhd and CMY Capital Markets Sdn Bhd*

THIRTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	% of Shares
1.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	3,884,078,968	63.156
2.	CIMSEC NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR CIMB SECURITIES (SINGAPORE) PTE LTD (RETAIL CLIENTS)	183,379,900	2.981
3.	MAYBANK SECURITIES NOMINEES (ASING) SDN BHD MAYBANK KIM ENG SECURITIES PTE LTD FOR CMY GLOBAL LTD	130,452,400	2.121
4.	RHB NOMINEES (ASING) SDN BHD RUSD INVESTMENT BANK INC.	112,753,988	1.833
5.	AMSEC NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TADHAMON CAPITAL B S C CLOSED	112,753,986	1.833
6.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HAWANG KIM LIAN	109,358,295	1.778
7.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY INCUBATOR SDN BHD	91,566,350	1.488
8.	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD YAYASAN HASANAH (AUR-VCAM)	74,977,815	1.219
9.	PERMODALAN NASIONAL BERHAD	67,022,652	1.089
10.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY EQUITY SDN BHD	45,500,000	0.739
11.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY CAPITAL MARKETS SDN BHD	34,000,000	0.552
12.	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FONG SILING (CEB)	33,800,000	0.549
13.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	31,362,600	0.509
14.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEAN SIEW SEE	30,799,100	0.500
15.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	25,734,994	0.418

ANALYSIS OF SHAREHOLDINGS

As at 30 March 2018

THIRTY LARGEST SHAREHOLDERS (CONT'D.)

No.	Name	No. of Shares	% of Shares
16.	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD CIMB BANK BERHAD (EDP 2)	21,772,588	0.354
17.	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR CHUNG CHEE YANG (CHU0328C)	20,625,066	0.335
18.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (VCAM EQUITY FD)	20,000,000	0.325
19.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUA MA YU	20,000,000	0.325
20.	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	16,417,875	0.266
21.	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	16,274,650	0.264
22.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUA MA YU	15,000,000	0.243
23.	B-OK SDN BHD	13,607,160	0.221
24.	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DIMENSIONAL EMERGING MARKETS VALUE FUND	10,688,736	0.173
25.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HENG TENG KUANG	8,658,045	0.140
26.	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	7,911,263	0.128
27.	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND ZVY5 FOR STATE STREET EMERGING MARKETS SMALL CAP ACTIVE NON-LENDING QIB COMMON TRUST FUND	7,262,230	0.118
28.	POSEIDON SENDIRIAN BERHAD	7,172,397	0.116
29.	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAIN LEW LOI	6,792,300	0.110
30.	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN KIM HEUNG	6,266,407	0.101
	TOTAL SHAREHOLDING OF THE THIRTY LARGEST SHAREHOLDERS	**5,165,989,765**	**83.984**

