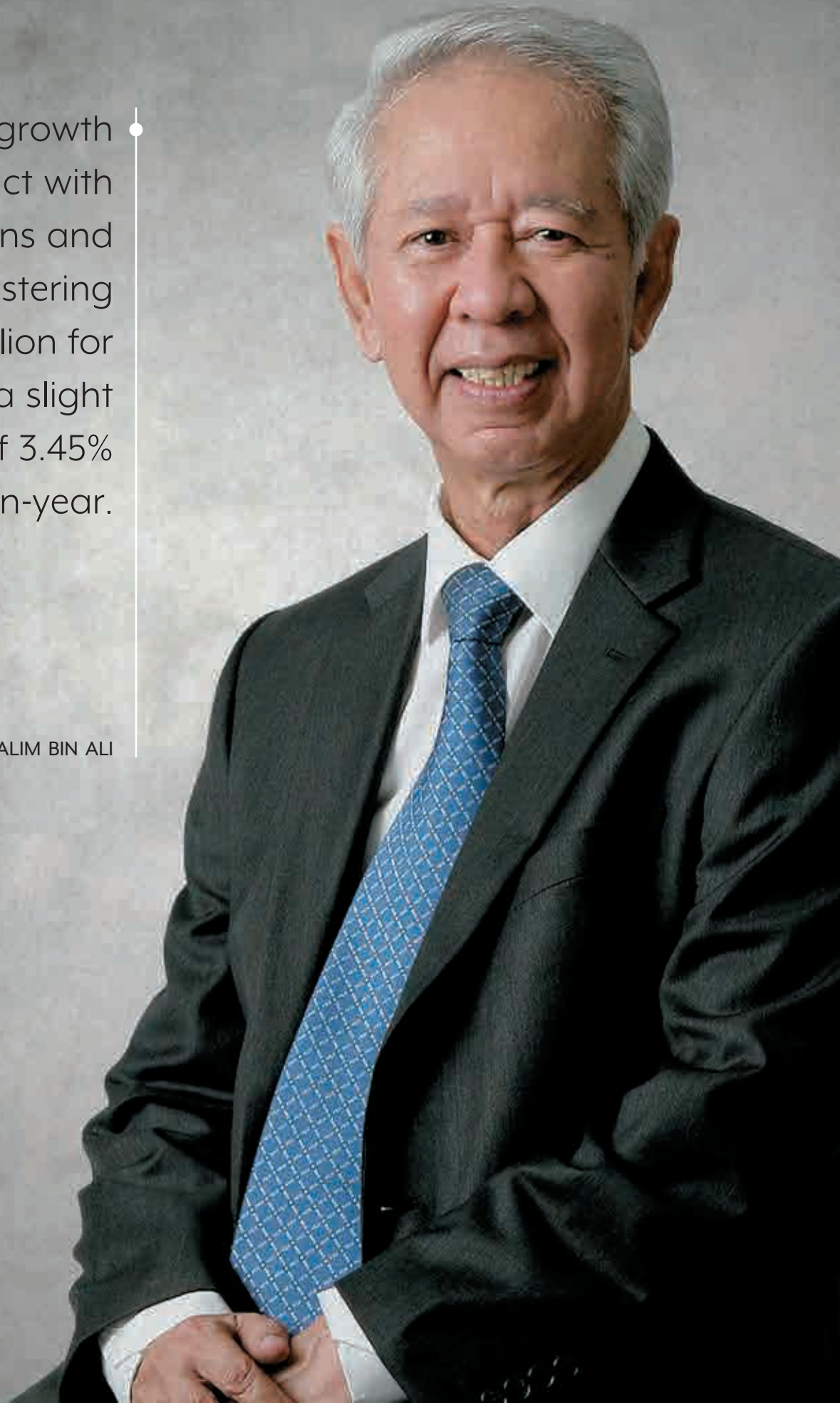


Business growth remained intact with gross loans and financing registering at RM35.28 billion for the FYE 2016 a slight growth of 3.45% year-on-year.

TAN SRI ABDUL HALIM BIN ALI



CHAIRMAN'S REVIEW



Dear Shareholders

On behalf of the Board of Directors (Board) of Malaysia Building Society Berhad (MBSB), I am pleased to present the Annual Report and Audited Financial Statements (Annual Report) for the twelve (12) months of financial year ended 31 December 2016 (FYE 2016).

CHAIRMAN'S REVIEW

OVERALL BUSINESS ENVIRONMENT

The year 2016 was another challenging year in wake of the unsettled economic and political strains both globally and domestically. Given the uncertainties, it has been an arduous operating environment for MBSB. Margins remains under pressure coupled with increasing regulatory requirements and strained operating costs.

Notwithstanding these challenges, MBSB continue to persevere. Business growth remained intact with gross loans and financing registering at RM35.28 billion for the FYE 2016 a slight growth of 3.45% year-on-year. A profit before tax of RM338.42 million was achieved for the FYE 2016 against a profit before tax of RM355.03 million which was achieved in the previous financial year. The slight variance of 4.68% or RM16.61 million was due to the higher allowances for impairment losses on loans, advances and financing.

In July 2016, MBSB successfully raised RM1.71 billion via a 2 Call Rights Issue exercise in line with our strategy to strengthen our core capital and to increase the leverage ratio to at least 12.5% in compliance with Bank Negara Malaysia's ("BNM") requirement. The 2 Call Rights Issue was oversubscribed by 9.13%, reflecting our shareholder's confidence in MBSB's future prospects.


GROSS LOANS AND FINANCING
RM35.28 BILLION
GROWTH OF 3.45% YEAR-ON-YEAR

Although MBSB had on 2 February 2016, announced the termination of the discussions with DRB-HICOM Berhad and Khazanah Nasional Berhad for the proposed merger with Bank Muamalat Malaysia Berhad, the Management continue to pursue options to enable MBSB to expand beyond the current operating model.

On 21 December 2016, MBSB announced that consent was obtained from BNM, to commence negotiations with the shareholders of Asian Finance Bank Berhad ("AFB") for the proposed merger of MBSB and AFB. BNM had given MBSB a period of 6 months from 21 December 2016 to complete the negotiations. Negotiations are currently on-going and the outcome would be announced accordingly.

OUTLOOK

Irrespective of the outcome of the negotiations, going forward, we expect the year to remain challenging. The global economic environment is expected to be more constrained, directly impacting the Malaysian economy. A 4.5% growth in GDP is expected in view of current forecasts of fluctuations in crude oil prices, volatile Malaysian Ringgit against currencies of Malaysia's major trading partners and increase in the cost of living.

Total loans growth is anticipated to slow down further this year, due to weaker consumer sentiments.

Amidst these concerns, we plan to implement MBSB Business Plan for 2017 which will be more selective in certain segments in order to achieve sustainable and healthy asset growth. We will also enhance risk and compliance frameworks further and make improvements in operational efficiency. These efforts are important to preserve the Company's value in view of the demanding environment.

The Board has proposed that a final single tier dividend of 3% amounting to approximately RM173.96 million to be paid, subject to the shareholders' approval at the forthcoming Annual General Meeting.

AWARDS AND RECOGNITIONS

We are proud that our commitment to continuously deliver value to all stakeholders received stellar recognitions. In 2016, MBSB was credited with several awards and accolades. They include;

- 3rd IBFIM Certifications Awards Ceremony for IBFIM's Islamic Finance Talent Development
- HR Asia Awards Best Companies to Work For in Asia 2016
- The Alpha Southeast Asia 10th Annual Best Deal & Solution Awards for Best Secondary Deal of The Year 2016 in South East Asia
- Malaysia HR Awards 2016 for Employer of Choice, Bronze Award

ACKNOWLEDGEMENT

Before I conclude, I would like, on behalf of our Board, take this opportunity, extend our sincere appreciation to all our shareholders, customers and business partners for their continued confidence and support extended to MBSB.

I would also like to take this opportunity to thank Cik Ravinder Kaur for her services as Board member and also Dr. Sa'adan bin Man for his Shariah Advisory Committee member, throughout their tenure with MBSB.

I also extend a warm welcome to Encik Sazaliza bin Zainuddin, Datuk Johar bin Che Mat and Puan Lynette Yeow Su-Yin who have just joined MBSB in 2017. Their experience in their own areas of expertise will greatly benefit MBSB as we progress towards the aspiration to move beyond the current operating environment and **Propelling MBSB Further and Beyond... Solidifying the Future.**

Further, my deepest gratitude also goes to my fellow Board members, the Shariah Advisory Committee and our dedicated management and employees who have continuously remained steadfast in taking MBSB to greater heights.

Thank you.

Tan Sri Abdul Halim bin Ali
Chairman

22 March 2017





- MBSB has progressed significantly over the last eight years when it began its ambitious transformation program and having arrived at the present state, it would now need to strongly leverage on what it has achieved to create a solid industry position and a stronger future.

DATUK SERI AHMAD ZAINI BIN OTHMAN

PRESIDENT AND CEO'S MESSAGE, MANAGEMENT DISCUSSION & ANALYSIS

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OVERALL REVIEW

The year 2016 was globally another year fraught with heightened economic uncertainties and this has had an effect on the country, hampering growth across most industries. The unfavourable conditions were further exacerbated with the decline of the Malaysian Ringgit, at one time reaching the lowest of RM4.50 against the USD. Hence amidst this backdrop, the poor growth trend of the local banking industry persisted and hit another low of 5.3% for year 2016.

PRESIDENT AND CEO'S MESSAGE, MANAGEMENT DISCUSSION & ANALYSIS

Having anticipated these gloomy prospects, we decided to tread the period with great prudence by undertaking selective business growth, increasing funding levels to further strengthen liquidity and ensuring an efficient cost management. Our aspiration to emplace MBSB on a banking platform did not waver despite the aborted negotiations for a proposed merger with Bank Muamalat Malaysia Berhad. Instead, closing the gap initiatives were resumed to advance the company's level of banking readiness.

Selective business expansion was made possible as the Government continued to roll out key infrastructure projects allowing us to secure financing for the awarded contracts. The infrastructure rollouts helped to offset a decline in property construction, enabling ample opportunities and stable industry financing growth of 7.0% in 2016 from 7.6% in 2015. The display of such commitment and steadfastness by the

Government is certainly welcomed and appreciated as it directly contributes to the country's economic growth. Due to this, we made deeper market penetration in the space of the affordable housing. We strengthened our relationship with a few Federal and State Government implementing agencies by financing their appointed developers. As a result, we have granted financing approvals for affordable housing development amounting to more than RM2.0 billion.

Meanwhile, our relatively young venture in the SME market through equipment financing business has produced a significant outcome last year as new markets were established in the Northern and Southern regions. Evidently last year was another period that asset growth was delivered by the corporate segment as we had foreseen the lacklustre mood in retail.

Though retail growth had lagged behind corporate, new acquisitions were made based on enhanced risk parameters to preserve asset quality. We had also adopted more effective monitoring and preventive strategies to manage our retail accounts. The early care approach was an important aspect to detect initial warning signs before deterioration could occur. Concurrently, our impairment program entered a second year last financial period as we maintained our commitment to complete the three-year program regardless of conditions in the operating environment.

The move to further strengthen funding program materialised with a capital raising exercise undertaken in June 2016 of RM1.7 billion. This has helped us to meet prudential requirements as well as business expansion needs. Consequently, the shareholders' funds rose to a level of RM6.72 billion as at 31 December 2016, a relatively strong position

for a small-sized financial institution. Funding through deposit has also increased by 7.1% as new depositors were acquired despite the intense competition.

We took actions in recent years to rigorously monitor our operating costs as managing costs of funds became a persistent challenge and affected the interest and profit income. In relation to this and as a result of viability concerns too, we had reviewed the branch network and undertook a rationalisation exercise. This includes relocation and closure of certain Sales and Service Centres (SSC) to ensure we maintain a profitable and efficient network. Nonetheless, we ensured a seamless process was emplaced so as not to compromise our customer service level.

Overall, MBSB has managed to successfully weather another demanding year by accomplishing its targeted plans which include the impairment program. It was imperative that we navigate well in an increasingly tough environment to sustain profitability level.

ECONOMIC REVIEW

As with most countries in the region, the Malaysian economy had also faced challenges domestically as well as abroad during the year 2016. Poor sentiments amongst consumers persisted as they were confronted with higher costs of living, employment uncertainties and a volatile Ringgit Malaysia currency. This was marked with protracted weak retail sales growth estimated at 3.0% for 2016 and 2.0% for 2015. There was also a decline in property transactions as consumers continued to hold back on investments and spending. Accordingly, the banking industry's growth weakened to 5.3% in 2016 from 7.9% in 2015 which is the slowest pace since 2003.

Meanwhile, crude oil prices had also dropped to as low as USD30 per barrel requiring the Government to recalibrate its Budget 2016. Fortunately OPEC reached an agreement to curtail oil output and

rebalance the global crude oil prices in November 2016. Subsequently early this year we had seen a price improvement to USD50 per barrel.

The volatility in the Malaysian Ringgit had also worsened conditions as the currency deteriorated significantly against the USD and other major currencies. This volatility was partly attributable to the US Federal Reserve rate hike and subsequent expectations of increases which caused outflows of foreign funds from emerging markets including Malaysia. There had been disposals of Government's bonds and local equities and volatility may remain with the high foreign shareholdings.

Changes to the US political scene have also triggered uncertainties globally and caused great reservations as the new administration sent messages of anti-trade policies and seemed to be in favour of protectionism dogma. The first casualty was the US' immediate withdrawal from Trans-Pacific Partnership which Malaysia is a part of and this was a considerable setback to the countries involved as significant progress has been achieved in the 10 years spent to conclude the trade agreement.



Any business entity irrespective of size would be striving to overcome most of these challenges last year. Thankfully the Government had played a substantial role in cushioning some of this impact by initiating and driving various fiscal measures particularly in the construction industry to boost the overall economy. The financing to the construction sector increased by 7.0% in 2016 with sizeable pipelines of rail and highway infrastructure projects to be embarked on this year onwards.

Additionally, noteworthy development projects in the property sector are being driven by Government-linked companies which include Bandar Malaysia, KL 118 and KWASA Damansara. Other key thrusts such



PRESIDENT AND CEO'S MESSAGE, MANAGEMENT DISCUSSION & ANALYSIS

as PRIMA and Projek Perumahan Penjawat Awam 1Malaysia (PPAIM) that focus on affordable housing continued to gain momentum providing immense business opportunities to MBSB. For year 2016, while transactions in the property segment have declined by 12% and 19% in terms of volume and value respectively, we believe that the affordable segment offers a more resilient demand and holding power.

Bank Negara Malaysia (BNM) has also eased conditions by maintaining very accommodative interest rates for businesses and consumers alike. Several measures have been implemented to stabilise the ringgit and mitigate currency headwinds. In support of the Government's initiatives to ensure rakyat is able to own a home through the affordable housing, BNM has also relaxed its lending guidelines on first homeowners for PRIMA houses. The industry applauds such adjustments as this helps to ensure efforts by PRIMA achieve its intended objectives.

BUSINESS REVIEW

As the environment became increasingly challenging, it became imperative for MBSB to exert all efforts to ensure sustainable profits and to preserve shareholders' value. Our strategic business plan for 2016 was formulated based on this premise and most of the targets and KPIs outlined in the Plan were mainly achieved.

Selective Asset Growth

As projected, we maintained our momentum in the expansions of the corporate segment for 2016. The end target of 30:70 in terms of financing asset composition between corporate and retail remained and in recent years, has shown progress. The corporate growth achievements have gradually moved us towards the desired target and as at 31 December 2016, the ratio stands at 19:81 (2015: 15:85).



PRIMA Cyberjaya Lakefront

In growing the business from the corporate segment, MBSB's participation remained in the property development sector but to certain targeted locations and developers. A very prudent approach was adopted as consumers became weary too in purchasing high end products offered by the developers. To compensate for this lacklustre response, we had then strengthened our position in the affordable housing segment and granted financing approvals amounting to over RM2 billion for 2016. Financing was granted for developments that had been rolled out in several states including Selangor, Perak, Melaka and Sabah. Our participation is in the form of bridging and contract financing for PPAIM and PRIMA developers.

The move to enter the SME market two years ago with equipment financing business continued to bear commendable results. Approvals have grown by 98% from previous year 2015 and for the year 2016, total approvals secured have exceeded half a billion ringgit mark. For these new SME customers, we began offering other financial products and services such as commercial property financing as well as depositary.

To further diversify corporate revenue, we had also participated in the financial guarantee facilities led by a key financial guarantor institution. It marked an important doorway to capture sizeable fee income and similar opportunities for future transactions. We continued undertaking receivables' financing with stable and sound cooperatives as this has proven to be a reliable revenue stream for MBSB.

On retail business, we took cognizant of a more subdued environment but efforts were multiplied to ensure existing assets were preserved and quality remained. We launched variable rate financing for PF-i both for BIRO and non-BIRO customers as a shift away from fixed rate financing. New packages were also introduced especially for PTPTN borrowers who have stable employment but needed improved scorecards to reflect their present financial standing. For last year, we were able to grow disbursement of PF-i by 14%.

As for home financing, it remained a daunting challenge to make marked improvements in market share as low financing rates was a key deciding factor for

most consumers. For the first few months of the year, we had lagged behind target and a revision of strategies was then undertaken. Special end-financing packages were developed for those developments that we financed, rendering them as unique to MBSB. The developers also played a role in contributing their part to the special schemes enabling our marketing teams to have a competitive edge over other competitors.

Raising Healthy Funding Level

To fund the financing of both corporate and retail asset growth mentioned above, we had undertaken a series of funding activities throughout the year. In addition to the capital raising exercise of RMI.7 billion, there was a Cagamas securitisation of RM585 million as well as noticeable improvement in deposit level. Total deposit grew from RM28.6 billion (2015) to RM30.6 billion. Our strong relationship with Government-linked entities and agencies provided the continued support to raise deposit level. The deposit growth was achieved despite an overall decline of depositors by 5.5%.

The capital exercise meanwhile has helped to increase our Treasury's investments in liquefiable assets as part of meeting the prudential requirements. The investment stood at RM9.2 billion as at 31 December 2016 rising from RM7.6 billion (2015) and income generated from this investment has increased by 37%. With the new set up of a Fixed Income Desk in full operations last year, our Treasury has moved closer to operating and behaving like a bank-like Treasury, capable of generating income for the entity.

On new offering, a new product Business Account-i was introduced for our corporate financing customers to help provide MBSB with an additional source of low cost deposits.

OPERATIONAL REVIEW

Our main operational objectives for 2016 include closing the gap initiatives to behave and operate like a full-fledged Islamic financial institution, increase operational efficiency as well as having an effective and prudent management of costs.

Closing The Gap Intact

Closing the gap process resumed following the aborted negotiations for a proposed merger with Bank Muamalat Malaysia Berhad. We began with the conversion of our conventional hire purchase accounts to the Islamic AITAB (Al-Ijarah Thumma Al-Bai'). It ran in phases and with the completion of Phase 2, we have converted 80% of hire purchase accounts to the Islamic AITAB, carrying total outstanding balances of over RM25.5 million.

New compliance activities had been implemented in line with business expansion as well as with the new regulatory requirements imposed. These activities include safety health checks on Foreign Account Tax Compliance Act (FATCA), Personal Data Protection Act (PDPA), shariah compliance and BNM's Responsible Financing Guidelines.

Concurrently, group risk management was further strengthened with initiatives covering credit, market and operational risks. Amongst them include the enhancement of corporate credit scorecard, the updating of Fraud Framework, development of Stress Testing Framework and periodical Risk Bulletins to reinforce the risk culture amongst the workforce at MBSB.

For year 2016, while transactions in the property segment have declined by 12% and 19% in terms of volume and value respectively, we believe that the affordable segment offers a more resilient demand and holding power.



PRESIDENT AND CEO'S MESSAGE, MANAGEMENT DISCUSSION & ANALYSIS



Boost Efficiency Level

As the company continued with its impairment programme while operating on a very competitive landscape, it was essential to constantly monitor our operational costs to preserve bottom line numbers. Hence, we carried out a branch rationalisation exercise following a review of our service network. We closed Labuan branch and downsized eleven branches. Additionally, Kajang and Batu Caves SSCs were relocated to more viable locations and at the improved convenience of our customers. This exercise had resulted in a very lean and efficient network as well as reduction in overheads.

On retail collections where efficiency and speed in collecting monthly instalments is paramount, the Division's manpower has been streamlined and internally split between secured and unsecured assets to ensure greater focus and efforts. The function has also been centralised at the Head Office and additional collection agencies were hired. To expand our collection channels, we have added JomPay that has over forty banks participating and an online banking of another banking group.

FINANCIAL REVIEW

We are pleased to note that while the year 2016 has not been without its fair share of challenges, we were able to conclude it with financial results consistent with the previous financial year. For Financial Year Ended 2016 ("FYE 16"), MBSB registered Profit Before Tax of RM338.42 million in comparison to RM355.03 million achieved in the previous FYE 15. Although there was a marginal decline of RM16.61 million or 4.68%, revenue has improved by 7.37% from RM3.05 billion (FYE 15) to RM3.27 billion (FYE 16).

The main contributor to revenue continued to be from the retail financing assets but this has been on a declining trend due to slow asset growth in recent years. Nonetheless, revenue from the corporate segment has been on the rise as a result of business expansions. Last year we had grown the corporate financing assets by close to 30%.

Total income at RM1.41 billion (FYE 16) was a slight increase of 3.56% from previous RM1.36 billion (FYE 15) and is largely due to the higher income from the Islamic banking operations. We continued to build up our Islamic financing assets in line with the

strategic direction to become a full-fledged Islamic financial institution. As at 2016, Islamic assets make up approximately 84.97% of the total loans and financing assets.

The company also undertook its second year of the three-year impairment program with operating profit of RM1.12 billion absorbing the allowances for impairment losses on loans, advances and financing of RM777.27 million. It is always important for us to reiterate this fact to all our stakeholders that the impairment is essentially being absorbed out of business profits and not through other means. It is also part of our efforts to conform to the banking standards.

Total gross financings and loans stood at RM35.28 billion, an increase of RM1.17 billion from RM34.11 billion (FYE 15). Asset quality remained intact and manageable with net Non-performing Loan and Financing ratio (NPLF) of 2.87% consistent with the previous year of 2.81%. On another positive note, the Financing/Loans loss coverage ratio had advanced to 109.24% from 92.23% (FYE 15).

Total deposit from customers stood at RM30.61 billion which grew from RM28.59 billion (FYE 15). There had been intense competition for deposits throughout the year but we were fortunate for the support from our corporate depositors and with the increasing contribution from SSCs for retail deposit.

Cost to income ratio (CIR) of the company at 20.82% remained amongst the top in the industry as compared to the industry average of 49.7%. This was an improvement from 22.66% in 2015. In addition to the factors previously mentioned, costs were also managed with the hiring of manpower mainly targeted for corporate business expansions.

We foresee similar challenges to the local economy this year but there will still be many pockets of opportunities and activities to spur economic growth.

MOVING FORWARD

We are currently in the negotiation process for another merger and acquisition (M&A) exercise and as required by the authorities, would need to conclude it by the end of June 2017. Despite the process, we had developed a strategic business plan for 2017 to ensure company stays on track to deliver value to its shareholders regardless of the outcome.

We foresee similar challenges to the local economy this year but there will still be many pockets of opportunities and activities to spur economic growth. Fortunately as well the Government would continue with its commitment to implement key infrastructure projects which include the KVMRT Line 2, Pan Borneo Highway and East Coast Rail Link. On the affordable housing segment, the Government under Budget 2017 has committed to build over 30,000 units of PRIMA and to complete 30,000 units of PPAIM with estimated values of approximately RM11 billion and RM6 billion respectively. On commodities, palm oil prices have also been trending upwards for the last year with prices expected to remain favourable in 2017.