SCHEDULE OF PROPERTIES

No.	Location	Tenure	No. of years	Expiry Date	Land Area (Sq. Metres)	Description	Ages of Building (Years)	Book Value (RM'000)
1.	Lot 31632, 31633 and 31634 PM No. 416, 417 and 418, Bukit Raja. Mukim of Kapar, District of Klang, Selangor.	Leasehold	99	08.05.2093	42,208.89	Vacant Land	Nil	102,163
2.	Lot 353, PN 7164, Kawasan Bandar VIII, District of Melaka Tengah.	Leasehold	99	29.08.2074	7,048.10	Hotel	19	46,411
3.	A) Lot No. 3077 Title Pajakan Negeri No. 32340, Mukim Pegoh, Alor Gajah, Melaka (Phase 2C, A'Famosa Resort). B) 65 undeveloped detached house plots of land, Part of Phase 12, A'Famosa Resort Malaysia, Jalan Kemus, Simpang Ampat, Melaka. C) 62 undeveloped detached house plots of land, Part of Phase 8, A'Famosa Resort Malaysia, Jalan Kemus, Simpang Ampat, Melaka.	Leasehold	99	18.12.2094	161,106.01	Vacant Land	Nil	35,739
4.	3 agricultural lots and 246 building lots, Mukim of Linggi, District of Port Dickson, Negeri Sembilan.	Leasehold	60 (3 lots) 99 (246 lots)	22.12.2046 08.11.2094	2,155,202.84	Vacant Land	Nil	34,961
5.	No. 48, Jalan Dungun, Damansara Heights, Kuala Lumpur.	Freehold	Nil	Nil	1,595.28	Office Building	30	28,071
6.	Lot No. 2402 PN 28760 Port Dickson, Negeri Sembilan (No. 325, Batu 1, Jalan Rumah Rehat. Port Dickson).	Leasehold	99	06.10.2095	6,042.00	Hotel	20	18,092
7.	8 units of completed shop office at Butterworth – Lot 2622, 2651, 2624, 2653, 2654, 2625, 2676, 2674, 2626, 2655, 2628, 2657, 2629, 2658.	Freehold	Nil	Nil	1,040.00	Shop Office	2	12,560
8.	Lot 328 Geran 1901 Pekan Klebang Seksyen III, Melaka.	Freehold	Nil	Nil	13,557.02	Vacant Land	Nil	5,223
9.	Lot 1755 PN No. 39370, Mukim of Bukit Katil, District of Melaka Tengah, Melaka.	Leasehold	99	15.07.2095	43,137.00	Vacant Land	Nil	4,640
10.	56 Vacant industrial lots located in Mukim of Taboh Naning, Alor Gajah, Melaka.	Freehold	Nil	Nil	274,782.68	Vacant Land	Nil	4,630

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 48th ANNUAL GENERAL MEETING ("AGM") of the Company will be held at **Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia** on **Monday, 25 June 2018** at **10.00 a.m.** for the following purposes:

ORDINARY BUSINESS:

1. To receive the Audited Financial Statements of the Company and of the Group for the year ended 31 December 2017 and Reports of the Directors and Auditors thereon. **(Please refer to Explanatory Note 1)**
2. To declare a Single-Tier Final Dividend of 5.0 sen per ordinary share for the financial year ended 31 December 2017. **Ordinary Resolution 1**
3. To approve payment of Directors' Fees amounting to RM1,363,333 for the financial year ended 31 December 2017. **Ordinary Resolution 2**
4. To approve payment of benefits (excluding Directors' Fees) payable to Non-Executive Directors from the date of this AGM until the next AGM of the Company in 2019. **Ordinary Resolution 3**
5. To re-elect Datuk Shahril Ridza bin Ridzuan who retire in accordance with Article 86 of the Company's Constitution and who being eligible offer himself for re-election. **Ordinary Resolution 4**
6. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. **Ordinary Resolution 5**

SPECIAL BUSINESS:

To consider and if thought fit, to pass the following resolutions:-

7. **Authority to allot and issue shares** **Ordinary Resolution 6**

   "THAT subject always to the Companies Act, 2016 ("the Act"), the Constitution of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and the approvals of the relevant government/regulatory authorities, where such approval is required, the Directors be and are hereby authorised and empowered pursuant to Section 75 of the Act, to allot and issue shares in the Company to such persons, at any time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed 10% of the total number of issued shares of the Company for the time being AND THAT the Directors be also empowered to obtain the approval from the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad AND THAT such authority shall continue in force until the conclusion of the next AGM of the Company".

8. **Allotment and issuance of new Ordinary Shares in MBSB ("MBSB Shares") in relation to the Dividend Reinvestment Plan that allows shareholders of MBSB ("Shareholders") to reinvest their dividend to which the dividend reinvestment plan applies, in new MBSB Shares ("Dividend Reinvestment Plan").** **Ordinary Resolution 7**

"THAT pursuant to the Dividend Reinvestment Plan as approved by the Shareholders at the Extraordinary General Meeting held on 10 December 2013, approval be and is hereby given to the Company to allot and issue such number of new MBSB Shares from time to time as may be required to be allotted and issued pursuant to the Dividend Reinvestment Plan until the conclusion of the next Annual General Meeting upon such terms and conditions and to such persons as the Directors, may in their absolute discretion, deem fit and in the interest of the Company PROVIDED:-

i. THAT the issue price of the said new MBSB Shares shall be fixed by the Directors at a discount of not more than ten percent (10%) to the five (5)-day volume weighted average price ("VWAP") of MBSB Shares immediately prior to the price-fixing date, of which the VWAP shall be adjusted ex-dividend before applying the aforementioned discount in fixing the issue price.