All these represent various business opportunities to be captured by MBSB, in line with its targeted expansions in selected segments. Financing disbursements from home mortgage is expected to improve this year with several schemes that have been emplaced leveraging on our bridging developers. We also plan to expand the Islamic product range to be more competitive and begin pursuing the conversion of our conventional assets and liabilities to the Islamic concepts.

MBSB has progressed significantly over the last eight years when it began its ambitious transformation program and having arrived at the present state, it would now need to strongly leverage on what it has achieved to create a solid industry position and a stronger future. Hence, "Solidifying the Future" is aptly chosen as the business theme for the new financial year 2017 to bring the whole workforce together in accomplishing this vision.

ACKNOWLEDGEMENT

I wish to take this opportunity to express my sincere appreciation to the Board of Directors and Shariah Advisory Committee (SAC) for their great wisdom and insight, our shareholders particularly the Employees Provident Fund (EPF) for their lasting support and all employees at MBSB for their renewed commitment and dedication each time a new year unfolds.

I thank Cik Ravinder Kaur and Dr Sa'adan bin Man for their contribution as well as Board and SAC members respectively and wish them success on their new pursuits. I wish to also welcome our new Board members, Encik Sazaliza bin Zainuddin, Datuk Johar bin Che Mat and Puan Lynette Yeow Su-Yin to an exciting new journey with MBSB.

Thank you.

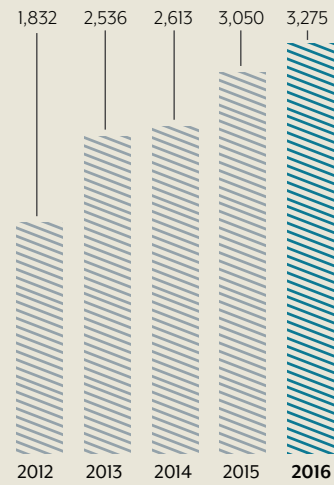
DATUK SERI AHMAD ZAINI BIN OTHMAN

President and Chief Executive Officer

22 March 2017

FINANCIAL HIGHLIGHTS

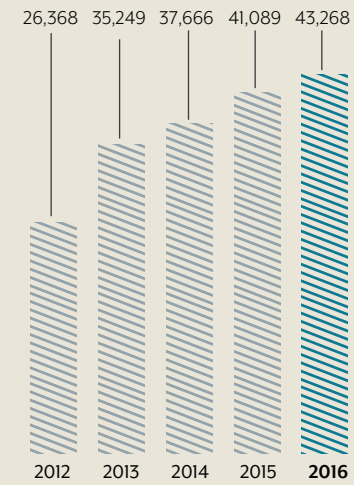
Group Revenue
(RM Million)



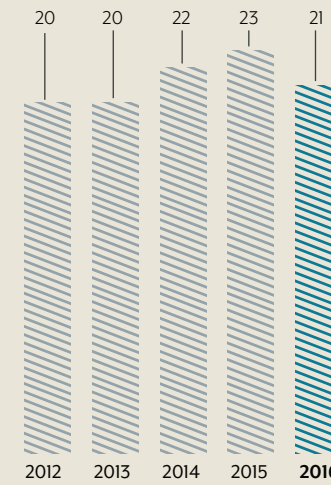
Group Profit Before Taxation
(RM Million)



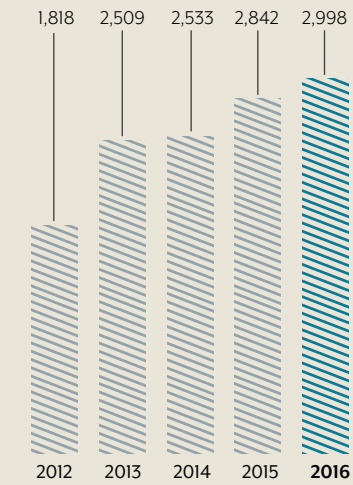
Group Total Asset
(RM Million)



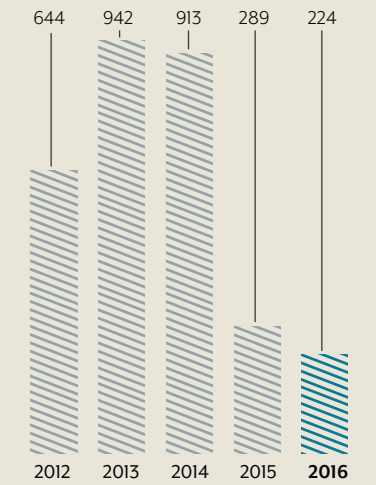
Group Cost to Income Ratio
(%)



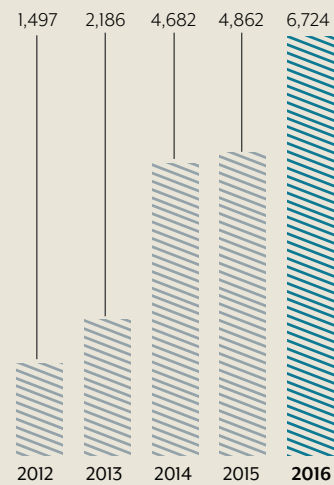
Company Revenue
(RM Million)



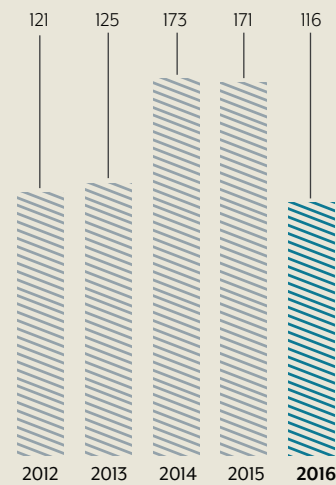
Company Profit Before Taxation
(RM Million)



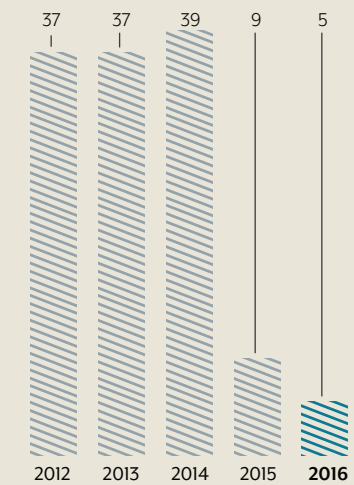
Group Shareholders' Equity
(RM Million)



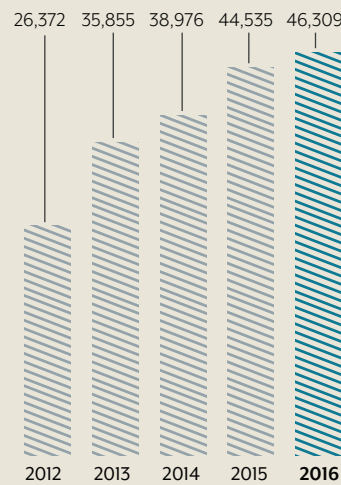
Group Net Asset Per Share
(Sen)



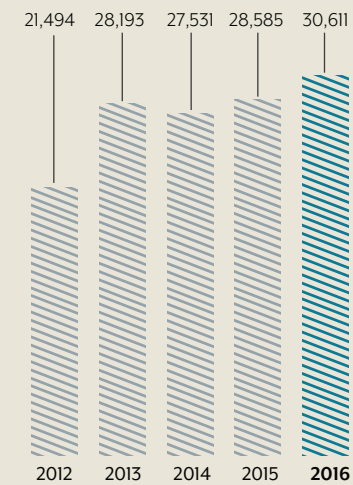
Group Basic Earnings Per Share
(Sen)



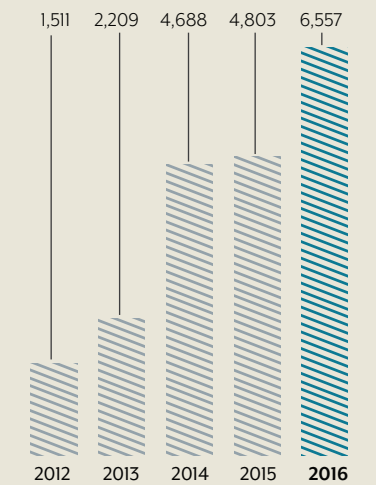
Company Total Assets
(RM Million)



Company Deposit
(RM Million)



Company Shareholders' Equity
(RM Million)



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors ("Board") of Malaysia Building Society Berhad strongly believes in the importance of corporate governance and is fully committed to ensure that the highest standards of corporate governance and integrity are applied throughout the Group.

In addition, the Board also considers and adopts where appropriate, the principles and best practices of corporate governance as prescribed in the Malaysian Code of Corporate Governance 2012 ("Code") and those outlined by other regulatory bodies such as Bank Negara Malaysia's guidelines on Corporate Governance.

The Board is pleased to report to shareholders the manner in which it has applied the Principles of the Code and the extent to which it has complied with the Best Practices of the Code, pursuant to Paragraph 15.25 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and Corporate Governance Guide: Towards Boardroom Excellence, throughout the Financial Year 2016.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Clear functions of the Board and Management

The Board is responsible for overseeing the conduct of the Group's business and the Management's implementation of the Group's strategic objectives as well as its conduct and performance.

The Board is supported by various Board Committees and Management Committees ("the Committees"). The roles and responsibilities of the respective Committees are clearly outlined in Terms of Reference and the Approving Authority Manual which requires regular review and approval by the Board from time to time. Any decisions which are not within the Committees authority would be escalated to the Board with the Committees' recommendation.

The Terms of Reference of the Executive Committee ("Exco"), the Audit Committee ("AC"), the Risk Management Committee ("RMC"), the Nominating & Remuneration Committee ("N&R Committee"), the Credit and Rehabilitation Assessment Committee ("CARAC"), Initial Alert Report Committee ("IAR"), the Asset Liability Committee ("ALCO") and the Board Charter had been reviewed and updated during the year to reflect the necessary changes in the internal process and regulatory requirements to ensure operational efficiency as well as compliance with the relevant regulatory requirements.

Although the Board had entrusted its' Committees with specific responsibilities to oversee the Group's affairs in accordance with their respective Terms of Reference, the Board remains responsible and keep abreast with the key issues and decisions made by the respective Committees through the reports escalated to the Board as well as the Minutes of meetings which capture the detailed deliberation and subsequently tabled to the Board for notation.

The matters reserved for the Board include, amongst others, the following:-

- a. Reviewing and approving strategic and business plan and other initiatives which would have material impact to the Group;
- b. Overseeing the Management's implementation of the Group's strategic objectives and its conduct and performance;
- c. Identifying principal risks affecting the Group and ensuring the implementation of appropriate governance framework and internal controls framework and to periodically review its appropriateness in light of the material changes to the size, nature and complexity of the Group's operations;
- d. Reviewing and approving annual financial statements and quarterly financial results prior to release to Bursa Malaysia and Securities Commission;
- e. Reviewing and adopting the strategies on promotion of sustainability through appropriate environmental, social and governance ("ESG") consideration in the Group's businesses;
- f. Overseeing and approving the recovery and resolution as well as business continuity plans for the Group to restore its strength and maintain or preserve critical operations and critical services when it comes under stress;
- g. Promoting together with senior management, a sound corporate culture within the Group which reinforces ethical, prudent and professional behaviour;
- h. Promoting Shariah Compliance as set out in the MBSB Shariah Governance Framework and to ensure its integration with the Group's business and risk strategies;
- i. Serving as the ultimate approving authority for all significant financial expenditure;
- j. Approving related party transactions; and

- k. Overseeing the selection, performance, remuneration and succession plans of the President and Chief Executive Officer ("PCEO") and Key Responsible Persons.

1.2 Clear Roles and Responsibilities

The Board assumes the following 6 responsibilities as required under the Code to facilitate the Board in discharging its' fiduciary and leadership function:-

i. Reviewing and adopting a strategic plan for the Group

The Board plays an active role in developing, evaluating and monitoring the Group's strategic direction by providing valuable advice to the Management based on the collective competency and knowledge of its members.

The Management presents the Business Plan for the Group to the Board on an annual basis together with its' recommended strategy and budget. At this specific session, the Board together with the Management, review, deliberate and thereafter deliver the best outcome for the Group. The key deliberations during the Business plan presentation includes the current limitation of the Group, the challenges in the industry, the proposed strategies to overcome the limitations and challenges, the proposed specific programmes as well as the financial projections. The Board then reviews and approves the budget for the ensuing year and Key Performance Indicators ("KPIs") for the respective business units.

The Board is also responsible to ensure that the Group is responsive to changes in the business and economic environment when pursuing and achieving the planned goal and objectives. The Business Plan and budget approved would be reviewed after 6 months and revised if necessary.

In June 2016, the Board together with the Management had conducted a mid-year review on the performance of the Group. The actual performance of the Group was compared against the Business Plan, budget and KPIs approved by the Board. The challenges, key issues and the implications were identified and the moving forward action plans and strategies were discussed in the meeting.

ii. Overseeing the conduct of the Group's business

The PCEO is entrusted by the Board for developing and ensuring the Group's strategies and Corporate Policies are effectively implemented. The PCEO is responsible to keep the Board fully informed of all important aspects of the Group's operations and ensuring that sufficient information is distributed to the Board.

The PCEO is supported by a group of experienced Senior Management personnel. Various Management Committees have been established to oversee the day to day business affairs of the Group and to ensure that the Board's decisions are implemented effectively. The roles and responsibilities of the various Management Committees are clearly defined in the Terms of Reference of the respective Management Committees and the salient terms are outlined in the Statement on Risk Management and Internal Control of this Annual Report.

To ensure effective oversight and monitoring of the Group's business, the Group Risk Management ("GRM") Division and Compliance Division are required to submit the various reports to the RMC and subsequently the same reports would be escalated to the Board for deliberation/notation.

Internal Audit Division ("IAD") also plays a vital role in overseeing the conduct of the Group business. IAD performs systematic and regular reviews on key processes to assess the efficiency and adequacy of the internal processes. The IAD reports on the periodic review are submitted to the AC for review/deliberations.

The detailed functions of the GRM Division, Compliance Division and IAD are detailed out in the Statement on Risk Management and Internal Control and the Report of the Audit Committee of this Annual Report.

iii. Identifying principal risks, setting of risk appetites and ensuring the implementation of appropriate internal controls and mitigation measures

The Board, through the RMC is responsible to ensure that a clear policy that defines the risk management of the Group is in place. In this connection, the RMC had, upon the recommendation by the GRM, established the Group's risk appetite framework which act as the main reference document in matters relating to the Group's risk management activities and serve as a guide to GRM Division in monitoring risk management practices. The risk appetite framework also assists the Management and the Board in managing risk within the Group, where the business activities are mainly risk-taking in nature.

The respective heads of business units are responsible in monitoring the compliance of their business activities to the approved risk appetite in the framework and the GRM Division is responsible to monitor the risk limits sets by the Board and to report any limit breaches or exceptions to the Management, RMC and the Board. The reports include type of breaches, rationale (cause or reason leading to the breaches) and action plans taken to rectify the situation.

STATEMENT ON CORPORATE GOVERNANCE

iv. Succession planning, including ensuring all candidates appointed to senior management positions are of sufficient calibre and programmes are in place to provide for the orderly succession of senior management

The Board, through the N&R Committee is responsible for ensuring continuity of leadership and long term retention and succession planning for the Group.

The Board and the N&R Committee have requested the Human Capital Division to constantly review the succession plan for the Group and to ensure that the successors for the respective key senior management positions are identified and recommended to the PCEO/N&R Committee/ Board for approval, if required.

The Terms of Reference of the N&R Committee provides that the Committee is responsible to consider and recommend to the Board the appointment, promotion, resignation, retirement, removal and other related issues involving the C Suites position whilst the decisions on appointment, promotion, resignation, retirement, removal and other related issues involving the Head of Business functions have been delegated to the PCEO.

In order to ensure that the key senior management personnel are of high caliber and competent for managing the affairs and operations of the Group, a policy of the Fit and Proper Requirement have been established. All the key senior management which defined as key responsible persons for the Group and the Company Secretary are required to be assessed and will need to meet the minimum fit and proper requirements as defined in the policy.

v. Overseeing the development and implementation of shareholder communications policy for the Group;

The Board recognises the importance of communication and proper dissemination of information to its shareholders, investors and all other stakeholders including the general public. In this respect, the Board have established the shareholder communication policy with an aim to effectively provide shareholders and investors with information that fulfil transparency and accountability. The Directors will ensure that the Group keeps the shareholders informed via announcements and timely release of quarterly financial reports, press releases, annual reports and circulars to shareholders.

As part of the Group's initiatives, the PCEO together with the Chief Financial Officer and the Corporate Planning and Communications Division conduct discussions,

dialogues and briefings with fund managers, financial analyst and media, as and when necessary and/or after the Group's quarterly financial results are released to Bursa Malaysia. This is to promote better understanding of the Group's financial performance, operations and other matters affecting shareholders' interest.

vi. Reviewing the adequacy and the integrity of the Group's management information and internal control systems

The Board is ultimately responsible for the adequacy and integrity of the Group's internal control systems. The details of the monitoring process are available in the Statement on Internal Control and Risk Management of this Annual Report.

1.3 Code of Ethics

The Board has established the Directors' Code of Ethics which was adopted from the recommended Code of Ethics for Directors issued by the Companies Commission of Malaysia. The Directors observe the Code of Ethics in performance of their duties and they fully subscribe to highly ethical standards and take into account the interest of all stakeholders. The Code of Ethics for Directors is available on MBSB's website at www.mbsb.com.my > Corporate > Investor Relations > Corporate Governance > Code of Ethics for Company Directors.

In addition to the above, the Guidelines on the Code of Conduct applicable to Directors, Officers and Employees of the Company were also established. The guidelines have set out the minimum standards of conduct expected of directors, officers and employees of MBSB, which covers six main principles:-

- (i) to avoid conflict of interest;
- (ii) to avoid misuse of position;
- (iii) to prevent misuse of information gained through the MBSB's operations, either for personal gain or any purpose other than that intended by MBSB;
- (iv) to ensure completeness and accuracy of relevant records;
- (v) to ensure confidentiality of communication and transactions between MBSB and its Customers; and
- (vi) to ensure fair and equitable treatment of all customers and others who rely on or who are associated with MBSB.

To ensure adherence to the guidelines, the Management of MBSB had taken steps to establish effective monitoring process i.e. all staff are required to sign a declaration on their observance of the guidelines and to assign responsibility to the head of various divisions/departments to ensure compliance with these guidelines on day-to-day basis and to handle general enquiries

from staff on matters relating to the code of conduct. The breaches will be reported and will be recorded and kept under the custody of Human Capital Division.

The Directors are also at all times be required act honestly and use reasonable care and diligence in discharging their duties and avoiding any conflict of interest. A policy to provide a systematic mechanism for disclosing potential and actual conflict of interest has been established. The Directors interested in certain transactions are required to abstain from any reporting, discussion or vote on issue that give rise to the conflict. The interested Director is required to be absent from the meeting during such deliberations and the Company Secretary shall record each Director's conflict of interest disclosed at the meeting in the minutes of meeting.

The Group has in place the Complaint and Whistle Blowing policy to provide an avenue for the employees to raise concerns without fear of reprisal and to promote highest possible standards of ethical and level business conduct. The said policy clearly spells out the process flow to guide the employees to raise their concerns and the assurance that the whistle blower will not be at the risk of reprisal as a result of raising the concerns.

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

All employees are entrusted with the responsibility to stay alert for preventing and detecting defalcations, misappropriations and other irregularities. The policy sets out the specific roles of employees in prevention and detection of fraud and fraud discovery reporting as well as the procedures and processes the Company will take in respect of employees involved in fraudulent acts.

1.4 Strategies promoting sustainability

A Sustainable Steering Committee reporting to the Management Committee has been established to develop the sustainability reporting framework for the Group. Three (3) workshops had been conducted in 2016 to enable the Committee to understand the sustainability and to determine how sustainability relates to the Group's business and thereafter to develop the Group's sustainability strategy and framework. The Group's publishes its Sustainability Report which outlines in detail the efforts and initiatives undertaken by MBSB for the benefit of its stakeholders.

The detailed Sustainability Report of the Group forms part of this Annual Report.

1.5 Access to information and advice

Prior to the Board Meeting, the agenda and a set of Board papers relevant to the business of the meeting are circulated to all Directors on a timely basis i.e. at least three (3) business days prior to the meeting date for Directors to study and evaluate the matters to be discussed. Urgent papers may be presented and tabled at the meetings under a supplemental agenda.

The Board encourage paperless environment as part of the Group's green initiative. The digital copies of the meeting papers are provided to the Board/Board Committees instead of hard copies. The digital copies of the papers are uploaded to the system to allow easy access of documents in a timely and more efficient manner.

The PCEO, Senior Management and relevant external consultants are invited to attend the Board meetings to brief and provide details on matters relating to their areas of responsibilities and also to provide details to the Directors on recommendations or reports submitted to the Board for deliberation and consideration.

The Board has full and unrestricted access to all information within the Company and Group as well as the advice and services of Senior Management and Company Secretaries in carrying out their duties. The Board may raise the request to seek independent professional advice at the Board Meeting/ Board Committee meetings. The Management upon direction from the Board/Board Committee would engage the independent advisors to provide their professional advise at the Company's expense.

1.6 Qualified and competent Company Secretaries

Both the Company Secretary and the Joint Company Secretary of MBSB are qualified to act as Company Secretary under Section 235 of the Companies Act, 2016 and they are Associate members of Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA"). The Company Secretary also possesses legal qualification.

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

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The Company Secretaries also ensure that deliberations at Board and Board Committees meetings are well documented and communicated to the relevant Management for appropriate action. The Board and Board Committees are also updated by the Company Secretaries on the follow-up of its decisions.

In order to ensure that information flow smoothly between the Management and the Board, the Company Secretary is also appointed as the Secretary of several Management Committees including Management Committee ("MANCO"), CARAC, ALCO and Information Technology Steering Committee.

All Directors have access to the advice and services of the Company Secretaries.

The Company Secretaries constantly keep themselves updated with the changes to regulatory requirements through attendance at relevant conferences and training programmes. The Company Secretaries are required to fulfil the Mandatory Continuing Professional Development requirements imposed by MAICSA.

1.7 Board Charter

The Directors are guided by the Board Charter which clearly identifies the Board's role, duties and responsibilities. The Board Charter also outlines the processes and procedures to ensure the effectiveness and efficiency of the Board and its Committees.

The Board Charter is a dynamic document and will be updated from time to time to reflect changes to the Company's policies, procedures and processes as well as amended rules and regulations of the relevant authorities. The Board Charter was last revised in February 2017. The complete Board Charter is available on MBSB's website at www.mbsb.com.my > Corporate > Investor Relations > Corporate Governance > Board Charter.

2. COMPOSITION

2.1 The Composition of the N&R Committee

The N&R Committee currently consists of three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director and it is currently chaired by Dato' Jasmy bin Ismail, the Senior Independent Director of MBSB.

2.2 The Responsibilities of the N&R Committee

2.2.1 The primary responsibilities of the Nominating Committee are:

- a. To recommend to the Board, candidates for all directorships to be filled by the shareholders or the Board. In making its recommendations, the Nominating Committee should consider the candidates'

- skills, knowledge, expertise and experience;
 - professionalism;
 - gender;
 - integrity; and
 - in the case of candidates for the position of independent non-executive directors, the Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from the independent non-executive directors;
- b. To recommend to the Board, directors to fill the seats on the Board committee;
 - c. To conduct annual review with the Board, the required mix of skills and experience, gender diversity and other qualities, including core competences which non-executive directors should bring to the Board;
 - d. To implement a process with the Board, for assessing the effectiveness of the Board as a whole, the committees of the Board, and for assessing the contribution of each individual director, including independent non-executive directors, as well as the PCEO. All assessment and evaluations carried out in the discharge of all its functions should be properly documented;
 - e. To consider and to recommend to the Board the appointment, resignation, retirement and other related issues involving the PCEO;
 - f. To consider and recommend to the Board the appointment, promotion, resignation, retirement, removal and other related issues involving the C Suites position as defined in the policy for the Fit and Proper Requirements.
 - g. To delegate to the PCEO the responsibility for fit and proper assessment and decision on appointment, promotion, resignation, retirement, removal and other related issues involving the Head of Business functions as defined in the policy for the Fit and Proper Requirements.
 - h. To recommend to the Board, candidates for the appointment as Shariah Advisory Council members. In making the recommendation, the Nominating Committee should consider the following criteria:
 1. The candidate considered should be a Muslim;
 2. The skills set of the candidates for the position; and

3. Fulfil the fit and proper criteria as per the applicable guidelines by the relevant authorities.

- i. To conduct the annual review on the Performance of the Shariah Advisory Council members;
- j. To review the term of office and performance of AC and each of its members annually to determine whether such committee and members have carried out their duties in accordance with their terms of reference and recommend the same to the Board;
- k. To assess and evaluate the performance of the Board, Board Committee and individual directors on an annual basis and recommend the same to the Board;
- l. To assess the Independence of Directors on an annual basis and recommend the same to the Board;
- m. To assess and recommend accordingly the training needs of the Board members and any proposed changes to the training budget.

2.2.2 Boardroom Diversity

The Board had adopted the Boardroom Diversity Policy which covers diversity in terms of professional experience, skills, knowledge, education and background, age, ethnicity, culture and gender. The diversity of skill, experience and knowledge of its members in various disciplines and profession allows the Board to address and/or to resolve the various issues in an effective and efficient manner. The brief description of the background and experience of each of the Board member is contained in the Directors' Profile section of this Annual Report.

The Board recognises the challenges in achieving the right balance of diversity on the Board to form a highly effective Board in today's competitive business environment.

The Board is committed to Board diversity and will ensure that all appointments to the Board will be made based on merits while taking into account the Company's needs and circumstances, present size of the Board, suitability for the role, skills, experience, knowledge, experience and diversity.

The Board has not set a specific gender diversity target at this time. Nonetheless, the Board will take into consideration the following measures:-

- i. While it is important to promote gender diversity, the normal selection criteria based on an effective blend of competencies, skills, extensive experience and knowledge to strengthen the Board should remain a priority.
- ii. The N&R Committee is responsible in ensuring that gender diversity objectives are adopted in board recruitment, board performance evaluation and succession planning processes.
- iii. The Company shall provide a suitable working environment that is free from harassment and discrimination in order to attract and retain women participation on the Board.

The Board comprised of Directors in varying ages, ranging from 44 to 73 years old.

The N&R Committee had during the year reviewed the composition of the Board and was of the view that there was a need to appoint additional Directors.

The Board and N&R Committee had discreetly obtained the curriculum vitae of the potential director candidates through various external sources and the shortlisted candidates were recommended to the N&R Committee for evaluation. The N&R Committee had conducted fit and proper assessment on the candidates and interaction sessions with the candidates were held first prior to recommendation to the Board for approval.

The Fit and Proper Policy has outlined the following criteria for assessment of the suitability of the candidates for appointment:-

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

The N&R Committee had evaluated 6 female candidates and 3 male candidates in 2016 and 2017 (as at March 2017). 4 candidates have been shortlisted and recommended to the Board for approval. The Board had approved and appointed 1 female director and 2 male directors on 22 March 2017.

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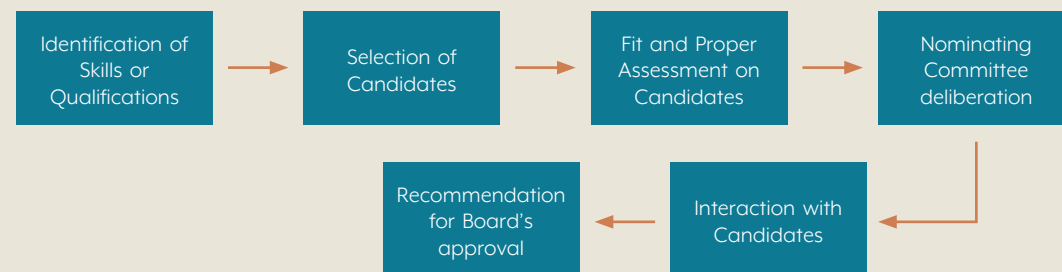
2.2.3 The activities of the Nominating Committee in 2016 are summarised as follows:-

- Reviewed and recommended the re-appointment and re-election of Directors at the 46th Annual General Meeting ("AGM").
- Reviewed and recommended the Directors' Fees for year 2016.
- Reviewed the composition and mix of Board/Board Committee's skills/experience.
- Reviewed and recommended the performance bonus and salary increment of all staff including the PCEO.
- Deliberated and recommended to the Board on the Appointment/Resignation of C suites personnel.
- Reviewed and recommended the appointment of additional AC member.
- Reviewed and recommended the appointment/

resignation of Independent Non-Executive Directors.

- Reviewed and recommended the appointment of additional Non-Independent Non-Executive Director.
- Reviewed the revised terms of the Nominee Directors of Employees Provident Fund Board.
- Reviewed and recommended to the Board the amendments to the Terms of Reference of the N&R Committee.
- Reviewed the performance of Shariah Advisory Committee members.
- Reviewed and recommend the re-appointment of Shariah Advisory Committee Members.

2.2.4 The nominating and election process of directors is as follows:-



2.2.5 The primary responsibilities of the Remuneration Committee are:

- To propose a system and amount of executive and non-executive Directors' annual remuneration package to the Board;
- To consider and recommend to the Board the remuneration packages of the Group;
- To ensure the Company has a developed succession policy and that such policy is kept under review;
- To consider and to recommend to the Board the promotion, remuneration package, increment, bonuses and other related matters involving the PCEO;
- To consider and recommend to the Board the promotion, remuneration package, increment, bonuses and other related matters involving the C

Suites position as defined in the policy for the Fit and Proper Requirements.

- To delegate to the PCEO the decision on the promotion, remuneration package, increment, bonuses and other related matters involving the Head of Business functions as defined in the policy for the Fit and Proper Requirements.
- To consider and recommend to the Board, the remuneration package and other related matters involving the Shariah Advisory Council; and
- The Committee, when considering and recommending where appropriate will take into account that such recommendation/remuneration package/programmes and other related matters should reflect and commensurate with the accountability, duties and responsibilities of the abovesaid parties under consideration.

2.3 Remuneration policies

A formal Directors Remuneration Framework has been established. It is tailored towards attracting and retaining Directors with relevant experience and expertise needed to assist in managing the Company and the Group effectively.

The level of remuneration for the Directors shall be determined and recommended by the N&R Committee to the Board after giving due consideration to all relevant factors including the Directors fiduciary duties, time commitments expected of the Directors, Company's performance, market conditions as well as the compensation level for comparable positions among other similar Malaysian public listed companies.

The remuneration payable to Directors is determined by shareholders resolution in accordance with the Companies Act, 2016 and Company's Articles of Association and shall not be increased except in pursuant to a resolution passed at a general meeting.

The aggregate remuneration of the Directors (including the remuneration for services rendered to the Group) during the financial year 2016 are categorised into the appropriate components as follows:-

	Emoluments (RM)	Allowance (RM)	Fee (RM)	Bonuses (RM)	Benefit-in-Kind (RM)	Total (RM)
Company						
Executive Director	-	-	-	-	-	-
Non-Executive Directors	-	967,000	1,110,000	-	-	2,077,000
Group						
Executive Director	-	-	-	-	-	-
Non-Executive Directors	-	967,000	1,110,000	-	-	2,077,000

Range of Remuneration	Number of Directors	
	Executive Director	Non-Executive Director
Nil	-	-
Below RM50,000	-	-
RM50,001 – RM100,000	-	-
RM100,001 – RM150,000	-	-
RM150,001 – RM200,000	-	-
RM200,001 – RM250,000	-	5
RM250,001 – RM300,000	-	2
RM300,001 – RM350,000	-	-
RM350,001 – RM400,000	-	1

Details of the Directors' remuneration of each Director during the financial year 2016 are set out under Note 30 of the Notes to the Financial Statements in this Annual Report.

STATEMENT ON CORPORATE GOVERNANCE

3. REINFORCE INDEPENDENCE

3.1 Independent Directors

An assessment of the independence of the independent directors is conducted annually. The following are considered when assessing the independence:-

- Fulfilment of all criteria under definition of Independent Director as stated in the Main Market Listing Requirement of Bursa Malaysia;
- Ability to function as a check and balance and bring an element of objectivity to the Board of Directors;
- Ability to constantly challenge the Management in an effective and constructive manner;
- Actively participate and provide independent advice in all Board/Board Committees discussion; and
- Ability to act in the best interests of the Company and the Group.

In addition to the annual assessment on the Directors' independence, each Independent Director is required to submit an annual declaration on their independence.

3.2 Tenure of Independent Directors

The Board noted Recommendation 3.2 of the Code that the tenure of an independent director should not exceed a cumulative term of nine (9) years. The Board is of the view that the ability of long serving independent director to remain independent and to discharge their duties with integrity and competency should not be measured solely by tenure of service or any pre-determined age. Their long service should not affect their independence as they are independent minded and had provided necessary checks and balances in the interest of the shareholders. Further, the continued tenure of directorship brings stability to the Board and the Company benefits from directors who have over time gained valuable insight into the Group, its market and the industry.

The N&R Committee had assessed the independence of Encik Aw Hong Boo who has been an Independent Non-Executive Director since 18 November 2005 and had recommended for Encik Aw to continue to serve on the Board of MBSB as Independent Director of MBSB.

Senior Independent Director

In accordance with the best practices on Corporate Governance, Dato' Jasmy bin Ismail was appointed as the Senior Independent Non-Executive Director on 19 January 2017, in place of Encik Aw Hong Boo, who was re-designated as Independent Non-Executive Director.

The responsibilities of the Senior Independent Non-Executive Director, amongst others, include the following:-

- be available to Board Members if they have concerns which contact through the normal channels of Chairman or PCEO has failed to resolve or for which such contact is inappropriate;
- act as a sounding Board for the Chairman and PCEO on board matters;
- chair the N&R Committee in ensuring that board composition meets the needs of the Company; and
- act as a trusted intermediary for Non-Executive Directors where this is required to help them to challenge and contribute effectively.

3.3 Separation of the Chairman and PCEO

There is a clear division of responsibility between the Chairman and PCEO to ensure a proper balance of power and authority. The Chairman of the Board is a Non-Executive Director and together with the rest of the Board, is responsible for setting the policy framework within which the Management is to work. The Chairman also leads the collective effort of the Board in monitoring the performance of Management in meeting the corporate goals and objectives. He also guides the Board on all issues presented before them at meetings or at such other forums where the consensus of the Board is required.

The PCEO is primarily responsible for overseeing the day to day management to ensure the smooth and effective running of the Company and the Group. He is entrusted with making sure that all decisions, directions, policies and/or instructions approved by the Board are carried out by Management in a timely and efficient manner. He carries the primary responsibility in ensuring management competency including the emplacement of an effective succession plan to sustain continuity.

3.4 Composition of the Board

The Board currently comprise of ten (10) Directors of whom six (6) are Independent Non-Executive Directors and four (4) are Non-Independent Non-Executive Directors.

The Independent Non-Executive Directors are independent of Management and free from any business or other relationship with the Company and the Group which could materially affect the exercise of their independent judgement. The number of Independent Directors not only fulfil the requirement of Bursa Malaysia for one-third of Board membership to be independent but also contributes towards greater impartiality and objectivity in the Board's decision making process.

The N&R Committee reviews the Composition of the Board on yearly basis and the same is tabled to the Board, to ensure that the optimum size of the Board is achieved to enable effective oversight and delegation of responsibilities to encourage the active participation of all directors in Board/Board committees.

The Chairman of the Board is YBhg Tan Sri Abdul Halim bin Ali, a Non-Independent Non-Executive Director. Although the Chairman is a Non-Independent Director, the Board composition comprising a majority of Independent Directors can bring expertise and objectivity which will assure that the Company is effectively managed and in the best interest of stakeholders.

Appointment and Re-election of the Board

A formal and transparent procedure has been established by the Board for the appointment of new directors. A proposed candidate is first considered by the N&R Committee which takes into account the skills and experience of the person before making a recommendation to the Board. The process of appointment is detailed out in page 68 of this Annual Report.

In accordance with the Company's Articles of Association, one third (1/3) of the members of the Board for the time being shall retire by rotation at each AGM and, subject to eligibility, may offer themselves for re-election.

Directors who are appointed by the Board during the financial year are subject to re-election by shareholders at the next AGM held following their appointments.

The performance of those Directors who are subject to re-election at the AGM will be subject to assessment whereupon the recommendation is submitted to the Board for decision on the proposed re-election of the Director concerned for shareholders' approval at the next AGM.

4. FOSTERING COMMITMENT

4.1 Time Commitment

The Directors are expected to commit sufficient time to carry out his or her role as a Director and also where applicable as a member of the Board Committees. As stated in the Board Charter, the Directors must not hold more than five (5) directorships in listed companies, listed collective investment schemes and issuers of any other listed securities.

Currently, none of the Directors serve on the board of more than five other public-listed companies, listed collective investment schemes and issuers of any other listed securities.

The Directors are expected to notify the Chairman before accepting any new directorship. The notification should include an indication of time that will be spent on the new appointment. Such information will be shared with the Board members.

The Directors are required to update changes to the directorships on yearly basis or immediately after the appointment/resignation as director of other companies. The Board members is informed of changes to the directorships held by its members in public companies at the next Board Meeting upon receipt of the notification by the Chairman/the Company Secretary.

Board Meetings

Board meetings for the ensuing financial year are scheduled in advance before the end of each financial year to enable Directors to plan ahead and fit the year's Board meetings into their own schedule.

The Board has at least four (4) scheduled quarterly meetings with additional meetings being convened as and when necessary.

Prior to each meeting, every Director is given the complete agenda and a set of Board papers well in advance so that the Directors have ample time to review matters to be deliberated at the meeting and to facilitate informed decision making.

The Board met twenty (20) times during the financial year ended 31 December 2016.

All Directors have complied with the minimum requirements of 50% on attendance at Board meetings during the financial year as stipulated in the Main Market Listing Requirement of Bursa Malaysia.

Board Committees

The Board has established Board Committees to assist the Board in the running of the Company and the Group.

Pursuant to the above, the Board has established five (5) Board Committees. Each committee has clearly defined terms of reference regarding its objectives, duties and responsibilities, authority, meetings and memberships.

The Board Committees of the Company are as follows:-

- EXCO
- AC
- RMC
- N&R Committee
- Option Committee

STATEMENT ON CORPORATE GOVERNANCE

Any decision not within the authority of the Board Committee is referred back to the Board with its recommendations and comments for the Board's deliberation and approval.

The salient terms of reference of each Board Committee and details of members' attendance of meetings are as follows:

a. EXCO

The EXCO was established on 29 April 2005 specifically to assist the Board to evaluate and approve loan/financing applications within their approving authority limits. Loans/financing above the approving authority limit of the EXCO or loans/financing with connected parties as defined in the Guidelines on Related Party Transactions for Directors and Key Management Officers will be escalated to the Board for further deliberation and approval.

The oversight and review of restructuring proposals for the recovery of non-performing loans/financing (NPLs/NPFs), monitoring the progress of the recovery of NPLs/NPFs and formulation of recovery strategies, is also carried out by the EXCO.

The EXCO currently consists of three (3) Independent Non-Executive Directors and three (3) Non-Independent Non-Executive Directors.

During the financial year 2016, there were fifteen (15) meetings held by the EXCO.

b. AC

The principal function of the AC is to assist the Board in fulfilling its fiduciary responsibilities particularly in the areas of accounting and management controls and financial reporting and to ensure financial statements comply with applicable financial reporting standards; to reinforce the independence and objectivity of the IAD; to provide the focal point for communication between external auditors, internal auditors, risk managers, Directors and the Management on matters in connection with accounting, reporting, risks and controls and providing a forum for discussion independent of the Management; and to undertake additional duties as may be deemed appropriate and necessary to assist the Board.

The AC currently consists of three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.

In accordance with the best practices of corporate governance, AC presents its report as set out on pages 89 to 95 of this Annual Report.

c. RMC

The Primary objectives of RMC are to assist the Board with the risk oversight within the Group which includes reviewing the risk management policies, risk exposure and limits as well as ensuring that all risks are well managed within the Group's risk appetite by providing adequate infrastructure and resources in place to support the risk management activities.

The RMC currently consists of three (3) Independent Non-Executive Directors.

During the financial year 2016, there were nine (9) meetings held by the RMC.

d. N&R Committee

The primary responsibilities of the N&R Committee are described in pages 66 to 67 of this Annual Report.

The N&R Committee currently consists of three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.

During the financial year 2016, there were nine (9) meetings held by the N&R Committee.

e. Option Committee

The Option Committee was established on 27 May 2010. The principal function of this Option Committee is to administer the Company's Employees' Share Option Scheme (ESOS) in accordance with the ESOS Scheme's by-laws.

The Option Committee currently consists of two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.

During the financial year 2016, there was one (1) meeting held by the Option Committee.

Board/Board Committees' Attendance

The details of the Directors' attendance for the Board/Board Committee Meetings for the financial year 2016 are as below:

Name of Director	Position	Date of Board Appointment	Number of Meetings Attended/Held					
			Board	AC	RMC	EXCO	N&R Committee	Option Committee
Tan Sri Abdul Halim bin Ali	Non-Independent Non-Executive Director/Chairman	22 June 2001	20/20			15/15		
Datuk Shahril Ridza bin Ridzuan ⁴	Non-Independent Non-Executive Director	30 November 2011	20/20	10/10		13/15		
Datuk Syed Zaid bin Syed Jaffar Albar	Non-Independent Non-Executive Director	14 August 2002	18/20			14/15	9/9	1/1
Encik Aw Hong Boo	Independent Non-Executive Director	18 November 2005	20/20	10/10	9/9		9/9	1/1
Dato' Jasmy bin Ismail ²	Senior Independent Non-Executive Director	11 August 2009	19/20	7/7	9/9			
Encik Lim Tian Huat	Independent Non-Executive Director	4 April 2011	19/20	10/10	9/9		9/9	1/1
Cik Ravinder Kaur a/p Mahan Singh ¹	Independent Non-Executive Director	5 June 2013	19/20			14/15		
Ir. Moslim bin Othman	Independent Non-Executive Director	21 September 2015	20/20			15/15		
Encik Sazaliza bin Zainuddin ^{3&6}	Non-Independent Non-Executive Director	22 March 2017						
Datuk Johar bin Che Mat ^{3&5}	Independent Non-Executive Director	22 March 2017						
Puan Lynette Yeow Su-Yin ^{3&5}	Independent Non-Executive Director	22 March 2017						

Note:

¹ Cik Ravinder Kaur resigned as Director effective from 31 December 2016.

² Dato' Jasmy bin Ismail was appointed as Member of Audit Committee on 10 March 2016 and was appointed as Chairman of N&R Committee on 19 January 2017.

³ Encik Sazaliza bin Zainuddin, Datuk Johar bin Che Mat and Puan Lynette Yeow Su-Yin were appointed as Directors with effect from 22 March 2017.

⁴ Datuk Shahril Ridza bin Ridzuan resigned as Audit Committee member on 22 March 2017.

⁵ Datuk Johar bin Che Mat and Puan Lynette Yeow Su-Yin were appointed as Member of EXCO on 22 March 2017.

⁶ Encik Sazaliza bin Zainuddin was appointed as Member of Audit Committee on 22 March 2017.

STATEMENT ON CORPORATE GOVERNANCE

Board Effectiveness Assessment

The Board through the N&R Committee undertakes a formal and comprehensive annual assessment on its own performance, individual Directors and its Committees.

The N&R Committee reviews annually the effectiveness of the Board and the Board Committees as well as the performance of individual Directors. The Individual Directors assessment forms are distributed to all the Directors and are compiled and the results are presented to the N&R Committee during the Board evaluation process. The results of the assessment are also presented to the Chairman which will include the identification of key areas for improvement and for Board improvement plan.

The assessments on the individual Directors are based on both quantitative and qualitative parameters which comprise of the directors contribution to interaction, the quality of their input, understanding of the directors roles as well as the Chairman's role.

The assessments of the Board and Board Committees are carried out jointly by the N&R Committee and the assessment comprises the evaluation on the Board Structure, Board Operations, the role and responsibilities of the Board, Chairman's roles and responsibilities as well as the compositions, roles and responsibilities of the respective Board Committees.

Upon the completion of the Individual Directors and Board Effectiveness Assessments and identification of the Board improvement plan, the N&R Committee will discuss and determine the training needs for the respective directors.

4.2 Training and Development of Directors

The Directors Orientation and Training Guidelines has been established to encourage the Board members to attend continuous training to enable the directors to effectively discharge their duties. The Board continuously evaluates and determines its' training needs.

During the year, all Directors have attended various training programmes, seminars, conferences and talks conducted by Regulatory Authorities, professional bodies and professional trainers and speakers, in order to stay abreast with the latest developments in the industry and business environment as well as on changes to statutory requirements and regulatory guidelines, so as to enhance their skills and knowledge to enable them to carry out their roles effectively.