AND THAT the Directors of the Company be and are hereby authorised to do all such acts and enter into all such transactions, arrangements and documents as may be necessary or expedient in order to give effect to the Dividend Reinvestment Plan with full power to assent to any conditions, modifications, variations and/or amendments to the terms of the Dividend Reinvestment Plan as the Directors may deem fit, necessary and/or expedient in the best interest of the Company or as may be imposed or agreed to by any relevant authorities or consequent upon the implementation of the said conditions, modifications, variations and/or amendments and to take all steps as it considers necessary in connection with the Dividend Reinvestment Plan."

9. To transact any other ordinary business of which due notice shall have been given.

BY ORDER OF THE BOARD

KOH AI HOON (MAICSA 7006997)
TONG LEE MEE (MAICSA 7053445)
Company Secretaries

Kuala Lumpur
30 April 2018

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:-

1. **Item 1 of the Agenda**

   This Agenda is meant for discussion only, as the provision of Section 340(1)(a) of the Companies Act, 2016 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda item is not put forward for voting.

2. **Item 3 of the Agenda**

   The details of the Directors fees for financial year ended 31 December 2017 are as follows:-

Board members	Total
YBhg Tan Sri Abdul Halim bin Ali	170,000
Datuk Syed Zaid bin Syed Jaffar Albar	125,000
Encik Aw Hong Boo	165,000
Dato' Jasmy bin Ismail	165,000
Encik Lim Tian Huat	165,000
Datuk Shahril Ridza Ridzuan	125,000
Encik Moslim bin Othman	120,000
Encik Sazaliza Zainuddin	100,000
Datuk Johar bin Che Mat	95,000
Puan Lynette Yeow Su-Yin	95,000
Tunku Alina Binti Raja Muhd Alias	38,333

3. **Item 4 of the Agenda**

   The details of the Directors Allowances are as follows:-

Board Meeting Allowance	RM3,000.00 per meeting
General Meeting Allowance	RM3,000.00 per meeting
Board Committee Meeting Allowance	RM2,000.00 per meeting
Any other meeting allowances (where the Directors are invited to attend)	RM2,000.00 per meeting
Chairman's Car allowance	RM10,000.00 per month
Other benefits	medical coverage, travel, communication and other claimable benefits

Note:

(a) The meeting allowances will be paid to the NEDs after the conclusion of each meeting.

(b) The benefits payable to the NEDs comprise allowances and other emoluments payable to the Chairman and member of the Board, Board of Subsidiaries and Board Committees.

(c) The total amount of benefits payable to the NEDs is estimated up to RM1,926,000 from date of this AGM until the next AGM in 2019 based on the estimated number of 144 meetings.

4. **Item 7 of the Agenda**

   The proposed Ordinary Resolution 6, if passed, will give powers to the Directors to allot and issue new ordinary shares in the capital of the Company up to an aggregate amount not exceeding 10% of the paid-up share capital of the Company for the time being without having to convene a general meeting. This authority, unless revoked or varied at a general meeting, will expire at the next AGM.

   The purpose of the proposed mandate from shareholders is to provide MBSB the flexibility to undertake any share issuance during the financial year that is not material in nature under exceptional circumstances i.e. in the event that any capital management requirement to meet the prudential compliance capital leverage ratio or strategic opportunities involving equity deals which may require the Company to allot and issue new shares on urgent basis and which is only to be undertaken if the Board considers it to be in the best interest of the Company.

5. **Item 8 of the Agenda**

   Dividend Reinvestment Plan ("DRP") is a capital management tool that would strengthen the Company's capital position. The reinvestment of dividend entitlements by shareholders for new Company shares will enlarge the Company's share capital and strengthen its capital position for future growth. Under the DRP, the cash that would otherwise be paid out by way of dividend will be preserved to fund the working capital and/or capital funding requirements of the Group and the Company.