The training programmes/conferences/seminars/dialogues attended by the Directors in 2016 focuses on Corporate Governance, Directors Responsibilities, Finance (Conventional & Islamic), Accounting, Investment, Business Sustainability and Risk Management:-

YBhg Tan Sri Abdul Halim bin Ali

1. MFRS 9: Financial Instruments
Ernst & Young
2. Sustainability Engagement Series for Directors/Chief Executive Officer
Bursa Malaysia Berhad
3. Study on Potential Economic Impact of TPPA on the Malaysian Economy and selected key Economic Sectors
Malaysia Building Society Berhad
4. Sustainability
IJM Corporation Berhad
5. IJM Senior Management Forum 2016 – Reinvent for Success
IJM Corporation Berhad
6. Khazanah Megatrends Forum 2016
Khazanah Nasional Berhad
7. Forum on Public Service Delivery: Auditor – General's Report 2015
PTD Alumni
8. Bursa Malaysia's Listing Requirements updates 2016 & The proposed Malaysian Code on Corporate Governance 2016
Buistratra Sdn Bhd
9. Board of Directors Management Committee Session 2016 – Presentation for Companies Act 2016: An overview of key changes and implications by Zaidlbrahim & Co
Malaysia Building Society Berhad
10. Board of Directors, Shariah Advisory Committee and Management Committee Session 2016 – Cash Waqf : Implication and Application in Malaysia and A Holistic Islamic Economy: Integrating Islamic Financing and Halal Industry
Malaysia Building Society Berhad
11. IJM Budget Talk 2017
IJM Corporation Berhad
12. CG Breakfast Series with Directors: Anti – Corruption & Integrity – Foundation of Corporate Sustainability
Bursa Malaysia Berhad

YBhg Datuk Syed Zaid bin Syed Jaffar Albar

1. Study on Potential Economic Impact of TPPA on the Malaysian Economic and selected key Economic Sectors
Malaysia Building Society Berhad
2. MFRS 9: Financial Instruments
Ernst & Young
3. The Most Innovative Companies – Four Factors that Differentiate Leaders
Malaysian Pacific Industries Berhad
4. Anti-Money Laundering and Counter Financing of Terrorism – Lesson Learnt from the industry
Malaysian Pacific Industries Berhad
5. Risk Management Programme: I am Ready To Manage Risk
PWC Consulting Services Sdn Bhd
6. Revised Auditor Reporting Standards – A Double Edged Sword
Malaysian Institute of Corporate Governance

YBhg Datuk Shahril Ridza bin Ridzuan

1. MFRS 9 : Financial Instruments
Ernst & Young
2. Global Islamic Finance Forum 5.0
Association of Islamic Banking Institutions Malaysia (AIBIM)
3. INCEIF "Malaysia as Global hub for fund administration: Potential & Challenges"
INCEIF
4. Power Talks Session: Business Series
Star Media Group Berhad
5. AMUNDI World Investment Forum 2016 on 'Broadening The Investment Universe'
AMUNDI Asset Management
6. Knowledge Sharing: How Global Central Banks have borrowed future growth Rate?
IQI Holdings, Dubai
7. Islamic Finance: Innovations for Growth
Capital TV
8. CEO Faculty Programme on topic "Moving Forward Under Limitations"
University Malaya
9. CEO Faculty Programme on topic "Leveraging University technologies in the finance and fund management industry"
University Malaya

10. Oxford Pensions & Retirement Conference
Oxford University, UK
11. 33rd Asean Social Security Association (ASSA) Board Meeting
ASSA Secretariat Committee, Manila, Philippines
12. 2nd Bloomberg Most Influential Summit Conference on topic Asian Economic Community A ray of sunshine for Asian Market?
Bloomberg
13. MRCB Board Retreat
MRCB Berhad
14. CEO Faculty Programme: A Study and Industrial Exposure
University Malaya
15. 3rd Annual Capital Market 2016 Facilitating Responsible Finance Through Islamic Capital Market in the US – Alternative Funding & Investment Avenues "Prioritising The Next Phase"
Malaysia U.S. Chamber of Commerce, Washington, US
16. BOD Workshop – MPB
MPB
17. CEO Faculty Programme – Public lecture topic "The Employees Provident Fund: Issues & Challenges"
University Malaya
18. CEO Faculty Programme – Lecture topic "Managing Provident Funds: The Malaysian Economy"
University Malaya

YBhg Dato' Jasmy bin Ismail

1. Study on Potential Economic Impact of TPPA on the Malaysian Economic and selected key Economic Sectors
Malaysia Building Society Berhad
2. MFRS 9: Financial Instruments
Ernst & Young
3. Board of Directors Management Committee Session 2016 – Presentation for Companies Act 2016: An overview of key changes and implications by Zaidlbrahim & Co
Malaysia Building Society Berhad
4. Board of Directors, Shariah Advisory Committee and Management Committee Session 2016 – Cash Waqf: Implication and Application in Malaysia and A Holistic Islamic Economy: Integrating Islamic Financing and Halal Industry
Malaysia Building Society Berhad

STATEMENT ON CORPORATE GOVERNANCE

Encik Aw Hong Boo

1. MFRS 9: Financial Instruments
Ernst & Young
2. Study on Potential Economic Impact of TPPA on the Malaysian Economic and selected key Economic Sectors
Malaysia Building Society Berhad
3. MIA Conference 2016
Malaysian Institute of Accountants
4. Board of Directors Management Committee Session 2016 – Presentation for Companies Act 2016: An overview of key changes and implications by Zaidlbrahim & Co
Malaysia Building Society Berhad
5. Board of Directors, Shariah Advisory Committee and Management Committee Session 2016 – Cash Waqf: Implication and Application in Malaysia and A Holistic Islamic Economy: Integrating Islamic Financing and Halal Industry
Malaysia Building Society Berhad

Encik Lim Tian Huat

1. INSOL International Annual Regional Conference
INSOL Dubai
2. Companies Bill 2015
Wolters Kluwer
3. Study on Potential Economic Impact of TPPA on the Malaysian Economic and selected key Economic Sectors
Malaysia Building Society Berhad
4. Khazanah Megatrends Forum
Khazanah Nasional
5. MIA Conference 2016
Malaysian Institute of Accountants

Ir. Moslim bin Othman

1. Ring the Bell for Gender Equality
Bursa Malaysia Berhad
2. The Innovation Zone: Unleashing the Mindset Beyond Malaysia
MINDA
3. MFRS 9: Financial Instruments
Ernst & Young
4. The 20th Malaysian Banking Summit
Asian Strategy & Leadership Institute ("ASLI")

5. Study on Potential Economic Impact of TPPA on the Malaysian Economic and selected key Economic Sectors
Malaysia Building Society Berhad
6. The Essence of Independence
Bursa Malaysia Berhad
7. Board of Directors Management Committee Session 2016 – Presentation for Companies Act 2016: An overview of key changes and implications by Zaidlbrahim & Co
Malaysia Building Society Berhad
8. Board of Directors, Shariah Advisory Committee and Management Committee Session 2016 – Cash Waqf: Implication and Application in Malaysia and A Holistic Islamic Economy: Integrating Islamic Financing and Halal Industry
Malaysia Building Society Berhad
9. CG Breakfast Series with Directors: Anti-Corruption & Integrity – Foundation of Corporate Sustainability
Bursa Malaysia Berhad

All Directors with the exception of the two (2) newly appointed Directors, have attended the MAP as required under the Main Market Listing Requirements of Bursa Malaysia. The two (2) new Directors, Puan Lynette Yeow Su-Yin and Encik Szalizi bin Zainuddin, have registered to attend the MAP by 2nd quarter 2017.

The Directors are also regularly updated on any changes to legal and governance requirements which will affect the Group and also themselves as Directors.

5. UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 Compliance with applicable financial reporting standards

The Board acknowledges its responsibility to ensure that the Company's and the Group's financial statements present a true and fair view of the state of affairs and are prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the provisions of the Companies Act, 2016.

The Board is also committed to providing the highest level of disclosure possible to ensure integrity and consistency of the financial reports.

The Group publishes full financial statements annually and condensed financial statements quarterly as required by the Main Market Listing Requirement of Bursa Malaysia.

The AC assists the Board in scrutinising the information for disclosure to ensure accuracy, adequacy and completeness.

5.2 Assessment of suitability and independence of external auditors

The AC is responsible to review and monitor the suitability and independence of external auditors annually. The External Audit Policy and Procedures on the assessment of external auditors had been established to provide guidance to the Group on the processes and procedures to review the independence of the External Auditors. The review should encompass an assessment of the qualifications and performance of the auditors, the quality and the auditor's communication with the AC and the Group, the auditor's independence, objectivity and professional skepticism.

The external auditors appointed by the Group should meet the qualification criteria as set out in the External Audit Policy particularly the audit engagement team involved in making key decisions on significant matters. The AC should also ensure that the provision of non-audit services by an external auditor does not impair, either in fact or appearance, the auditor's objectivity, judgement or independence.

The AC was satisfied with the suitability of Messrs Ernst & Young ("EY") based on the quality of service and sufficiency of resources they provided to the Group. The AC was also satisfied with its review that the non-audit services provided by EY for financial year ended 2016 did not in any way impair their objectivity and independence as external auditors of the Group.

The AC had carried out the annual assessment on the external auditors and had recommended to the Board for consideration for further recommendation to the Shareholders for approval at the 47th AGM on the appointment of EY as external auditors of the Group for the financial year ended 2017.

The Group had then recommended for the external auditors, Messrs Ernst & Young to continue to provide the independent assurance to shareholders on the Company's and the Group's financial statements. The Board maintains a formal and transparent relationship with the auditors to meet their professional requirements.

The role of the AC in relation to the internal and external auditors is described in the AC Report section of the Annual Report.

6. RECOGNISE AND MANAGE RISK

6.1 Sound framework to manage risks

The Board is ultimately responsible for risk oversight within the Group through the RMC. The RMC is responsible to periodically review the Risk Management policies, risk exposure and limit whilst ensuring infrastructure and resources are in place. Management Committees such as MANCO, CARAC, ALCO, IAR and IT Steering Committee assist the RMC in managing credit risk, operational risk, market risk, liquidity risk and other material risk.

The Group continues to maintain and review its internal control procedures to ensure proper oversight of the Management of all risks.

6.2 Internal audit function

The Board has the overall responsibility of maintaining a sound system of internal controls to safeguard shareholders' investment and the Company's assets.

The AC through the IAD reviews the effectiveness of the system of internal controls of the Group periodically. The review covers the financial, operational and compliance controls.

The details of the Internal Audit functions are listed in pages 91 to 92 of this Annual Report.

6.3 Shariah Governance

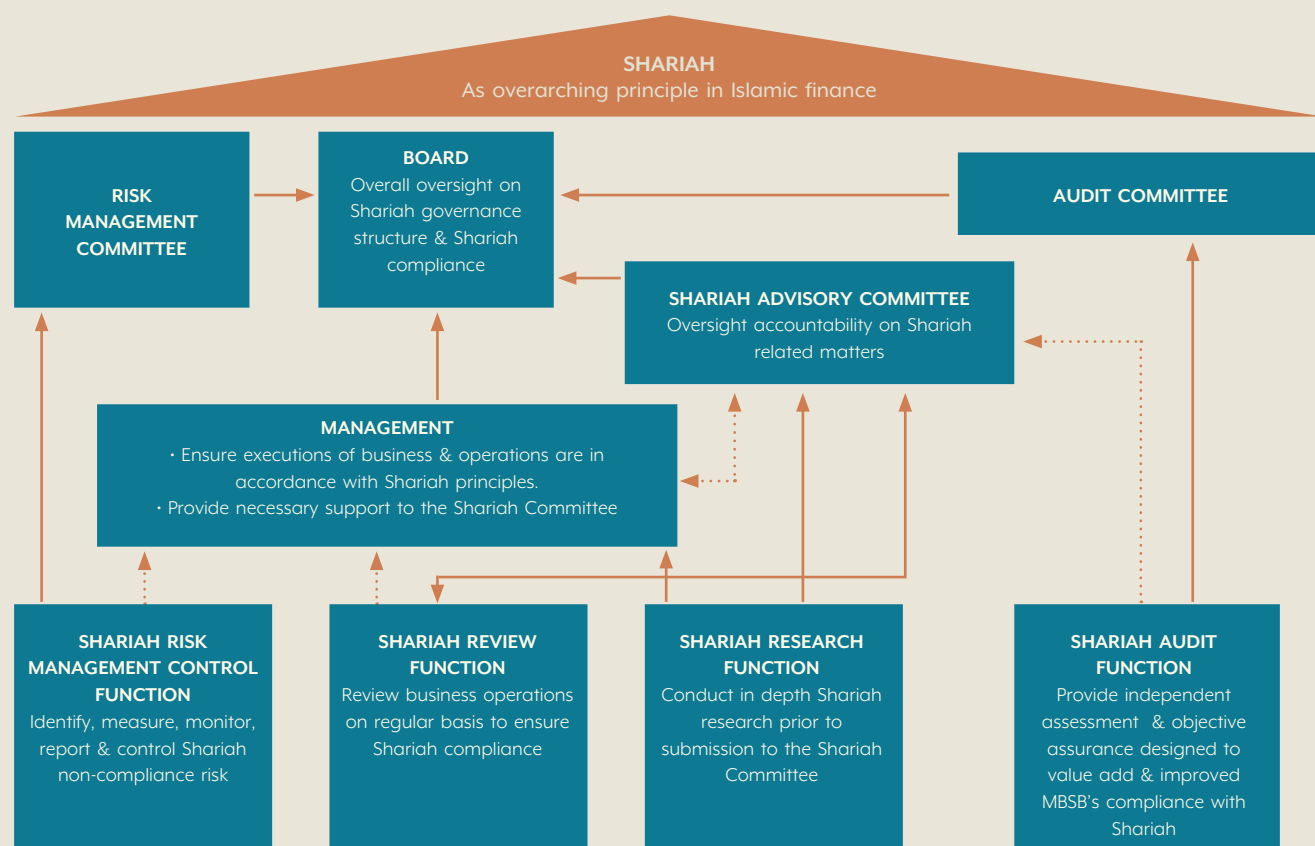
The Board has established and implemented a comprehensive Shariah Governance Framework since 2013. Since the introduction of the Shariah Governance Framework, MBSB has achieved significant milestones towards institutionalising governance structures, policies and processes to promote end-to-end Shariah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

There are 5 Shariah experts who are providing oversight over MBSB Islamic products & operations. MBSB has also implemented Shariah risk management control functions and dedicated resources to manage Shariah non-compliance risks within the Islamic financial system.

Efforts to further strengthen Shariah Governance standards remain a priority to MBSB as good governance models and practices evolve in tandem with the growing complexity of the Islamic financial industry. As such, the Shariah Governance Framework for MBSB envisions the future of Shariah Governance impacting business model and strategy of MBSB as an Islamic focused financial institution as well as driving innovation of value-adding Islamic financial products through effective implementation of the Shariah contract-based regulatory framework.

STATEMENT ON CORPORATE GOVERNANCE

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



7. TIMELY AND HIGH QUALITY DISCLOSURE

7.1 Corporate Disclosure Policy

The Board acknowledges that timely, complete and accurate disclosure is crucial to fair and orderly trading of securities. Hence, the Group is committed to provide the investors with high quality information on a timely manner.

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

Clear roles and responsibilities of the Directors, Management and employees are provided in the Corporate Disclosure Policy and the designated spokesperson responsible to communicate with all audience of the material information/announcement to internal and external stakeholders had been identified.

The Board of Directors, Management and employees of the Group are required to observe this Corporate Disclosure policy. The Group is mindful and will ensure timely disclosure of material information in accordance with the Bursa Malaysia's and other applicable legislation.

7.2 Information technology for effective dissemination of information

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

MBSB also provides an abridged version of the Annual Report together with its Annual Report in CD format, highlighting key financial information to facilitate shareholders' easy access to such key information.

8. STRENGTHENING RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 Encouraging shareholders' participation at AGM

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

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

8.2 Poll Voting

In line with the best practice in Corporate Governance and subsequently the MMLR, voting at the AGMs since 2014 was conducted by poll instead of by show of hands. Poll voting fairly and accurately reflect the view of the shareholders by ensuring that every vote is recognised and this practice will enforce greater shareholders rights and it is consistent with the 1 share 1 vote principle.

The voting slips were issued by the Share Registrar upon registration, and were pre-printed with details of shareholders' name, identity card number/company number and total number of voting shares held. The polling process for the resolutions was conducted upon completion of deliberation of all items to be transacted at the AGM.

The results of the poll for each resolutions including votes in favour and votes against were announced by the Company Secretary, upon which the Chairman declared whether the resolutions were carried. The results were also announced via Bursa Malaysia on the same day for the benefit of all the shareholders. The Minutes of AGM were also made available on MBSB's website.

8.3 Effective communication and proactive engagements with shareholders

All the Directors were present at the last AGM which was held on 5 May 2016. The proceedings of the AGM included the presentation by the PCEO of the Group's financial performance to the shareholders and the Questions and Answers session during which the Chairman invited the shareholders to raise questions pertaining to MBSB's financial statements and other pertinent questions before putting a resolution to vote.

The Directors, PCEO, Management together with the external auditors and advisers were in attendance to respond to the shareholders' queries. The PCEO also shared with the shareholders the Company's responses to questions submitted in advance of the AGM by the Minority Shareholders Watchdog Group. The Officers of the Company were also present at the AGM to handle other enquiries from the shareholders.

9. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required by the Companies Act, 2016 to prepare financial statements for the financial year which have been made out in accordance with the applicable MFRS, IFRS and the provisions of the Companies Act, 2016 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 then ended.

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 judgements and estimates, and that applicable MFRS and IFRS have been complied with.

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 Companies Act, 2016.

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.

STATEMENT ON CORPORATE GOVERNANCE

10. ADDITIONAL COMPLIANCE STATEMENT

Utilisation of Proceeds Raised from any Corporate Proposal

During the financial year ended 31 December 2016, the following were carried out by the Group:

1. Dividend Reinvestment Plan ("DRP")

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

2. Two Call Rights Issue

The status of utilisation of proceeds from Rights Issue as at 31 December 2016 is as follows:-

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation	Deviation Amount RM'000	%
Purchase of liquefiable assets	511,000	511,000	Within 12 months – end of July 2017	NA	NA
Expansion of financing business	1,100,000	1,100,000	Within 12 months – end of July 2017	NA	NA
Working capital purposes	86,000	–	Within 12 months – end of July 2017	NA	NA
Defrayment of estimated expenses in relation to the Rights Issue	14,000	12,167	Within 6 months – end of January 2017	NA	NA
Total	1,711,000	1,623,167			

Audit and Non-Audit Fees

Apart from the annual audit fees, the Group has incurred other assurance related fees of and non-audit fees paid or payable to external auditors of MBSB, Messrs Ernst & Young or its affiliates for the financial year ended 31 December 2016.

	Company (RM'000)	Group (RM'000)
Fees paid/payable to Ernst & Young		
Audit Fees	533	626
Regulatory Related		
– Statement on Risk Management and Internal Control	5	5
Non-Audit Fees		
– Review of Risk Weighted Capital Ratio	12	12
– Tax	136	136
– Audit for Subsidiaries Liquidation	5	5
– ICAAP	59	59
– GST Port Implementation	96	96
– Review of Rights Issue	150	150
Total	996	1,089

Material Contracts with Related Parties

Save as disclosed in note 35 to the financial statements, there are no other material contracts subsisting at the end of the financial year or entered into since the end of the previous financial year by the Company and its subsidiaries which involves interests of the Directors, PCEO and major shareholders.

Dividend Payment Policy

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

Employees Shares Option Scheme ("ESOS")

The share options granted to PCEO as at 31 December 2016 was as follows:

Name	Revised Exercise Price (RM)	As at 1.1.2016	Granted	Adjusted	Exercised	As at 31.12.2016
Datuk Seri Ahmad Zaini bin Othman	1.42	190,936	–	79,525*	–	270,461

* 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.

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

As at 31 December 2016, the actual percentage of total options granted to senior management of MBSB under the ESOS was 15.31% of the total ESOS granted.

Details of the ESOS during the financial year 2016 are set out under Note 22 of the Notes to the Financial Statements in this Annual Report.

11. STATEMENT ON COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

Having reviewed the governance structure and practices of the Company and the Group, the Board considers that it has complied with the best practices as set out in the Code as well as the items set out in Part A of Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia in relation to the requirement of a separate disclosure in the Annual Report.

This Statement on Corporate Governance was approved by the Board of Directors on 22 March 2017.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

As a listed company on Bursa Malaysia, the Board of Directors have an obligation under Bursa Malaysia Securities Berhad Listing Requirements, to ensure that a statement on the state of the Group's risk management and internal control system is included in this Annual Report. The following Statement on Risk Management and Internal Control is prepared in accordance with the guidelines as set out in the "Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers".

BOARD'S RESPONSIBILITY

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

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

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

The Board is satisfied with the implementation of risk management process within the Group which encompasses the identification, measurement, monitoring, control and reporting of the relevant material risks as well as emerging risks faced by the Group in

achieving its business goals and objectives which had taken into consideration of the changes in the business environment and regulatory requirements. The outcome of this process is closely monitored and reported in a timely manner to the Board for deliberation. This ongoing process has been in place for the entire financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report.

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

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

RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

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

Responsibility for implementing the Group's strategies and day-to-day businesses are delegated to the Management. The organisation structure sets out clear segregation of roles and responsibilities, lines of accountability and levels of authority to ensure effective and

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

GROUP RISK MANAGEMENT FRAMEWORK

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

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

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

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

Sound risk management and internal control practices have been implemented, covering three lines of defence. The Business Units form the first line of defence against risk by managing risk-reward trade-off within the scope of the Group's risk tolerance and policies. The second line of defence is made up of the Group Risk Management Division (GRM), Compliance Division and Legal Division, and is responsible for ensuring that the necessary balance in risk versus

return decisions is not in any way compromised by business pressures to generate revenues. In addition, the Group has a Project and Property Management Division which acts as a second line of defence for financing applications involving property development projects as the division will provide an independent estimate of the costs and projected revenue of the project/contract and assess the viability of the project/contract. The Board and RMC along with Internal Audit Division, being the third line of defence, provide an independent assessment of risk management processes and infrastructure and the adequacy and effectiveness of risk policies and internal controls.

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

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

It is crucial for the Group to maintain adequate capital levels not only during the normal business cycle but also during unfavourable economic conditions. Therefore, the Group would always consider any potential shortfall of its capital adequacy during stressed periods. The Stress Test Policy for MBSB and its Group sets out to maintain adequate capital levels. It prescribes the minimum level, which shall be observed to ensure prudent conduct in such activities. Stress testing involves identifying possible events or future changes in the financial and economic conditions that could have unfavourable effects on the Group's exposure and the assessment of the Group's ability to withstand such changes, usually in relation to the capacity of the capital and earnings to absorb potentially significant losses. Stress testing is applied in identifying potential vulnerable risk areas of the Group's portfolio to exceptional but plausible events. It examines an alternative future that could cause problems in the portfolio, thus, enabling the Group to determine how bad those problems could become and prepare for them. In addition, by applying these exceptional but plausible events to the portfolio, stress tests are utilised to better understand the risk profile, evaluate business risks

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

and thus take appropriate measures accordingly. The stress testing encompasses the relevant material risks affecting the Group and assesses the organisation's ability to withstand stress in terms of financial soundness ie. Balance Sheet, earnings and capital adequacy.

RISK MANAGEMENT COMMITTEE

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

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

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

During the financial year ended 31 December 2016, a total of 9 RMC meetings were held. The Committee comprises the following members and details of their attendance of meetings held during the financial year are as follows:

Name of Members	Number of Meetings Attended/Held
Encik Lim Tian Huat	9/9
Encik Aw Hong Boo	9/9
Dato' Jasmy bin Ismail	9/9

MANAGEMENT COMMITTEES

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

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

- **CARAC** deliberates and approves corporate and retail loans/financing, within the authority limit delegated by the Board. Where the prospective corporate and retail loans/financing is not within CARAC's authority limit, it would recommend the loans/financing to the relevant Board/Board Committee for approval.
- **ALCO** serves as the primary oversight and decision making body that provides strategic direction for the management of market risk and liquidity risk. The committee also monitors capital adequacy through capital management.
- **IAR**, in attending to corporate and retail loans/financing, reviews and evaluates the position of loan/financing accounts that are in arrears or require closer monitoring and determines the course of action to be taken for these accounts. On a portfolio level, the committee assesses the quality of the retail and corporate loan/financing portfolios and evaluates any significant trends detected.
- **IT Steering Committee**, as the senior governance and policy making body for information technology (IT) at MBSB, ensures that MBSB's planning for and investment in IT supports the organisation's strategic goals.

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

GROUP RISK MANAGEMENT DIVISION

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

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

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

Risk Identification	<ul style="list-style-type: none"> • Risks are identified through the application of the Group's risk frameworks, policies and procedures. • Risks inherent in products and business activities are identified upfront at the point of introduction, as well as on an ongoing basis via various avenues, including, product reviews, Risk Control Self Assessment (RCSA), Key Risk Indicators (KRI), incident/loss event reports, and through reviews conducted by the Internal Audit division. This includes the identification of any emerging risks that may have a significant impact on the Group. • The usage of key risk indicators enables early detection of risk, in order to ensure that adequate risk management controls and procedures are in place to ensure appropriate management of these risks in an informed and strategic manner. • Material risks faced by the Group are identified by determining events or scenarios that may adversely impact the Group. The details of the identification process and the results are documented in MBSB's Material Risk Assessment document.
Risk Measurement	<ul style="list-style-type: none"> • Risks are measured and aggregated using Group-wide methodologies across each of the risk types. • Qualitative and quantitative risk measurement techniques have been developed across different dimensions of risk factors, including stress testing methodologies, credit risk grading methodologies, and ratios for various types of risk.
Risk Controls	<ul style="list-style-type: none"> • Controls and limits are used to manage risk exposures within the risk appetite set by the Board. The risk appetite is disclosed in the Group's Risk Appetite Framework. • Qualitative and quantitative controls including risk triggers and limits have been developed to oversee and manage significant risk exposures. • Risk mitigation techniques have been implemented in order to minimise existing or to prevent new or emerging risks from occurring. • These controls and limits are regularly monitored and reviewed in the face of evolving business needs, market conditions and regulatory changes.
Risk Monitoring and Reporting	<ul style="list-style-type: none"> • Risks are being monitored on an on-going basis. Risk Management reports addressing the Group's risk exposure (on an individual and portfolio basis), risk portfolio composition and risk management activities are submitted to the Management, RMC and Board for their review on a regular basis. • Key risk indicators and early warning signals are monitored to ensure that sufficient and timely actions can be put in place to mitigate any potential risk for the Group. • Qualitative and quantitative metrics are assigned based on the key risks for the Group. The state of compliance of these indicators is reported to Management, RMC and the Board on a regular basis. • Operational risk incidents highlighted in incident/loss event reports are also reported to Management, RMC and Board regularly.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

- Implementation of new Corporate Scorecards to be more applicable to major sectors that the Group provides financing to;
- Enhancement of the Group's Fraud & Corruption Control Policies & Procedures to be more comprehensive and ensure all areas of fraud and corruption are addressed, with the necessary controls in place;
- Development of Stress Testing Policy to formalise the process of conducting stress tests, in order to ensure the Group is able to manage the impact of adverse conditions and has sufficient capital to absorb any losses;
- Validation and enhancement exercise conducted by an external party, of ICAAP components in line with BNM's requirements;
- Enhancement of Operational Risk Management Procedures to be in line with BNM's Operational Risk Guidelines;
- Tightening of credit underwriting criteria for selected products to ensure credit quality is controlled, in view of the forecasted challenging economic conditions;
- Enhanced monitoring and reporting of major risk exposures to the Management and Board in order to identify emerging risks on a timely basis; and
- Continued implementation of risk awareness initiatives through continuous staff engagement and issuance of risk bulletins.

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

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

INTERNAL AUDIT DIVISION

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

and reporting on the adequacy and integrity of the MBSB's system of internal controls. In doing so, the Internal Audit Division adopts the following guidelines/practices:-

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

The core functions of an Internal Audit Division according to BNM are:

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

(ii) International Professional Practice Framework

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

(iii) The function of the Internal Audit Division is also guided by the Internal Audit Charter and Internal Audit manual.

During the year, the Internal Audit Division has carried out independent and objective reviews in accordance with an approved audit plan covering credit operations, treasury, financial accounting and operational controls. The annual audit plan is developed using a risk-based approach and is reviewed and approved by the AC. The Internal Audit Division has also performed a Shariah audit to ensure that the Group's Islamic products and practices are Shariah Compliant. The Internal Audit Division has also carried out investigations/reviews at the request of the Management/AC and has been involved in a consultative manner in the review of MBSB's policies and procedures.

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

COMPLIANCE FUNCTION

Compliance management is the collective responsibility of the Board, Senior Management and every employee of the Group. The Group Compliance function is driven by the Compliance Division, whereby its main function is to identify and manage compliance risk at the

Group level through consistent compliance monitoring and testing carried out across the group.

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

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

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

- Development and implementation of Responsible Financing and FATCA Health Checks to ensure continuous compliance with relevant mandatory Acts and regulatory Guidelines by MBSB staff;
- Development of Shariah Health Check to ensure MBSB's continuous adherence with Shariah requirements pursuant to the Shariah Governance Framework (SGF) issued by BNM as well as MBSB's internal SGF;
- Conducted trainings on FATCA, AML/CFT and PDPA to increase awareness and knowledge on the aforementioned regulations and relevant latest developments;
- Continuous Shariah Compliance Review to ensure product development, structure, concept, legal documentation, operation and activities of MBSB's Islamic Financing products are in compliance with Shariah requirements; and
- Continuous Compliance Thematic reviews on pertinent regulatory requirements. In addition, the review has been extended to SSCs, covering pertinent regulatory and operational requirements as the scope of the review.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

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

- A detailed integrated budgeting process has been established, resulting in clear ownership of business objectives, plans and the expected financial outcome based on the Board's approved budget. The Group's budget and business plan as well as strategic initiatives, taking into account the risk appetite, are deliberated by the Management and the Board on an annual basis. The Board also reviews the operational and financial performance of the Group. Quarterly management reports are presented to the Board providing information on the financial performance and risk exposure of the Group to enable the Board to effectively oversee the Group's overall performance objectives, key initiatives, financial plans and annual budget;
- A clear, effective and robust Group corporate governance structure is in place with well-defined, transparent and consistent lines of responsibility established within the Group;

In addition to the RMC and the AC, the Board is supported by other established Board Committees in the execution of its responsibilities namely, the EXCO and Nominating & Remuneration Committee, details of which are set out in the Statement on Corporate Governance. Each committee has clear terms of reference;

- An Approving Authority Policy with appropriate empowerment and authority limits has been approved by the Board, including authorisation limits at various levels of Management in the Group, to ensure accountability and responsibility;
- The Group's Risk Appetite Framework articulates the nature, type and level of risk the Group is willing to assume and is approved by the Board on an annual basis. The compliance to the risk appetite is monitored on a periodic basis and any non-compliance to the risk appetite framework is reported to the Board;
- The Risk Control Self-Assessment (RCSA) serves as a tool to empower risk owners to perform risk analyses on their business operations. The RCSA allows risk owners to identify, assess, mitigate, monitor and report operational risk at a process level. The objective is to ensure that processes become inherently stronger, in its effort to reduce residual risk and the number of lapses in the processes;
- Business Continuity Management (BCM) policies have been established for the Group. The processes are regularly tested during the year with the relevant department/division to ensure the effectiveness of the process. The BCM programme serves as a guideline for the Group to resume critical operations within the required timeframes and minimises the cost of damages and interruptions due to disasters;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

of integrity. The policy establishes robust and comprehensive programmes and controls for the Group as well as highlights the roles and responsibilities at every level for preventing and responding to fraud. Where suspected fraud is detected, the Group ensures prompt investigations and disciplinary actions are taken accordingly; and

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

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the annual report for the financial year ended 31 December 2016. Their review was performed in accordance with Recommended Practice Guide (RPG) 5 issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have assured that this Statement is consistent with their understanding of the process that the Board has adopted in the review of the adequacy and effectiveness of the Group's risk management and internal control system.

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

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

The statement was approved by the Board of Directors on 22 March 2017.

AUDIT COMMITTEE REPORT

The Audit Committee (AC) of MBSB is committed to its role in ensuring high corporate governance practices and providing oversight on the Group's financial reporting, risk management and internal control systems.

1.0 THE AUDIT COMMITTEE

The AC consists of four (4) Directors which two of the members namely Encik Aw Hong Boo and Encik Lim Tian Huat are Chartered Accountants and members of the Malaysian Institute of Accountants (MIA) whilst Encik Szaliza bin Zainuddin is an Associate Member of the Association of Chartered Certified Accountants (ACCA). This meets the requirement of the Bursa Securities Listing Requirements which requires at least one qualified accountant as a member of the AC.

During the financial year ended 31 December 2016, a total of 10 Audit Committee meetings were held. The Audit Committee comprises of the following members and the details of attendance of each member at the Committee meetings held during the financial year are as follows:-

Name of Members	Number of Meetings Attended/Held
Encik Aw Hong Boo <i>(Senior Independent Non-Executive Director/ Chairman)</i>	10/10
Encik Lim Tian Huat <i>(Independent Non-Executive Director)</i>	10/10
Datuk Shahril bin Ridza Ridzuan ¹ <i>(Non-Independent Non-Executive Director)</i>	10/10
Dato' Jasmy bin Ismail ² <i>(Independent Non-Executive Director)</i>	7/7
Encik Szaliza bin Zainuddin ³ <i>(Non-Independent Non-Executive Director)</i>	N/A

Notes:-

¹ Resigned as member of Audit Committee on 22 March 2017

² Appointed as a member on 10 March 2016

³ Appointed as a member on 22 March 2017

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

2.0 AUTHORITY

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

3.0 SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

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

3.1 Financial Reporting

- Reviewed the quarterly unaudited financial results of MBSB and MBSB Group prior to recommending to the Board of Directors for approval with particular focus on the main factors contributing to the financial performance in terms of revenue and operating expenses.
- Reviewed the impact of any changes to the accounting policies and adoption of new accounting standards as well as the accounting treatments used in the financial statements.
- Reviewed the annual audited financial statements of MBSB and MBSB Group and discussed with the Management and external auditors prior to submission to the Board of Directors for their approval. The review was to ensure that the accounting treatment, financial reporting and disclosures are in compliance with:
 - Provisions of the Companies Act 1965;
 - Listing Requirements of Bursa Malaysia Securities Berhad;
 - Applicable approved accounting standards in Malaysia; and
 - Other legal and regulatory requirements

AUDIT COMMITTEE REPORT

3.2 Internal Audit

- (a) Reviewed and approved the Annual Audit Plan (AAP) to ensure adequate scope and comprehensive coverage over the activities of MBSB and ensured that all high risk areas are audited annually.
- (b) Reviewed the status of completion of the AAP, resource requirements for the year and assessed the performance of Internal Audit Division.
- (c) Reviewed the internal audit reports tabled during the year, which outlined the audit issues, recommendations and management's response thereof. Discussed with management and where appropriate, directed management to rectify and improve the system of internal controls and workflow processes based on the internal auditors' recommendations for improvement to ensure control lapses are addressed.
- (d) Monitored the corrective actions taken on the outstanding audit issues to ensure that all the key risks and control lapses have been addressed.
- (e) Reviewed the performance, progress and adequacy of coverage of the internal audit function.
- (f) Reviewed the staffing requirements of Internal Audit Division and the skills and the core competencies of the internal auditors.
- (g) Reviewed and approved the revised Audit Charter which incorporated risk assessment methodology of compliance risk.
- (h) Reviewed and recommend to the Board of Directors for approval the revised Terms of Reference of Audit Committee which incorporated the changes in the Main Market Listing Requirements, Malaysia Code of Corporate Governance 2012 and BNM Code of Corporate Governance issued in August 2016.
- (i) Conducted annual reviews of the Business Contingency Plan and Disaster Recovery Plan testing to ensure compliance with the MBSB's Guidelines on Business Continuity Management.
- (j) Reviewed the investigation reports tabled during the year and ensured appropriate remedial actions/ measures were taken.
- (k) Reviewed and approved the action plan to address the competency gaps and audit methodology of the Internal Audit function.
- (l) Reviewed the minutes of Audit Committee meetings for an overview of the deliberation and remedial actions taken by the Management on the control lapses raised by the Internal Auditors.

3.3 External Audit

- (a) Reviewed with the external auditors:-
 - their audit planning memorandum for the year ended 31 December 2016 comprising their audit plan, audit strategy and scope of work for the year.
 - their annual audit report and management letter together with management's response to the findings of the external auditors.
 - updates of new developments on Financial Reporting Standards issued by the Malaysian Accounting Standards Board.
- (b) Met the external auditors twice for discussion without the presence of the Management.
- (c) Assessed the independence and objectivity of the external auditors during the year and prior to the appointment of the external auditors for ad-hoc non-audit services. The Committee also received from the external auditors their policies and written confirmation regarding their independence and the measures used to control the quality of their work.
- (d) Evaluate the performance and effectiveness of the external auditors and made recommendations to the Board of Directors on their audit fees and for their reappointment to hold office until the conclusion of the next annual general meeting. The evaluation of the external auditor would include the following:
 - (i) Performance
 - Level of knowledge, capabilities, experience and quality of previous work;
 - Level of engagement with the board;
 - Ability to provide constructive observation, implications and recommendation in areas which require improvement;
 - Appropriateness of audit approach and the effectiveness of audit planning and
 - Ability to perform the audit work within the agreed duration given
 - (ii) Independence and objectivity
 - Non-audit services rendered by auditor does not impede independence
 - Auditor demonstrates unbiased stance when interpreting the standards/policy adopted by a financial institution
- (e) Reviewed and recommended the audit fees for FYE 2016 and 2017 for Board of Directors' approval.

3.4 Policy Review and Other Matters

- (a) Reviewed the Report of Audit Committee for inclusion in the MBSB's 2016 Annual Report before recommending to the Board for approval.
- (b) Reviewed the disclosure statements on compliance with the Malaysian Code on Corporate Governance and the statement of internal controls on the annual audited financial statements for inclusion in the MBSB's 2016 Annual Report before recommending to the Board for approval.
- (c) Tabled the minutes of each Audit Committee meeting to the Board for notation, and for further direction by the Board, where necessary.

3.5 Directors' Training

During the year, the Committee members have attended the relevant training programmes, conferences and seminars as detailed out on Pages 74 to 76 of this Annual Report.

4.0 STATEMENT ON INTERNAL AUDIT FUNCTION

- 4.1 The function of internal audit is an independent, objective assurance and consulting activity designed to add value and improve MBSB operations. It helps to accomplish these objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 4.2 The IAD was established to carry out the function of internal audit for MBSB. IAD assist the AC in discharging the Committee's duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the MBSB's system of internal controls. IAD is adopting the relevant requirements on internal audit:
 - (i) BNM/RH/GL (013-4) Guidelines on Internal Audit Function of Licenced Institutions

The core functions of an internal audit division in accordance to said BNM guideline are to:-

 - To perform an independent appraisal of activities as a service to the Management; and
 - To assist Management to establish and maintain the best possible internal control environment within the MBSB.
 - (ii) International Professional Practice Framework

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

- 4.3 The internal audit function is performed in-house and undertaken by MBSB's Internal Audit Division. The Internal Audit Division functionally reports to the Audit Committee as an independent unit that provides independent and objective assurance on the adequacy and effectiveness of MBSB's internal control systems implemented by the Management.
- 4.4 Internal Audit Division, as the third line of defence, checks for compliance with statutory/regulatory requirements, internal policies and procedures and review the work processes/ procedures for efficiency and effectiveness. In addition, Internal Audit Division assesses the operating effectiveness of the risk management and internal control systems. Internal Audit Division also carries out investigative audits where there are improper, illegal and dishonest acts reported.
- 4.5 The Internal Audit Division function which is guided by its Audit Charter and audit manual that formally documents the roles, duties and responsibilities of the internal auditors, reports functionally to the Audit Committee and administratively to the President/Chief Executive Officer.

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

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

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

- 4.7 The Internal Audit Division provides periodic reports to the Audit Committee deliberating the results of the audit conducted in terms of risk management of the unit, operating effectiveness of internal controls, compliance with internal and regulatory requirements and overall management of the unit. Key control issues, significant risks and recommendations are highlighted along with the Management's responses and action plans for improvement and/or rectification where applicable. This enables the Audit Committee to execute its oversight function by forming an opinion on the adequacy of measures undertaken by the Management.

AUDIT COMMITTEE REPORT

4.8 The Internal Audit Division in performing its duties covered all units and operations of MBSB. The selection of the units to be audited from the audit universe was based on the Annual Audit Plan which was premised on a risk-based approach with the emphasis on the following main core audit strategies:-

- (a) Financial Audit with the primary objective was to provide an independent, reasonable assurance of the accounting system and information.
- (b) Credit audit of Head Office/Sales and Service Centres covering the credit underwriting of post-disbursed loan, credit operations, security documentation and credit recovery.
- (c) Operational audit with the primary objective to ensure effective operations of business and banking processes were discharged.
- (d) Treasury audit with the aim to ensure that Treasury operations were in-line with the objectives and strategies of the asset and liabilities management and the approved policies and procedures as well as to ensure proper authentication and verification of treasury transactions.
- (e) Information System (IS) audit with the primary objective to ensure that the in-house application system and those outsourced systems in respect of the process data migration, operations, access control, physical security, maintenance and its contingency planning were in accordance with MBSB's policies and procedures.

Internal Audit Division also conducts audits on the information systems of MBSB to ensure that the computing resources are adequately secured to protect the data integrity and confidentiality, and there are adequate measures to safeguard and provide for the continued availability of the system to support business operational needs.

- (f) Shariah Audit with the primary objective is to ensure that MBSB is discharging its responsibilities in compliance with Shariah rules and principles as prescribed by the MBSB Shariah Advisor Council (SAC).

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

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

4.9 During the financial year ended 31 December 2016, the Internal Audit Division has carried out the following activities:-

- (a) Presented its audit plan, audit budget and scope of work to Audit Committee for approval. The internal auditors have adopted a risk-based approach towards the planning and conduct of audits, which is designed to evaluate and monitor MBSB's internal controls system.
- (b) Conducted the scheduled audits and tabled the audit reports to Audit Committee highlighting the audit findings, issues and recommendations for improvement.
- (c) Follow-up on management corrective actions on unresolved audit findings and reported the status to the Audit Committee.
- (d) Performed ad-hoc audit assignments and investigations at the request of the Audit Committee on areas of concern identified by the Audit Committee.
- (e) Provided advisory services to review the operational guidelines and manuals to ensure pertinent controls embedded are consistent with the changes in businesses and operations.
- (f) Worked closely with the external auditors to resolve any control issues as raised by external auditors to ensure that significant issues are duly acted upon by the Management.
- (g) The external quality assessment is conducted by a qualified independent reviewer once every five years which the last was performed in 2013 by PricewaterhouseCoopers (PwC). The result of external assessment is tabled to the Audit Committee for deliberation and information. The next cycle for the assessment would be in year 2018.

4.10 The cost incurred for the internal audit function in respect of the financial year ended 31 December 2016 amounted to RMI,808,608.

5.0 INTERNAL AUDIT REPORTS

The Internal Audit Division completed 80 assignments and 22 consultancy services during the year covering audits of all key operations and investigations carried out. All findings by the Internal Audit Division are tracked and followed up until closed.

TERMS OF REFERENCE OF AUDIT COMMITTEE

1.0 COMPOSITION OF THE COMMITTEE

The Board of Directors shall appoint the Committee from amongst its members who fulfil the following requirements:-

- 1.1 At least three (3) non-executive directors, a majority of whom are independent directors;
- 1.2 At least one member of the audit committee:-
 - (i) must be a member of the Malaysian Institute of Accountants; or
 - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
 - (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountant Acts 1967; or
 - (bb) he must be a member of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
 - (iii) fulfils such other requirements as prescribed or approved by the Bursa Malaysia Securities Berhad.
- 1.3 No alternate directors shall be appointed as a member of the Committee.
- 1.4 The members of the Committee must elect a Chairman from among themselves who is an Independent Director.
- 1.5 All members of the Committee hold office only so long as they are Directors of the Company. In the event the vacancy in the Committee, arising from retirement or resignation or non-compliance with paragraphs 1.1, 1.2 and 1.4 above, with the result that the number of members is reduced below 3, the Board of Directors must fill the vacancy within 3 months.

2.0 OBJECTIVES

The primary objectives of the Committee are to:-

- 2.1 Assist the Board of Directors in fulfilling its fiduciary responsibilities particularly in the areas of accounting and management controls, financial reporting and to ensure financial statements comply with the applicable financial reporting standards;
- 2.2 Reinforce the independence and objectivity of the Internal Audit Division;
- 2.3 Provide the focal point for communication between external auditors, internal auditors, risk managers, Directors and the Management on matters in connection with accounting, reporting, risks and controls and providing a forum for discussion independent of the Management; and
- 2.4 Undertake additional duties as may be deemed appropriate and necessary to assist the Board of Directors.

3.0 RIGHTS

The Committee shall:-

- 3.1 Have the authority to investigate any matter within its terms of reference;
- 3.2 Have the resources, which are required to perform its duties;
- 3.3 Have full and unrestricted access to any information pertaining to the Company and the Group;
- 3.4 Have direct communication channels with external auditors, internal auditors and risk managers;
- 3.5 Be able to obtain independent professional or other advice; and
- 3.6 Have the authority to convene meetings with external auditors, internal auditors or both, in the absence of other directors and employees, at least twice a year.

4.0 DUTIES AND RESPONSIBILITIES

The following are the main duties and responsibilities of the Audit Committee:-

4.1 External Audit

- (a) To review with external auditors, their audit plan, scope and nature of the audit.
- (b) To review with external auditors, their audit report and audit findings and Management's response including the status of previous audit recommendations.

AUDIT COMMITTEE REPORT

- (c) To recommend the nomination of a person or persons as external auditors.
- (d) To consider the appointment of external auditors, their audit fee and any question of their resignation or dismissal and to make recommendations to the Board.
- (e) Assess the qualification, expertise, resources, effectiveness, suitability and independence of the external auditors.
- (f) Monitor the effectiveness of the external auditors' performance and their independence and objectivity.
- (g) Review the assistance given by the Group's officers to the external auditors and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
- (h) To approve the provision of non-audit services by the external auditors, evaluating whether such non-audit services would impair their independence.
- (i) To ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgement of the auditors.
- (j) To meet with the external auditors at least once a year without the presence of the management to discuss any key concerns and obtain feedbacks.
- (k) To ensure that the financial statements are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions for loan impairments and values ascribed to financial instruments.
- (l) Maintaining regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the AC on significant matters.
- (m) Ensuring that senior management is taking necessary corrective actions in a timely manner to address external audit findings and recommendations.

4.2 Financial Reporting

To review the Group's quarterly financial statements and reports, the Group's and Company's audited annual financial statements before submission to the Board of Directors for approval, focusing on:-

- (i) Changes in or implementation of major accounting policy changes;

- (ii) Significant matters highlighted including financial reporting issues, significant judgements made by management, significant and unusual events or transactions, and how these matters are addressed; and
- (iii) Compliance with accounting standards and other legal requirements.

4.3 Related party transaction

- (i) Review any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedures or course of conduct that raises questions on Management's integrity.
- (ii) Monitor compliance with the board's conflicts of interest policy.

4.4 Internal Audit

To establish an internal audit function and identify a Head of Internal Audit who reports directly to the Audit Committee. The Head of Internal Audit will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control and governance processes within the Company and the Group.

To do the following, in relation to the internal audit functions:-

- (a) Review the adequacy of the scope, procedures, frequency, functions, resources and competency of the Internal Audit Division and that it has the necessary authority to carry out its duties.
- (b) Reviewing key audit reports and ensuring the senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws regulatory requirements, policies and other problems identified by the internal audit and other control functions.
- (c) To perform the appointment, transfer or removal of the Head of Internal Audit. The appraisal of the Head of Internal Audit would be evaluated and moderated by the Chairman of the Audit Committee.
- (d) To evaluate and review or assessment the performance and decide on remuneration package of internal auditors.
- (e) Approve any appointment or termination of senior staff members of the internal audit function;
- (f) Take cognisance of resignations of senior internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

- (g) Ensure that the internal audit function is adequately resourced and staffed with competent and well trained officers.
- (h) Ensure the independence of the internal audit function.
- (i) On a regular basis, meet separately with the Head of Internal Audit to discuss any matters that the committee or internal audit believes should be discussed privately.
- (j) To ensure the internal audit function is well placed to undertake review or investigation on behalf of the AC, thus internal auditors should have an appropriate standing within the institution and be placed under the direct authority and supervision of the AC.
- (k) Review the effectiveness of the infrastructure for ensuring Shariah compliance.
- (l) Exercise direct authority and supervision over the functions of the Internal Audit Division and review its effectiveness and compliance with "BNM Guidelines on Internal Audit Function" requirement.
- (m) Noting significant disagreements between the Head of Internal Audit and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings.
- (n) Establishing a mechanism to assess the performance and effectiveness of the internal audit function.