The proposed Ordinary Resolution 7, if passed, will empower the Directors of the Company to issue new ordinary shares pursuant to the terms and conditions of the Company's DRP which are contained in the DRP Statement set out in Appendix I to the Circular to Shareholder dated 25 November 2013 (as may be amended in accordance with the provisions of the said DRP).

The authority conferred by such renewed mandate/authority will be effective from the date of the forthcoming AGM and unless revoked or varied at a general meeting, will expire at the next AGM.

NOTES:-

1. For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 18 June 2018. Only a depositor whose name appears on the Record of Depositors as at 18 June 2018 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.

2. A member shall be entitled to appoint another person as his proxy. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to attend, participate, speak and vote at the meeting.

3. In the case of a corporate body, the proxy appointed must be in accordance with its constitution, if any, and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney duly authorised.

4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.

5. Where a member of the company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

6. To be valid, the duly completed instrument appointing a proxy must be deposited at the Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.27(2) of The Main Market Listing Requirements of Bursa Malaysia Securities Berhad

1. Datuk Shahril Ridza bin Ridzuan is standing for re-election at the 48th Annual General Meeting of the Company to be held Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Monday, 25 June 2018 at 10.00 a.m.

2. The details of Datuk Shahril Ridza bin Ridzuan who is standing for re-election at the 48th Annual General Meeting are disclosed under the Directors' Profile on page 16 of this Annual Report.

PROXY FORM

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

I/We ______________________________ NRIC No. ______________________

Tel No. ______________ of ____

______________________ being a member/members of MALAYSIA BUILDING SOCIETY BERHAD hereby appoint

____ NRIC No. ______________________

of ____

or failing him ________________________________ NRIC No. ______________________

of ____

or failing him, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at **Grand Nexus, Level 3A, Connexion Conference & Event Centre @ Nexus, Bangsar South City, No. 7 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia** on **Monday, 25 June 2018** at **10.00 a.m.** and at any adjournment thereof.

My/Our proxy to vote as indicated hereunder.

No.	Resolutions	For	Against
	Ordinary Business:-		
1.	To declare a Single-Tier Final Dividend of 5.0 sen per ordinary share for the financial year ended 31 December 2017. **Ordinary Resolution 1**		
2.	To approve payment of Directors' Fees amounting to RM1,363,333 for the financial year ended 31 December 2017. **Ordinary Resolution 2**		
3.	To approve payment of benefits (excluding Directors' Fees) payable to Non-Executive Directors from the date of this AGM until the next AGM of the Company in 2019. **Ordinary Resolution 3**		
4.	To re-elect Datuk Shahril Ridza bin Ridzuan who retire in accordance with Article 86 of the Company's Constitution and who being eligible offer himself for re-election. **Ordinary Resolution 4**		
5.	To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. **Ordinary Resolution 5**		
	Special Business:-		
6.	Authority to allot and issue shares. **Ordinary Resolution 6**		
7.	To allot and issue shares in relation to the Dividend Reinvestment Plan. **Ordinary Resolution 7**		

CDS Account No.	
Number of Shares Held	

Date : ______________________ Signed ______________________

in the presence of: ______________________

Notes:

1. For the purpose of determining a member who shall be entitled to attend this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd in accordance with Article 58A(2) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991, to issue a General Meeting Record of Depositors as at 18 June 2018. Only a depositor whose name appears on the Record of Depositors as at 18 June 2018 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.
2. A member shall be entitled to appoint another person as his proxy. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to attend, participate, speak and vote at the meeting.
3. In the case of a corporate body, the proxy appointed must be in accordance with its constitution, if any, and the instrument appointing a proxy shall be given under the company's common seal or under the hand of an officer or attorney duly authorised.
4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy.
5. Where a member of the company is an exempt authorised nominee which holds ordinary shares in the company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
6. To be valid, the duly completed instrument appointing a proxy must be deposited at the Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof.

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The Share Registrar

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

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www.mbsb.com.my

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