4.5 Write off

To review, evaluate and endorse all debts writing off.

4.6 Others

- (a) To undertake any other activities as authorised by the Board of Directors.
- (b) To review operational policies and processes of the Group and to formulate new ones where appropriate with a view to improve efficiency, cost effectiveness and control over the resources of the Group.
- (c) Review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements.
- (d) Review third-party opinions on the design and effectiveness of the financial institution's internal control framework.

4.7 Training

The committee is entitled to and required to attend structured training programmes organised for independent directors to enable them to better fulfil their responsibilities.

5.0 MEETINGS

- 5.1 The Committee meets every quarter or more frequently as circumstances dictate.
- 5.2 In order to form a quorum in respect of a meeting of an audit committee, the majority of members present must be independent directors.
- 5.3 As part of its duty to foster communication, the President/ Chief Executive Officer, the Management Team and the Head of Internal Audit are invited to attend the meetings for the purpose of briefing the Committee on the activities involving their areas of responsibilities. The presence of the external auditors will be requested when required.
- 5.4 The Chairman of the Committee shall report and update the Board of Directors on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board of Directors.
- 5.5 The Chairman of the Committee should engage on continuous basis with senior management, the President/ Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and the external auditors in order to be kept informed of matters affecting the Company and the Group.
- 5.6 The Head of Internal Audit shall be the Secretary to the Committee.

OUR SUSTAINABILITY STATEMENT



Sustainability at MBSB

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FTSE4Good

SUSTAINABILITY AT MBSB

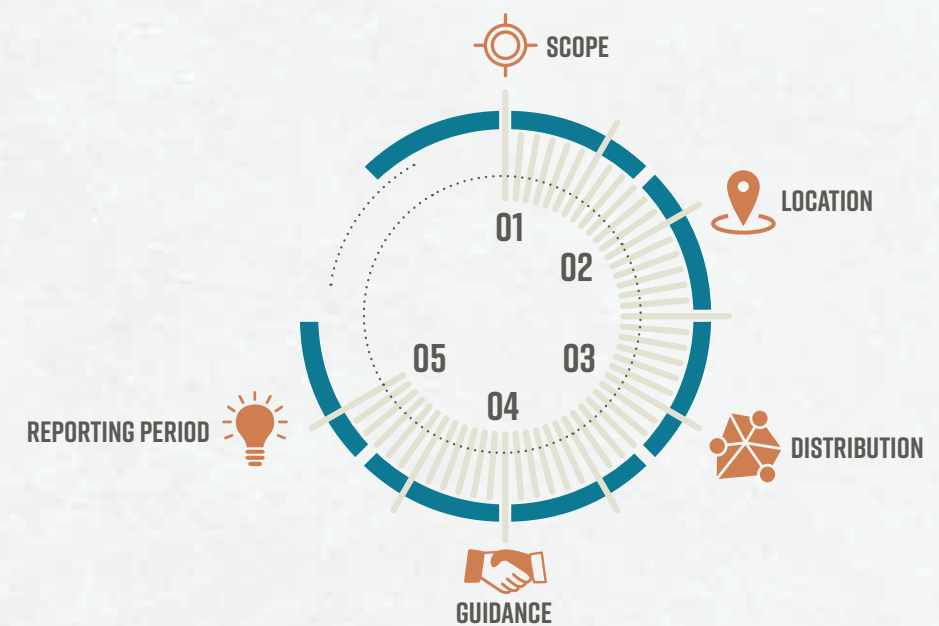
ABOUT THIS SECTION

This represents Malaysia Building Society Berhad (MBSB)'s inaugural Sustainability Statement. We have embarked on this journey to align ourselves with the needs of our economy, society and environment.

MBSB was founded on the basis of the community's trust in us to provide reliable and equitable financing solutions. We have always upheld this trust in the highest regard. This sustainability journey provides us with a vehicle to ingrain, action, track and report on the fundamentals of what our organisation strives to achieve for the community at large.

In addition, sustainability principles are in line with our aspirations to become a full-fledged Islamic finance institution. Guided by our Shariah principles, we will continue to move our organisation actively in this direction.

The information provided in this section is in compliance with Bursa Malaysia Securities Berhad's Main Market Listing Requirements.



01

All of MBSB's business operations

02

All operations across Malaysia

03

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

04

Bursa Sustainability Reporting Toolkit FTSE4Good Bursa Malaysia (F4GBM) Global Reporting Initiatives (GRI) G4

05

Covers period of 1 January 2016 to 31 December 2016 *(being the inaugural issue, highlights encompass some years preceding)*

FEEDBACK

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

PRESIDENT AND CEO'S STATEMENT



DATUK SERI AHMAD ZAINI BIN OTHMAN

“On the basis of the history of our organisation, societal responsibility has always been a top priority for us.

We are committed to serving our nation and our communities in a responsible and sustainable manner.

In our sustainability journey, we look to engage and learn with our stakeholders as we continue to grow our business together.”

Upholding our responsibilities towards sustainable growth in the years ahead

MBSB has long been centred on the needs of the rakyat of Malaysia. This has truly become apparent in our preparation for this inaugural Sustainability Section in our 2016 Annual Report.

Our themes throughout this section focus on how our business today continues to touch lives – providing homes and livelihoods to those who need them the most.

In our first ever exercise to determine our material matters, it was very heartening to see that the results consolidated from across the organisation resonated so closely with areas the organisation has always deemed important, namely:

 INTEGRITY AND GOVERNANCE

 EMPLOYEE DEVELOPMENT AND ENGAGEMENT

 CUSTOMER EXPERIENCE AND SATISFACTION

 RESPONSIBLE FINANCE IN INNOVATIVE PRODUCTS AND SERVICES



These priorities align directly with our goal of becoming a fully Islamic financial institution. We are convinced that pursuing these matters will lead us and our stakeholders towards inclusive and sustainable growth.

With our focus on the building industry, we are also conscious of the responsibility we hold towards the environment and we will be determining our long term approach and commitment in this area.

In 2017, we are committed to strengthening our relationships by driving the conversation of sustainability internally in our organisation, as well as externally with our stakeholders. We look forward to taking this journey together.

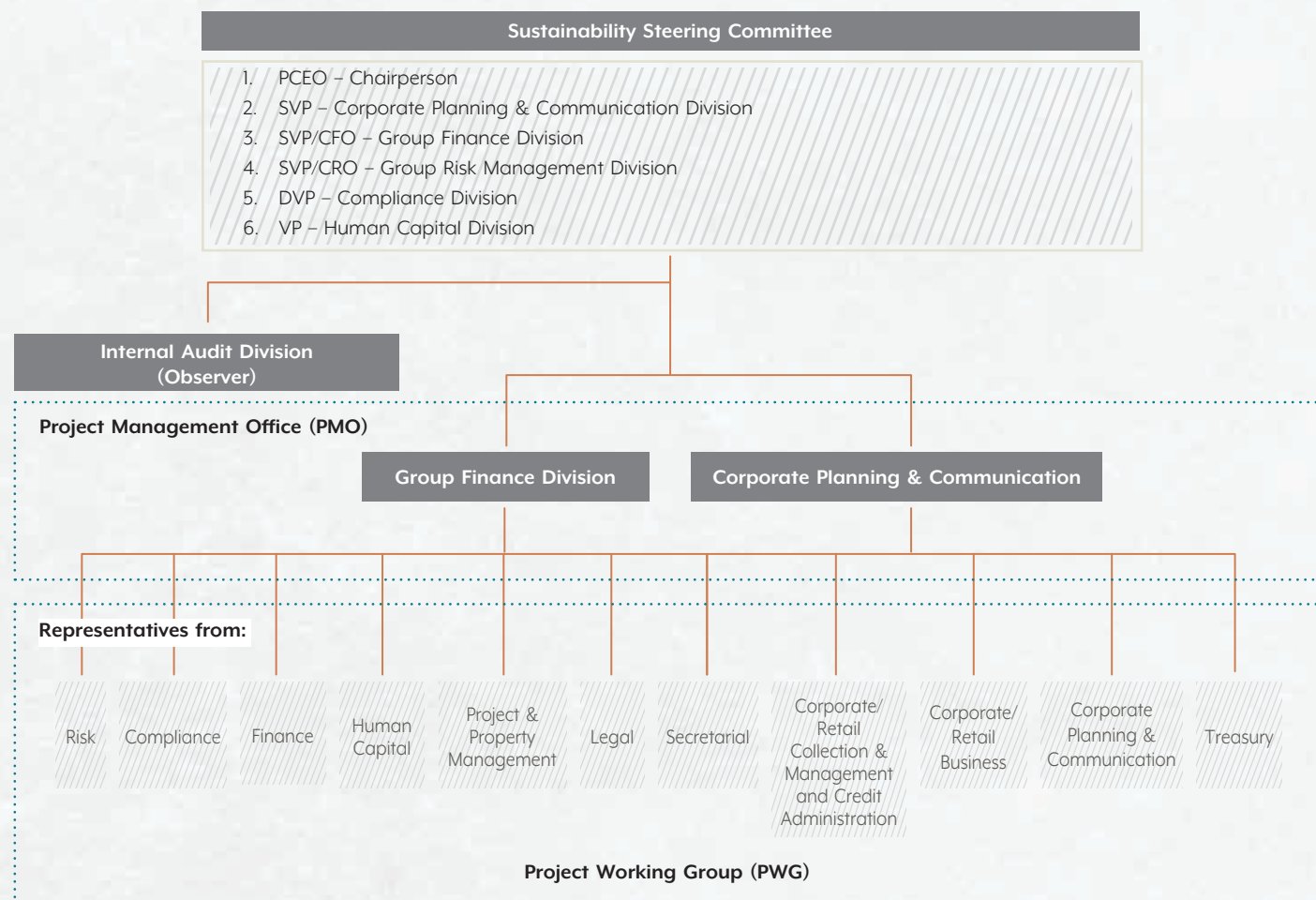
SUSTAINABILITY GOVERNANCE

MBSB is committed towards driving Sustainability across the organisation, and have established our Sustainability Governance Structure as illustrated below.

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 will act as an independent observer.

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

SUSTAINABILITY GOVERNANCE STRUCTURE



SUSTAINABILITY STEERING COMMITTEE



Datuk Seri Ahmad Zaini Othman
PCEO/Chairperson



Azlina Mohd Rashad
Senior Vice President,
Corporate Planning & Communication



Tang Yow Sai
Senior Vice President/Chief Financial Officer,
Group Finance



Lim Seong Soon
Senior Vice President/Chief Risk Officer,
Group Risk Management



Tengku Khalizul Tengku Khalid
Deputy Vice President,
Compliance



Abd Rahim bin Ahmad
Vice President, Human Capital

SUSTAINABILITY PMO

Tang Yow Sai
Senior Vice President/CFO,
Group Finance

Hee Wei Jean
Deputy Vice President,
Group Finance

Chan Chooi Han
Senior Manager, Group Finance

Azlina Mohd Rashad
Senior Vice President, Corporate
Planning & Communication

Zuhaznim Izzuddin
Manager,
Corporate Communication

Liew Cheng San
Manager, Corporate Planning



SUSTAINABILITY PROCESS

We initiated our process by running three workshops with our senior management team and representatives from 18 divisions. They consisted of:

- an “Introduction to Sustainability” workshop consisting of global definitions, views and trends, and local developments and regulations,
- a “Stakeholder Identification and Prioritisation” workshop consisting of a guided process of determining the initial plan for MBSB’s stakeholder engagement, and
- a “Material Matter Identification and Prioritisation” workshop consisting of a guided process of determining the most important issues relevant to MBSB. This resulted in the following list of the Top 4 Material Matters:



Following the workshop series and the results, input was drawn from 19 interviews of individuals across the organisation to kick off this sustainability reporting cycle. Data was also consolidated from representatives from every business unit.

The final report has been endorsed by the Board of Directors and is assured as true and accurate by MBSB’s Internal Audit Division, which acts as an observer for the Sustainability Governance structure.

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.

OUR STAKEHOLDERS

Our stakeholders are a key part of our sustainability plan. In 2016, we worked to consistently engage our stakeholders on our business decisions and direction, as listed below:

STAKEHOLDER GROUP	CHANNELS	MAIN TOPICS OF ENGAGEMENT
REGULATORS	Meetings, Briefings, Conferences, Policies	Matters regarding: <ul style="list-style-type: none"> • Regulatory Guidelines • Personal Data Protection Act and its Regulations • Common Reporting Standard (CRS) Regulations • FinTech • Islamic Finance • Wealth Management • Financial Crime and Terrorism Financing • Security Issues
EMPLOYEES	Townhalls, Trainings, Intranet, Programmes, Talks	Matters regarding: <ul style="list-style-type: none"> • Policies and Procedures • Employee Management • Development • Health and Fitness • CSR
CUSTOMERS	Event, Call Centre	Matters regarding: <ul style="list-style-type: none"> • Relationship Management • Issue Resolution
GOVERNMENT	Meetings, Conferences	Matters regarding: <ul style="list-style-type: none"> • Regulations • SLIM • Bumiputera Empowerment Agenda
SHAREHOLDERS	Analyst Briefings, Annual General Meeting	Matters regarding: <ul style="list-style-type: none"> • Financial Performance • Latest News
SUPPLIERS/SERVICE PROVIDERS	Briefings	Matters regarding: <ul style="list-style-type: none"> • Project Expectation • Relationship Management
MEDIA	Press Conference, Event	Matters regarding: <ul style="list-style-type: none"> • Knowledge and Networking • Relationship Management

OUR MATERIAL MATTERS

1. INTEGRITY AND GOVERNANCE



Lim Seong Soon
Senior Vice President/Chief Risk Officer
Group Risk Management

At MBSB, we actively build integrity and governance into our culture, and this is reflected in this material matter being ranked of top priority by the senior management team. This has proven even more important in our current transformation journey towards being a full-fledged Islamic financial institution having been in the market as an Exempt Finance Company.

For risk and compliance standards, though we are a non-bank financial institution, we stand guided by numerous regulatory guidelines in our daily business decisions, including those issued by:

- Bank Negara Malaysia (BNM)
- Securities Commission
- Bursa Malaysia
- Companies Commission of Malaysia (CCM)
- Basel Committee on Banking Supervision

For sustainability reporting standards, we stand guided by local and global standards, including those by:

- Bursa Sustainability Reporting Toolkit
- FTSE4Good Bursa Malaysia (F4GBM)
- Global Reporting Initiatives (GRI) G4

Internally, we consistently uphold compliance in our daily business decisions and activities. Our corporate-wide approach is captured in our “Compliance Framework” and our “Fraud and Corruption Control Policy”. Training on compliance is regularly held as follows:

EMPLOYEE GROUP	CHANNEL	FREQUENCY	TOPICS	ATTENDEES
All Sales and Service Centres (SSC)	Teleconference	Monthly	AML/CFT and FATCA	Relevant SSC staff
All MBSB Staff	E-Learning	Frontliners – once a year Others – once in 2 years	AML/CFT	Frontliners = 928 Others = 390 users
Head Office Staff	Classroom	Monthly basis (from August 2016 – December 2016)	Key principles of Personal Data Protection Act 2010	Total = 209 staff
Risk Representative	Classroom	Quarterly basis/June 2016	Practical issues on personal data in MBSB Other new regulatory updates/operational risk matters	45 staff per session

In 2016, there were no cases of staff disciplined or dismissed due to non-compliance with anti-corruption policies. There were also no fines, penalties or settlements in relation to corruption.

RESPONSIBLE BUSINESS PRACTICES

ASPECT	REGULATION AND SUPPORT
Corporate Governance	Malaysian Code of Corporate Governance 2012 Corporate Governance Guideline
Whistleblowing	Complaint and Whistleblowing Policy
Anti-Corruption	Anti-Corruption Policy Fraud and Corruption Control Guidelines
Anti-Money Laundering	Anti-Money Laundering & Counter Financing of Terrorism (AML/CFT) Framework
Personal Data Protection	Personal Data Protection Act 2010
Foreign Account Tax Compliance Act (FATCA)	FATCA Framework
Boardroom Diversity	Boardroom Diversity Policy
Internal Compliance	Compliance Framework
Shariah Principles	Shariah Governance Framework
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.	
There has been no legal actions for anti-competitive behaviour, anti-trust, or monopoly practices in 2016.	
There were no political contributions made or received in 2016.	
As per MBSB's External Auditor Policy, the engagement partner is reviewed every 5 years.	

RESPONSIBLE SUPPLIER PRACTICES

MBSB recognises the importance of our suppliers and their representation of our organisation. As such we are governed by key guidelines in the purchase and management of our suppliers, specifically in the Fraud and Corruption Control Policy and the Outsourcing Policy.

In assessing a service provider, apart from the cost factor and quality of services, the due diligence process also addresses other issues such as a potential conflict of interest in case the service provider is a related/affiliated party. MBSB Outsourcing Policy covers criteria on selection of service providers which include external factors that may impact service performance and/or detrimental to MBSB, connected party of any officer/director of MBSB, or any other requirements as specified under applicable laws.

We are committed to local sourcing, and as such, today, local suppliers and service providers make up more than 98% of our supply base.

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.

2. EMPLOYEE DEVELOPMENT AND ENGAGEMENT



ABD RAHIM BIN AHMAD
Vice President, Human Capital

MBSB undertook a variety of steps to recognise and reward its employees. The process, kicked off in 2012, included efforts like completely revamping its compensation structure, aligning outstanding collective agreements for the union, increasing staff training as well as streamlining disciplinary cases to minimise disruptions. These efforts were well received by the staff, resulting in positive results in the Employee Survey¹.

92% OF MBSB EMPLOYEES HAVE RESPONDED THAT THEY ARE ENGAGED

- which represents
- +10% above Malaysia's Banking Norm
 - +9% above Malaysia's Financial Services Norm
 - +8% above Malaysia's National Norm
 - +6% above Global High Performance Norm

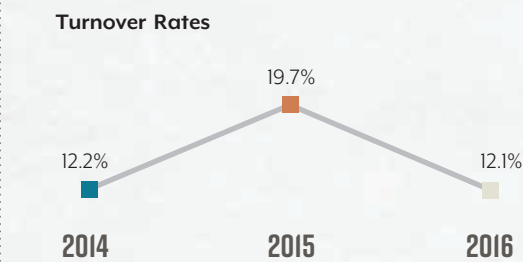
MBSB WAS RATED SIGNIFICANTLY ABOVE IN ALL AREAS COMPARED TO FINANCIAL SERVICES COMPANIES

AREA	PERCENTAGE POINTS ABOVE
Operating Efficiency	+16
Career Development	+15
Communication	+11
Goals and Objectives	+9
Engagement	+9
Leadership	+9
Supervision	+9
Performance Management	+9
Pay and Benefits	+9
Empowerment	+8
Customer Focus	+6

The efforts were also recognised in the industry. In 2016 alone, MBSB was awarded:

AWARD	ENTITY
2016 Best Companies To Work For In Asia	HR Asia
2016 Employer of Choice (Bronze)	Malaysia HR Awards
2016 HR Manager Winner (Silver)	Malaysia HR Awards
2016 IBFIM's Islamic Finance Talent Development	IBFIM

Turnover rates decreased last year to 12.1%, as illustrated below.



Source:
¹ Survey by Towers Watson, 2014

MBSB believes in providing the right training and development platforms to gain, expand, use and share knowledge. Our employee's opportunities for personal development is captured in our "Human Capital Division's Policies and Procedures – Part 5: Learning and Talent Development".

In line with our transformation towards Islamic Finance, a significant proportion of our workforce has now received training on the principles of Shariah in Islamic Finance via various initiatives in collaboration with IBFIM and USIM. A total of 436 employees have been trained by the Islamic Banking and Finance Institute Malaysia (IBFIM), (breakdown of numbers by management level below), and an additional 18 employees certified under the Shariah Audit Certification by Universiti Sains Islam Malaysia (USIM).

LEVEL	TRAINING (NUMBER DENOTES TOTAL TRAINED FROM 2012-2016)			TOTAL TRAINED	
SENIOR MANAGEMENT	COIF 6	IQIF 13	AQIF 29	48	
MIDDLE MANAGEMENT		IQIF 9	AQIF 87	FCIB 79	175
JUNIOR MANAGEMENT			AQIF 16	FCIB 197	213

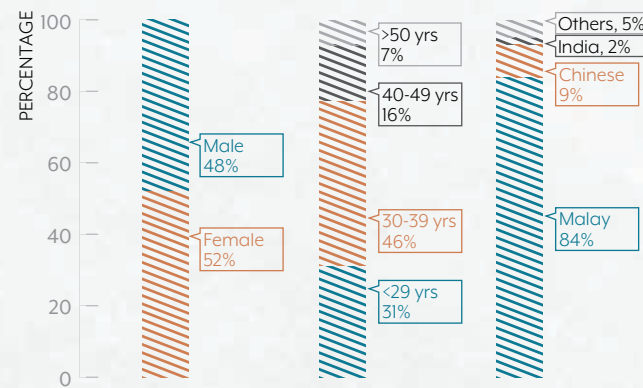
List of abbreviations of training programmes by IBFIM:

- **CQIF** = Certification Qualification Islamic Finance
- **IQIF** = Intermediate Qualification Islamic Finance
- **AQIF** = Associate Qualification Islamic Finance
- **FCIB** = Fundamental Certificate Islamic Banking

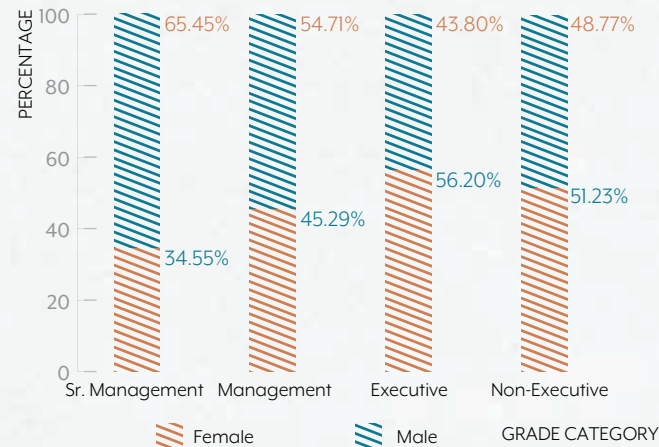
In 2016, our focus on employee training and development totalled 42,580 hours, averaging 31 hours per year per employee, still above our annual KPI of 30 hours. This was a reduction from 53 hours per year per employee and a total of 73,113 hours in 2015, mainly due to effective cost management practices. Our employee training investment totalled RMI.7 million in 2016 for our workforce of 1,345.

MBSB has strived to be an inclusive employer, adopting a culture of equality and non-discrimination. Our current diversity breakdown by gender, age and ethnicity is as depicted below, alongside our breakdown of salary by gender, by level. MBSB currently supports a fully local workforce, with 99.5% permanent and 0.5% temporary employees.

WORKFORCE DIVERSITY BREAKDOWN



SALARY GENDER BREAKDOWN



We strive towards gender equality in salaries, and will continue to promote non-discrimination across the organisation. Additionally, of our employees that were on unpaid leave with a duration of 1 to 49 days, all 92 returned to work thereafter (17 male, 75 female).

We respect our employees' right to freedom of association and unionisation, in line with the Code of Industrial Harmony Malaysia. MBSB has been engaging with the National Union of Commercial Workers (NUCW) on matters that need mutual resolution. We comply to the minimum wage requirement as stipulated in the Minimum Wage Act 2016 and consistently collaborate with the Union on matters that affect staff welfare. One of the examples is the notification to the union within 2 weeks should there be any changes to the operation hours of MBSB.

In monitoring our employees' occupational health and safety, we have a Safety and Health Committee with a representation of 35 employees.

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.

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.

3. CUSTOMER EXPERIENCE AND SATISFACTION

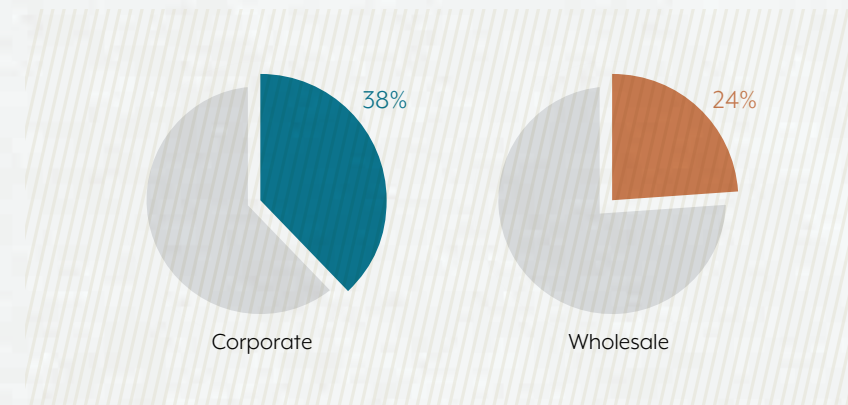


Azlina bt Mohd Rashad
Senior Vice President,
Corporate Planning & Communication

At MBSB, we continue to place our customers at the center of our business operations. We look to optimise our customers' end-to-end experience by simplifying and personalising their interactions as much as possible. We also believe strongly that the careful design and speed of all our solutions is one of the most important aspects of ensuring customer satisfaction.

Our corporate clients are provided end-to-end services by the same account management team. We take a personalised view towards every project and every customer to ensure the best and most bankable customised solution is made available. We believe that our customer's satisfaction is reflected strongly in the recurring customers we have strived to retain as illustrated below. We will be working in 2017 to more directly quantify the high level of customer satisfaction we see in this business sector.

RECURRING CUSTOMERS IN 2016



Our retail clients are serviced by our product sales teams at the outset. Subsequently our enquiries, support and complaints are handled by our Customer Relationship Management (CRM) team according to the Complaint Handling and Management Policies and Guidelines (CHMPG) adhered to.

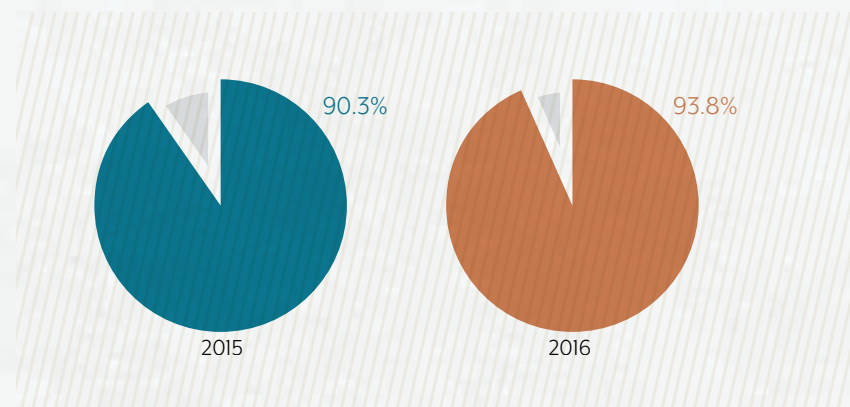
As part of our initiative to refine our customers' financial transaction experience, a Branch Rationalisation exercise was implemented in 2016 to further enhance our Sales and Service Centres (SSC) nationwide. Under this exercise, the Kajang and Batu Caves SSC have been relocated to improve visibility and customers' accessibility. Currently, MBSB has a total of 44 Sales and Service Centres nationwide.

The CRM team currently tracks high levels of customer satisfaction. However, we recognise that we need to continuously improve our processes and systems in anticipation of additional volume in future.

With MBSB's focus on speed and on enhancing our customers' satisfaction with the service received, our CRM team adopted a 14-day turn around time (TAT) measurement based on the industry's best practices.

Against this benchmark, in 2016, MBSB resolved 93.8% of customer complaints within 14 days, up 3.5 percentage points from 2015. In analysing the data, we noted that the complaints that exceeded our stipulated TAT measurement involved more complex scenarios which required extended attention and process requirements. We ensured that these received the right amount of attention and efforts towards quick resolution.

CUSTOMER COMPLAINTS RESOLVED WITHIN 14 DAYS



Since 2011, MBSB has been collecting customer satisfaction surveys from branches throughout the country. This has enabled us to keep engaged in the day-to-day experiences of our customers. This customer feedback has consistently been reviewed to enable further improvement to our customers' overall experience and to track for consistency in service levels across the country.

As an enhancement to further encourage external feedback, since 2014, MBSB has added customer feedback forms to obtain more specific feedback, suggestions or comments from customers; again with the sole objective of improving the quality of our services.

We will continue to measure, review and enhance our external feedback channels to ensure we increase the engagement of our customers in designing more beneficial and responsible internal processes to enhance their experience.

In addition, in 2017, the CRM team is planning to hold internal stakeholder engagement sessions. The objective of these sessions is to upskill, streamline and create awareness internally on best practices in managing customer complaints. This will ensure that our customer service through all touchpoints – written, electronic, calls or any other means of communication – is consistent and of the highest quality.

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.

4. RESPONSIBLE FINANCE IN INNOVATIVE PRODUCTS AND SERVICES

At MBSB, we understand our utmost responsibility is to make available fair, equitable and beneficial products to our communities. Our business direction has been shaped by this awareness and we're involved in impactful business focus areas such as enabling the provision of affordable housing, involvement in the development of institutions of higher learning, and growing small and medium sized enterprises involved in the infrastructure industry. We've also taken a definitive step towards being a full-fledged Islamic financial institution (please refer to the sections on Affordable Housing, Infrastructure SMEs and Islamic Finance for more information).

A major thrust in ensuring we fulfil this responsibility is by providing tailor-made solutions to large infrastructure projects to ensure financing is made possible. It has also been of great value for us and our customers to have our own in-house technical expertise for project evaluation, our Project Management and Monitoring Division (PMMD).



Datuk Nor Azam bin M. Taib
Senior Vice President,
Corporate Business



Nur Zarina bt Ghazali
Senior Vice President,
Wholesale Financing & Bumiputera
Business Development

MBSB'S IN-HOUSE TECHNICAL EXPERTISE

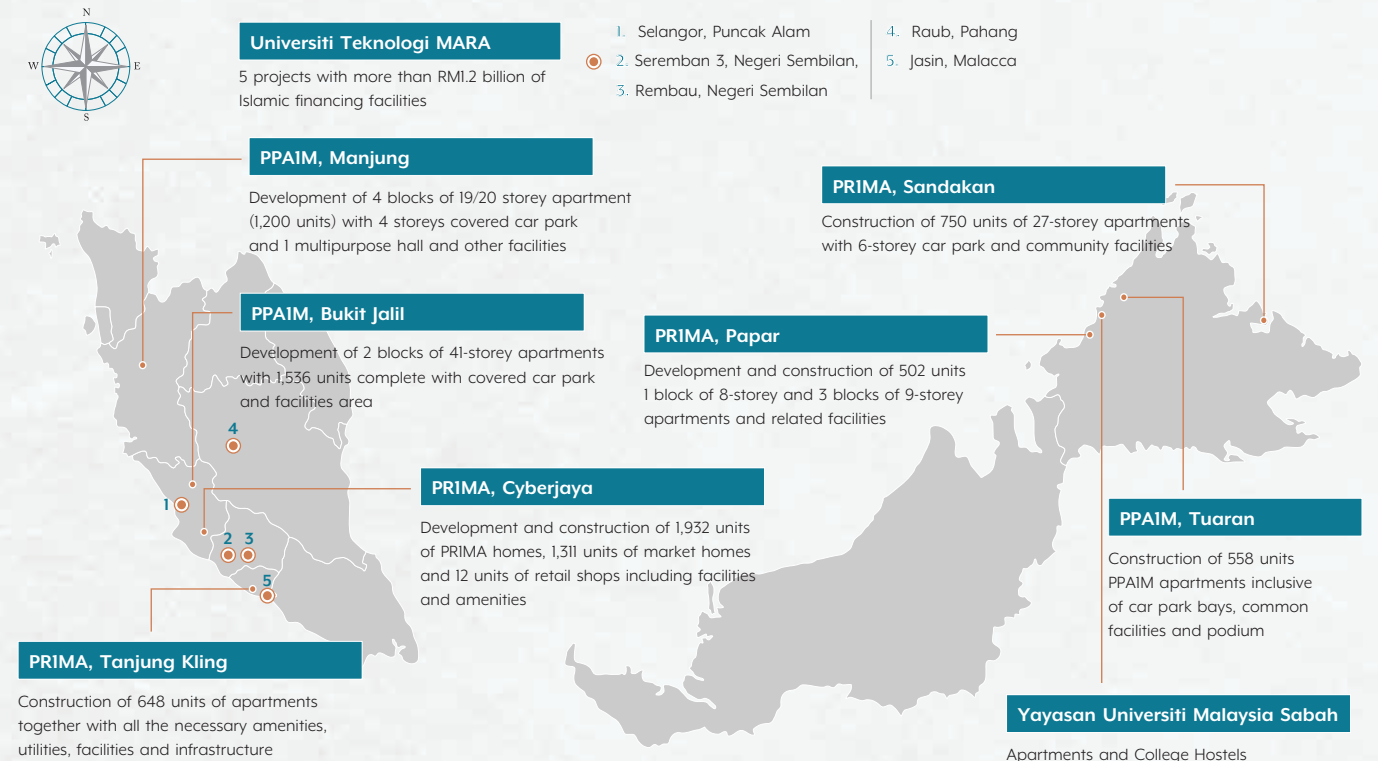
Our Project Management and Monitoring Division (PMMD) provides independent evaluation on project proposals.

The division is ISO 9001:2008 certified for "Provision for Evaluation of Technical Viability of Project Proposal and Verification of Customer Claim and Recommendation for Disbursement".

PMMD consists of engineers, quantity surveyors and independent valuers, and enables a better technical understanding to ensure that substantial risk factors are considered.

The team has been working on cases with increasing complexity and volume over the years, and has added value to both MBSB and our customers.

Some example of significant projects in Malaysia are listed below.



SUSTAINABILITY HIGHLIGHTS

PROGRESSING AFFORDABLE HOUSING

Affordable housing continues to be an important yet complicated issue around the world. It is anticipated that the global affordable housing gap would affect one in three urban dwellers (or about 1.6 billion people) by 2025¹.

In Malaysia, the gap in affordable housing is exemplified by the growing concern of middle-income households who are neither eligible for social housing nor are able to afford private sector-supplied houses. The challenge is particularly prevalent in urban areas (urban home ownership was 69.1% in 2010, and 53.5% in Kuala Lumpur specifically)².

MBSB supports the concept of making home ownership more accessible to Malaysians, especially first time home owners.

PRIMA is an affordable housing programme launched by the federal government in 2011 with the objective of developing affordable housing for the middle-income group in key urban centres in Malaysia. Priced between RM100,000 to RM400,000, PRIMA is open to all Malaysians with a monthly household income between RM2,500 to RM15,000.

PPAIM is an affordable housing programme launched by the federal government in 2013 specifically for staff of the civil service. This programme is aimed at helping government staff, especially the youth, with a moderate income to own a house in a strategic location at a reasonable price, typically lower than market rates.

MBSB has provided strong support to both PRIMA and PPAIM with project financing deals across the country including in Selangor, Melaka, Perak and Sabah.

Source:

1. McKinsey Global Institute, 2015
2. Khazanah Research Institute, 2015



PRIMA

PRIMA has approved 231 projects consisting of 266,400 units to date, with 120,000 units currently under construction. The government has a mid-term target of 500,000 units. MBSB provides end-to-end support of the PRIMA programme by providing solutions across the value chain, including:

Financing for PRIMA as an Agency

MBSB approved a RM1 billion term facility to Perbadanan PRIMA Berhad to facilitate development of the PRIMA project. This represents direct financing to the PRIMA body responsible for the execution of the PRIMA objectives.

Financing for PRIMA Contractors

MBSB has approved more than RM400 million in facilities for PRIMA contractors towards achieving the targeted number of units nationwide.

Financing for PRIMA End Consumers

Though MBSB is not one of the financial institutions with the direct EPF withdrawal facility, we provide financing solutions for PRIMA end consumers.

PRIMA Sandakan City Centre



Photo Source: Perbadanan PRIMA Malaysia

PRIMA Tanjung Kling



Photo Source: Perbadanan PRIMA Malaysia

PPAIM

PPAIM is expected to complete 100,000 housing units nationwide by 2018. As of middle of 2016, a total of 148 projects involving 82,102 housing units had been approved by the government. MBSB has approved more than RM900 million in facilities for PPAIM.



PPAIM Bukit Jalil

Photo Source: Aset Kayamas

Moving forward, MBSB will increase our support of PRIMA 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.

ENABLING INFRASTRUCTURE SMEs

Small and Medium Enterprises (SMEs) play a major role in Malaysia's economy. 97% of business establishments in Malaysia are small and medium enterprises (SMEs). These businesses are responsible for nearly 36% of the country's GDP, 65% of the country's employment, and nearly 18% of Malaysia's exports.¹

In terms of SMEs' financing options, globally, leasing has proven to be a useful tool for SMEs for a variety of reasons, including cash flow management, price considerations, accounting benefits, tax benefits and predictability.²

In light of this, in 2015 MBSB launched a product to provide commercial vehicles and machinery leasing and financing to Small Medium Enterprises (SMEs) in the Construction, Transport and Material Handling industries.

This new foray in the SME segment continues to show promising results and is a growing revenue contributor in 2016. Our engagement with SMEs was enhanced by the establishment in 2015 of two processing hubs in the northern and southern regions. For 2017, we will be looking at engaging SMEs in East Malaysia in support of the infrastructure industry there.

Source:

1. The World Bank, 2016
2. European Investment Fund, 2015

In 2017, MBSB intends to grow this product portfolio, especially in East Malaysia, in support of Malaysia's SME players.

FULLY EMBRACING ISLAMIC FINANCE

Malaysia has proven to be a world leader in Islamic finance development and the top global Islamic economy¹. This position was solidified by being the largest sukuk issuer in the world in 2016².

MBSB is actively transforming our business to embrace Islamic Finance in entirety. This is in line with the sustainability efforts we are undertaking and have found great correlation in these two efforts. Some of our transformation activities to date include:

- Only offering Islamic products and services (eg: Commodity Murabahah Term Deposit-i and Business Account-i)
- Converting our existing conventional portfolio to Islamic products
- Upskilling our employees to be knowledgeable in Shariah principles in Islamic finance through training programmes and certification programmes by IBFIM and USIM
- Undertaking branch staff trainings
- Enhancing policies, standards and governance matters to ensure compliance and adoption of Islamic finance principles

We have established and implemented a comprehensive Shariah Governance Framework which includes clear responsibilities for adherence across the organisation. The Shariah Committee shall be responsible and accountable for all its decisions, views and opinions related to Shariah matters. While the Board bears the ultimate responsibility and accountability on the overall governance of MBSB, the board is expected to rely on the Shariah Committee on all Shariah decisions, views and opinions relating to the business of MBSB. (Please refer to the Annual Report 2016 – Statement of Corporate Governance for the Shariah Governance Framework.)

As the Shariah decisions, views and opinions bind the operations of MBSB, the Shariah Committee will rigorously deliberate issues before arriving at any decisions. The Board shall ensure that decisions made by the Shariah Committee are duly observed and implemented and decisions made by the Shariah Committee should not be set aside or modified without its consent.

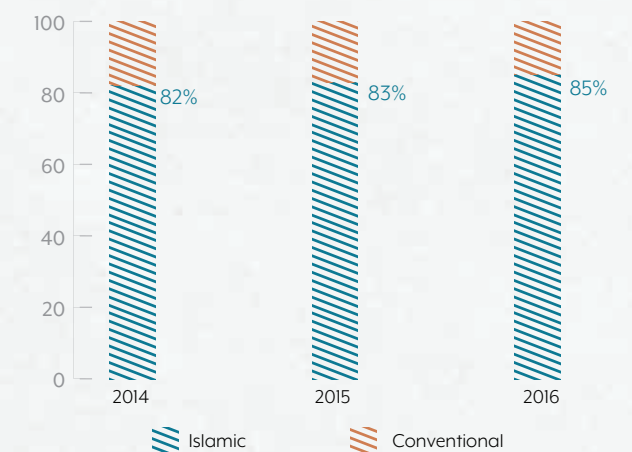
Source:

1. Thompson Reuters, 2015
2. RAM Ratings, 2017

We look forward to this coming year to push forward with our initiatives in transforming MBSB into an Islamic finance institution.

In our transformation journey, we have gradually increased our Shariah Compliance Portfolio as illustrated below:

GROWTH OF ISLAMIC PORTFOLIO AS A PERCENTAGE OF TOTAL



OUR ENVIRONMENTAL EFFORTS

MBSB recognises the growing concerns related to climate change. Research and analysis by the Intergovernmental Panel on Climate Change (IPCC) have concluded that:

“Human influence on the climate system is clear, and recent anthropogenic emissions of greenhouse gases are the highest in history. Recent climate changes have had widespread impacts on human and natural systems.”¹

Our new headquarters will strive to meet the Leadership in Energy and Environmental Design (LEED) Gold standard and Green Building Certification (GBI) status. We have also taken a few preliminary initiatives to manage energy, water and resources consumption in our organisation. The measurement of the impact of these and other initiatives will be a focus in our energy management moving forward.

INITIATIVES
Appointment of Facilities Management Contractor and Electrical Consultant
Installation of air-conditioning timers
Installation of lighting timers
Initiatives to reduce paper usage, eg: newsletters via email only
Stopping the purchase of ink jet printers and usage reduction of existing ink jets to eliminate cartridge waste
Paperless submissions encouraged – eg: all board submissions are paperless

MBSB is also making an effort to inculcate environmental awareness in our employees. In November 2016, we initiated a collaboration with the Forest Research Institute of Malaysia (FRIM) where our employees planted 60 trees within the vicinity of FRIM.

As a finance organisation focused on building and infrastructure, MBSB is also keenly aware of the impact of the projects we finance. However, currently we are still in the process of setting out our approach to managing environmental risk and determining our long term commitments.

Source:
1. IPCC, 2014

Moving forward, we are working towards measuring and managing our environmental impact more closely, and increasing our initiatives in energy, water and resources conservation.

ADVANCING COMMUNITIES

MBSB has always believed in incorporating good corporate citizenship into its culture. Amidst the challenging economic landscape, helping the less fortunate and serving the communities we serve remains imperative and are key parts of our business.

MBSB has three diverse flagship programmes – in education, crime safety awareness and basic necessities for vulnerable communities. In addition to this, programmes encompassing environmental protection and helping the less fortunate were undertaken in 2016.

PINTAR SCHOOL PROGRAMME

Over the Top PINTAR School programme continued to be MBSB's flagship CSR initiative since its inception in 2007. In 2016, we implemented several programmes at six of our adopted schools located in Sabah, Sarawak, Selangor, Perak, Johor and Pahang. We aim to instill and equip these young minds with necessary learning skills to ensure the quality of their development.

One of these programmes was the Fun and Smart Learning Phase 1 and 2 conducted in April and July respectively emphasised on interactive and learning approaches. Its module covers core academic subjects and activities that are enriching and can expand students' capabilities. 1,013 students benefited from this programme.

Meanwhile, the GROW (Goal setting, Reality, Options/Obstacles, Will) Coaching in Enhancing Pedagogical Skills is a customised programme that supports the establishment of teacher's coaching system and development of effective pedagogy skills of 25 teachers in total. The GROW training module designed to enhance participants' knowledge, skills and competencies was delivered through a 18 hours face-to-face centralised training session and subsequently supported by 10 hours trainers' visits to respective schools as well as scheduled online tutoring. Ultimately, the objective of this approach is to drive positive teacher change.



SAFETY AWARENESS CAMPAIGN

The Safety Awareness Campaign, another flagship programme under our CSR umbrella was launched last year with an aim to increase awareness on the importance of safety measures. In collaboration with Media Prima Radio Network (MPRN), Public Service Announcement's (PSA) covering six (6) crimes namely social-media crime, stalker, child abduction, sex offender, snatch-theft, and house breaking were channeled through three (3) different radio stations, targeting three different market segments. On-ground activities within Klang Valley were also conducted, engaging further with local communities. Complementing the Safety Awareness Campaign were live radio interview sessions with honourable guests from relevant NGOs and authorities namely YBhg Tan Sri Lee Lam Thye representing Malaysia Crime Prevention Foundation (MCPF) and ACP Mohd Soahami Rahim from Polis Diraja Malaysia (PDRM) where they shared their ongoing efforts in reducing crime rates in Malaysia.



PROGRAM SEJAHTERA MBSB

"Program Sejahtera MBSB", also a flagship programme is grounded to ensure the Malaysian vulnerable communities' living conditions meet the minimum standards of safety and comfort by providing them with livable homes through its home building and rehabilitation exercises. A joint collaboration with Islamic Relief Malaysia, 16 families in the states of Sabah, Sarawak, Negeri Sembilan, Perlis and Kedah have benefited from this programme for year 2016.



FOOD FOR HOMELESS PROJECT

We encourage our employees to contribute their time through voluntary programmes. The Food for Homeless Project in collaboration with an NGO – Food Aid Foundation has been actively participated by our employees since June 2015. MBSB had worked closely with Food Aid Foundation by offering monetary contribution and manpower support for their efforts in preparing meals for the homeless and distributing them. In 2016, 10 sessions comprised of 40 hours have been committed, supported by 116 volunteers.



BLOOD DONATION

The annual Blood Donation campaign is another continuous initiative to assist the National Blood Bank maintain positive balance of blood. 127 volunteers came to support the cause and successfully collected 88 bags of blood.

ORPHANAGE

Shopping and Iftar with orphans during the holy month of Ramadhan is also an annual CSR initiative by MBSB. 104 children from Rumah Siraman Kasih and Pertubuhan Kebajikan Anak yatim Darul Ehsan were assisted by our employees with their shopping in preparation of Aidilfitri, while 100 children from Rumah Jalan Kasih and Pusat Jagaan Cahaya Bistari were treated with Iftar and "Duit Raya" contribution in the hope that it will lift their Hari Raya spirit.



TREE PLANTING PROGRAMME

The Tree Planting programme, a collaboration with Forest Research Institute of Malaysia (FRIM) was launched in November 2016 where our employees successfully planted 60 trees within the vicinity of FRIM. This is 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.

BUMIPUTERA BUSINESS DEVELOPMENT PROGRAMME

MBSB had also conducted a Bumiputera Business Development programme for selected small medium enterprise vendors and corporate customers with the objectives to create competitive players in the market and encourage their involvement in large corporate business opportunities. Participants were provided with funding, coaching, business opportunities and other stated needs within the purview of MBSB. This counts as MBSB's Bumiputera agenda.

SKIM LATIHAN MALAYSIA (SLIM)

Last year, we had increased the intake of unemployed graduates under the Skim Latihan 1 Malaysia (SLIM) to 70 graduates from 50 graduates in year 2015. This is an initiative by the Economic Planning Unit (EPU) whereby Government-Linked Companies (GLCs) and private sectors which implement SLIM as part of their Corporate Social Responsibility (CSR) share a common objective of enhancing the level of employability for graduates.

STAFF MATTERS

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

Other programmes for employees' children in 2016 include field trips to Kidzania and Enerz Extreme Park, providing them with opportunities to expand their horizons through real-life professional role plays and extreme sport activities respectively. For Muslim children, a "Kem Solat" was also conducted as part of their school holiday's programme, embedding the importance of Solat in their daily routine.



SUSTAINABILITY PERFORMANCE DATA

FTSE4GOOD BURSA MALAYSIA (F4GBM) CONTENT INDEX

This section has been prepared according to the FTSE4Good Bursa Malaysia (F4GBM) index 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 – 31	Policy or commitment statement on energy use	Sustainability Report 2016 – Our Environmental Efforts
	ECC – 36	Time-specific targets, beyond mere regulatory compliance, to reduce energy consumption	
SOCIAL			
Labour Standards	SLS – 3	Non-discrimination and equal opportunity	Sustainability Report 2016 – Employee Development & Engagement
	SLS – 5	Policy or statement supporting the right to freedom of association	
	SLS – 6	Policy or statement supporting the right to collective bargaining	
	SLS – 8	Policy or statement supporting the right to a minimum or living wage	Sustainability Report 2016 – Employee Development & Engagement; Intranews (Human Capital)
	SLS – 11	Policy supporting the community	Sustainability Report 2016 – Advancing Communities; Website (related material)
	SLS – 12	Company policy on labour standards	Sustainability Report 2016 – Employee Development & Engagement
	SLS – 16	Action to improve workforce diversity, equal opportunities, or reduce discrimination	Sustainability Report 2016 – Employee Development & Engagement
	SLS – 24	Fulltime staff voluntary turnover rates	Sustainability Report 2016 – Employee Development & Engagement
	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		

PILLARS AND THEMES	CODE	DESCRIPTION	REFERENCE SECTION
Human Rights	SHR – 3	Statement of principles or process by which community investments are made	Sustainability Report 2016 – Advancing Communities; Company Website – CSR Weblink
	SHR – 4	Policy addresses children's rights	Sustainability Report 2016 – Advancing Communities (related material)
	SHR – 5	Commitment to local employment and/or sourcing	Sustainability Report 2016 – Employee Development & Engagement
	SHR – 15	Output/outcome of specific results, achievements or benefits of community investments	Sustainability Report 2016 – Advancing Communities; Company Website – CSR Weblink
	SHR – 16	Mechanisms to facilitate employee engagement and involvement with charitable partners	Sustainability Report 2016 – Advancing Communities
GOVERNANCE			
Anti-Corruption	GAC – 1	Bribery – Policy or commitment statement	Annual Report 2016 – Statement on Risk and Internal Control; Intranews
	GAC – 2	Anti-corruption – Policy or commitment statement	Annual Report 2016 – Statement on Risk and Internal Control; Company Website; Intranews
	GAC – 3	Board has oversight of anti-corruption policy	Annual Report 2016 – Statement on Risk and Internal Control
	GAC – 4	Due diligence of new business partners addresses corruption	Sustainability Report 2016 – Integrity and Governance; Intranews
	GAC – 5	Confidential or anonymous whistle-blowing mechanism for staff	Annual Report 2016 – Statement of Corporate Governance; Statement on Risk and Internal Control; Intranews
	GAC – 7	Communication of anti-corruption policy to all employees	Annual Report 2016 – Statement of Corporate Governance
	GAC – 8	Training for staff on the anti-corruption policy	Sustainability Report 2016 – Integrity and Governance
	GAC – 9	Corruption risk assessment for company operation	Annual Report 2016 – Statement of Corporate Governance; Statement on Risk and Internal Control, Intranews
	GAC – 10	Procedures are in place to address corruption in operation 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 2016 – Integrity and Governance
	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	

FTSE4GOOD BURSA MALAYSIA (F4GBM) CONTENT INDEX (CONT'D.)

PILLARS AND THEMES	CODE	DESCRIPTION	REFERENCE SECTION
Corporate Governance	GCG - 1	Separate Non-Executive Chairman and CEO	Annual Report 2016 – Board of Directors; Company Website – Board of Directors Weblink
	GCG - 2	Details about Directors	Annual Report 2016 – Board of Directors Profile; Company Website – Board of Directors Weblink
	GCG - 3	Number of Board Directors	Annual Report 2016 – Board of Directors; Company Website – Board of Directors Weblink
	GCG - 4	Number of independent Directors on the board	Annual Report 2016 – Board of Directors
	GCG - 5	Number of women on the board	Annual Report 2016 – Financial Statements
	GCG - 6	Commitment to gender diversity on the board	Annual Report 2016 – Statement of Corporate Governance; Intranews
	GCG - 8	Periodic evaluation of board effectiveness	Annual Report 2016 – Statement of Corporate Governance
	GCG - 9	Board Committee(s) and their Charters, terms of reference or equivalent	Annual Report 2016 – Statement of Corporate Governance; Intranews
	GCG - 10	Number of times the board/each committee have/has met per annum	Annual Report 2016 – Statement of Corporate Governance
	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 2016 – Notice of Annual General Meeting
	GCG - 22	Shareholders have the right to vote on Director appointments and dismissals	Annual Report 2016 – Notice of Annual General Meeting
	GCG - 26	Disclosure of voting results	Company Website – Investor Weblink – Annual General Meeting Results
	GCG - 27	Remuneration for senior executives	Annual Report 2016 – Financial Statements
	GCG - 42	Does the company provide for one share one vote for all company meeting resolution?	Company Website – Corporate – Investor Relations
	GCG - 45	Financial expertise on the audit committee	Annual Report 2016 – Audit Committee; Board of Directors Profile
	GCG - 46	Fully non-executive Audit Committee or Audit Board	
	GCG - 47	Fully non-executive Remuneration Committee	Annual Report 2016 – Statement of Corporate Governance
	GCG - 48	Executive remuneration	Annual Report 2016 – Financial Statements
GCG - 49	Disclosure and Nature of fees paid to the auditor		

PILLARS AND THEMES	CODE	DESCRIPTION	REFERENCE SECTION
Risk Management	GRM - 1	The Board has oversight of risk management	Annual Report 2016 – Statement on Risk and Internal Control; Intranews
	GRM - 2	Senior responsibility for risk	Annual Report 2016 – Statement on Risk and Internal Control
	GRM - 4	Reporting and Standards	Sustainability Report 2016 – Integrity and Governance
	GRM - 5	Board oversees Code of Conduct, Code of Ethics or equivalent and ESG risks	Annual Report 2016 – Statement of Corporate Governance
	GRM - 7	Company's risk management framework	Annual Report 2016 – Statement on Risk and Internal Control
	GRM - 8	Corporate-wide approach to non-compliance	Sustainability Report 2016 – Integrity and Governance
	GRM - 10	Company's commitment to regular rotation of auditors/audit partner	
	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 - 20	Confidential whistle-blowing mechanism to notify breaches of company codes or policies	Annual Report 2016 – Statement of Corporate Governance; Sustainability Report 2016 – Integrity and Governance

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 2016 – PCEO Statement
ORGANISATIONAL PROFILE		
G4-3	Name of the organisation	Sustainability Report 2016 – About this Section
G4-4	Primary brands, products, and services	Annual Report 2016 – PCEO Statement
G4-5	Location of the organisation's headquarters	Annual Report 2016 – Corporate Information & Branch Network
G4-6	Countries where the organisation operates	Annual Report 2016 – Our Profile & Operation Presence
G4-7	Nature of ownership and legal form	Annual Report 2016 – Statement of Corporate Governance
G4-8	Markets served	Annual Report 2016 – Branch Network
G4-9	Scale of the organisation	Sustainability Report 2016 – Advancing Communities; Facts at Glance; Financial Statement
G4-10	Employment	Sustainability Report 2016 – Employee Development and Engagement
G4-11	Collective bargaining	Sustainability Report 2016 – Integrity and Governance
G4-12	Supply chain	Sustainability Report 2016 – Integrity and Governance
G4-13	Organisational changes	Annual Report 2016 – PCEO Statement
G4-14	Precautionary approach	Annual Report 2016 – Statement on Risk and Internal Control
G4-15	Externally developed economic, environmental and social charters	Sustainability Report 2016 – Fully Embracing Islamic Finance; Annual Report 2016 – Statement on Risk and Internal Control
G4-16	Memberships of associations	Sustainability Report 2016 – Employee Development and Engagement

DISCLOSURES	DESCRIPTION	REFERENCE SECTION
IDENTIFIES MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities	Annual Report 2016 – Financial Statements
G4-18	Process for defining the report	Sustainability Report 2016 – Sustainability Process
G4-19	Material aspects identified	Sustainability Report 2016 – Our Material Matters
G4-20	Material aspect within the organisation	
G4-21	Material aspect outside the organisation	
STAKEHOLDER ENGAGEMENT		
G4-24	Stakeholder groups	Sustainability Report 2016 – Our Stakeholders
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 2016 – About this Section
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 2016 – Sustainability Governance
ETHICS AND INTEGRITY		
G4-56	Organisation's values, principles, standards and norms of behaviour	Annual Report 2016 – Statement of Corporate Governance

GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX (CONT'D.)

SPECIFIC STANDARD DISCLOSURES

MATERIAL ASPECTS	DISCLOSURES	DESCRIPTION	REFERENCE SECTION
ECONOMIC			
Economic Performance	G4-EC1	Direct economic value generated and distributed	Annual Report 2016 – Financial Statements
Market Presence	G4-EC5	Policy or statement supporting the right to a minimum or living wage	Sustainability Report 2016 – Employee Development and Engagement; Intranews (Human Capital)
Indirect Economic Impacts	G4-EC7	Development and impact of infrastructure investments and services supported	Sustainability Report 2016 – Responsible Finance in Innovative Products and Services
ENVIRONMENT			
Energy	GA-EN3	Energy consumption within the organisation	Sustainability Report 2016 – Our Environmental Efforts
SOCIAL			
Labour Practices and Decent Work			
Employment	G4-LA1	New employee hires and employee turnover by age group, gender, and region	Sustainability Report 2016 – Employee Development and Engagement
	G4-LA3	Return to work and retention rates after parental leave, by gender	
Labour/Management Relations	G4-LA4	Minimum notice periods regarding operational changes	
Occupational Health & Safety	G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees	
	G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	
Training & Education	G4-LA9	Average hours of training per year per employee by gender, and by employee category	
	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-LA12	Composition of governance bodies and breakdown of employees	
Equal Remuneration for Women & Men	G4-LA13	Ratio of basic salary and remuneration of women to men	
Marketing Communication	G4-PR7	Incidents of non-compliance	

SPECIFIC STANDARD DISCLOSURES

MATERIAL ASPECTS	DISCLOSURES	DESCRIPTION	REFERENCE SECTION
ECONOMIC			
Human Rights			
Freedom of Association and Collective Bargaining	G4-HR4	Right to exercise freedom of association and collective bargaining	Sustainability Report 2016 – Employee Development and Engagement
SOCIETY			
Local Communities	G4-SO1	Operations with implemented local community	Sustainability Report 2016 – Advancing Communities, Company Website – CSR Weblink
Anti-Corruption	G4-SO3	Operation assessed for risks related to corruption and the significant risks identified	Annual Report 2016 – Statement on Risk and Internal Control; Website; Intranews
Public Policy	G4-SO6	Political contributions by country and recipient/beneficiary	Sustainability Report 2016 – Integrity and Governance
Anti-Competitive Behaviour	G4-SO7	Legal actions for anti-competitive behaviour, antitrust, and monopoly practices	
Compliance	G4-SO8	Significant fines and non-monetary sanctions for non-compliance with laws and regulations	
PRODUCT RESPONSIBILITY			
Marketing Communication	G4-PR6	Sale of banned or disputed products	Sustainability Report 2016 – Integrity and Governance
	G4-PR7	Incidents of non-compliance	

FINANCIAL STATEMENTS



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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 2016.

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 the subsidiaries are described in Note 11 to the financial statements.

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

RESULTS

	Group RM'000	Company RM'000
Profit for the year	201,412	92,640

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 2015 was as follows:

	RM'000
In respect of the financial year ended 31 December 2015:	
– single-tier final dividend of 3% on 2,842,603,766 ordinary shares declared on 19 May 2016, paid on 16 June 2016	85,278

At the forthcoming Annual General Meeting, a single-tier final dividend of 3.0% in respect of the financial year ended 31 December 2016 on approximately 5,798,774,158 ordinary shares of RM1.00 each as at 10 February 2017, amounting to a total dividend of RM173,963,225 will be proposed for shareholders' approval.

The financial statements for the current financial year do not reflect the proposed dividends. Such dividends, if approved by the shareholders, will be accounted for in equity in the financial year ending 31 December 2017.

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 34 to the financial statements and subject to the relevant regulatory approvals. The DRP was previously approved by the shareholders on 10 December 2013.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Abdul Halim bin Ali
 Datuk Syed Zaid bin Syed Jaffar Albar
 Encik Aw Hong Boo
 Dato' Jasmy bin Ismail
 Encik Lim Tian Huat
 Datuk Shahril Ridza bin Ridzuan
 Ir. Moslim bin Othman
 Cik Ravinder Kaur a/p Mahan Singh (resigned on 31 December 2016)

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 30 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.

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:

Name of director	Number of ordinary shares of RM1.00 each			
	1.1.2016	Acquired	Sold	31.12.2016
Direct interest:				
<i>Ordinary shares of the Company</i>				
Tan Sri Abdul Halim bin Ali	79,042	153,558	–	232,600

Other than as disclosed above, 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 from RM2,838,551,202 to RM5,798,774,158 via the issuance of approximately 2,960,222,956 new ordinary shares of RM1.00 each for cash as follows:

	Number of new ordinary shares of RM1.00 each Units '000	RM'000	Issue/ exercise price
Issuance of new shares pursuant to:			
ESOS granted on 11.09.2010	–	–	1.00
ESOS granted on 09.03.2012	–	–	1.02
ESOS granted on 15.11.2012	–	–	1.42
ESOS granted on 09.03.2014	–	–	1.52
Exercise of Warrants	10,667	10,667	1.00
Exercise of Special Issue (DRP)	50,169	50,169	1.15
Exercise of Rights Issue	2,899,387	2,899,387	1.00
	2,960,223	2,960,223	

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

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 22(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 2016 are as follows:

Grant date	Expiry date	Exercise price (RM)	Number of options
11.09.2010	11.08.2020	1.00*	1,264,980
09.03.2012	11.08.2020	1.02*	919,308
15.11.2012	11.08.2020	1.42*	9,546,513
09.03.2014	11.08.2020	1.52*	16,435,301

* 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 were granted options to subscribe for 276,643 or more ordinary shares of RM1.00 each during the financial year are as follows:

Name	Revised Exercise Price RM	Number of Share Options				Additional Issuance Pursuant to Rights Issue on 24.06.2016
		01.01.2016	Granted	Exercised	31.12.2016	
Tang Yow Sai	1.00	259,250	107,979	-	367,229	107,979
	1.42	124,108	51,691	-	175,799	51,691
Azlina Binti Mohd Rashad	1.42	339,553	141,425	-	480,978	141,425
Zainnurain Bin Othman	1.42	298,042	124,136	-	422,178	124,136
Salim Yazan Bin Gulzar Mohamed	1.52	295,500	123,077	-	418,577	123,077
Asrul Hazli Bin Salleh	1.02	104,468	43,511	-	147,979	43,511
	1.42	183,678	76,502	-	260,180	76,502
Koh Ai Hoon	1.00	189,277	78,834	-	268,111	78,834
	1.42	76,960	32,054	-	109,014	32,054
Tamin Bin Jafeeri	1.42	226,825	94,473	-	321,298	94,473
Adzahar Bin Abdul Khalid	1.00	157,088	65,428	-	222,516	65,428
	1.42	46,758	19,474	-	66,232	19,474
Nor Azam Bin M. Taib	1.02	76,944	32,047	-	108,991	32,047
	1.42	122,471	51,009	-	173,480	51,009
Azlina Binti Mohd Abdul Karim @ Alias	1.52	195,300	81,343	-	276,643	81,343
Khoo Swee Chuan	1.52	195,300	81,343	-	276,643	81,343
Md Azhar Bin Md Ali	1.52	195,300	81,343	-	276,643	81,343
Hasliza Binti Ismail	1.52	195,300	81,343	-	276,643	81,343

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:
- 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
 - 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:
- 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
 - 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:
- 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
 - 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 37 to the financial statements.
- (f) In the opinion of the directors:
- 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
 - 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.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 22 February 2017.

Tan Sri Abdul Halim bin Ali
Chairman

Kuala Lumpur, Malaysia

Aw Hong Boo
Director

STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

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 139 to 245 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of the financial performance and the cash flows of the Group and of the Company for the year then ended.

The information set out in Note 44 to the financial statements have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 22 February 2017.

Tan Sri Abdul Halim bin Ali
Chairman

Aw Hong Boo
Director

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

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 139 to 245 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 22 February 2017

Tang Yow Sai

Before me,

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Malaysia Building Society Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 139 to 245.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 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, 1965 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our 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 74% and 77% of the Group and the Company's total assets as at 31 December 2016 respectively, we consider this as a key audit matter. The relevant information have been disclosed in notes 9(vi) and 31 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.

INDEPENDENT AUDITORS' REPORT

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

Adequacy of impairment allowance for loans, advances and financing (cont'd.)

Our audit procedures include the following:

- Assessment of control over the approval, recording and monitoring of loans, advances and financing, and evaluating the methodologies and inputs used by the Group and the Company in calculating collective and individual impairment allowance;
- For individual impairment allowance, 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 as well as performing sensitivity analysis;
- For collective impairment allowance, 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 also accessed the reasonableness of assumptions made by the Group and the Company, specifically in respect of the inputs to the impairment models and the consistency of judgement applied in loss identification periods and the observation period for historical default rates. 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.
- For both individual and collective impairment allowances, we assessed whether the financial statement disclosures appropriately reflect the Group's and the Company's exposure to credit risk.

Information other than the financial statements and auditors' report thereon

The directors of the Group and of the Company are responsible for the other information. The other information comprises the Annual Report, 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.

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

Responsibilities of the directors for the financial statements

The directors of the 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, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the 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.

Auditors' responsibilities for the audit of the financial statements

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.
- 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.

INDEPENDENT AUDITORS' REPORT

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

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- We have considered the financial statements and the auditors' report of the subsidiary for which we have not acted as auditors, which is indicated in Note 11 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Other reporting responsibility

The supplementary information set out in Note 44 on page 246 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other matter

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 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

Kuala Lumpur, Malaysia
22 February 2017

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Note	Group	
		2016 RM'000	2015 RM'000
Assets			
Cash and short-term funds	5(a)	6,639,369	6,928,263
Deposits and placements with financial institutions	5(b)	1,076,078	406,529
Trade receivables	6	542	819
Other receivables	7	150,553	195,078
Inventories	8	103,201	103,287
Loans, advances and financing	9	32,193,478	31,784,970
Financial investments available-for-sale	12	2,364,750	983,354
Property, plant and equipment	13	141,713	138,052
Land use rights	14	5,584	5,746
Tax recoverable		549,248	3,181
Intangible assets	15	15,415	28,679
Deferred tax assets	21	28,113	511,050
Total assets		43,268,044	41,089,008
Liabilities and shareholders' equity			
Deposits from customers	16	30,611,324	28,585,387
Bank borrowings	17	575,275	1,645,591
Other borrowings	17	–	50,181
Trade payables	18	187	214
Other payables	19	303,986	325,968
Provision for taxation and zakat		7,814	10,850
Recourse obligation on loans/financing sold	20	2,420,175	2,767,242
Sukuk – MBSB Structured Covered ("SC") Murabahah	10(a)	2,615,807	2,827,955
Deferred tax liabilities	21	9,428	14,080
Total liabilities		36,543,996	36,227,468
Share capital	22	5,798,774	2,838,551
Share premium	22	198,449	1,392,980
Other reserves	23	20,957	40,733
Retained earnings		705,868	589,276
Total equity		6,724,048	4,861,540
Total liabilities and shareholders' equity		43,268,044	41,089,008

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

	Note	Company	
		2016 RM'000	2015 RM'000
Assets			
Cash and short-term funds	5(a)	6,620,990	6,911,177
Deposits and placements with financial institutions	5(b)	462,206	2,127
Other receivables	7	157,924	137,506
Inventories	8	900	900
Loans, advances and financing	9	32,200,665	31,852,399
Sukuk Commodity Murabahah	10(b)	3,577,143	3,792,751
Investments in subsidiaries	11(a)	22,331	22,332
Loans to subsidiaries	11(b)	280,503	255,400
Financial investments available-for-sale	12	2,364,750	983,354
Property, plant and equipment	13	38,631	49,177
Intangible assets	15	15,369	28,590
Tax recoverable		549,248	3,181
Deferred tax assets	21	18,710	496,548
Total assets		46,309,370	44,535,442
Liabilities and shareholders' equity			
Deposits from customers	16	30,611,324	28,585,387
Bank borrowings	17	575,275	1,645,591
Other borrowings	17	-	50,181
Other payables	19	3,525,341	3,848,335
Provision for zakat		4,778	7,817
Recourse obligation on loans/financing sold	20	2,420,175	2,767,242
Sukuk - MBSB SC Murabahah	10(a)	2,615,807	2,827,955
Total liabilities		39,752,700	39,732,508
Share capital	22	5,798,774	2,838,551
Share premium	22	198,449	1,392,980
Other reserves	23	20,957	40,733
Retained earnings		538,490	530,670
Total equity		6,556,670	4,802,934
Total liabilities and shareholders' equity		46,309,370	44,535,442

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	24	3,274,795	3,050,098	2,997,599	2,841,758
Income derived from investment of general investment deposits and Islamic capital funds		2,630,086	2,395,635	2,526,580	2,318,043
Income attributable to depositors		(1,001,417)	(902,984)	(1,001,417)	(902,984)
Income attributable to securitisation		(125,748)	(132,260)	(125,748)	(132,260)
Income attributable to sukuk		(370,663)	(271,382)	(370,663)	(271,382)
Net income from Islamic financing operations	42	1,132,258	1,089,009	1,028,752	1,011,417
Interest income	25	473,654	487,358	439,811	477,458
Interest expense	26	(253,823)	(278,344)	(253,823)	(278,344)
Net interest income		219,831	209,014	185,988	199,114
Operating income		1,352,089	1,298,023	1,214,740	1,210,531
Other income	27	56,878	62,542	49,779	54,541
Net income		1,408,967	1,360,565	1,264,519	1,265,072
Other operating expenses	28	(293,281)	(308,303)	(263,434)	(295,124)
Operating profit		1,115,686	1,052,262	1,001,085	969,948
Allowance for impairment losses on loans, advances and financing	31	(777,265)	(697,237)	(777,265)	(680,499)
Profit before taxation and zakat		338,421	355,025	223,820	289,449
Taxation	32	(136,028)	(91,834)	(130,199)	(90,384)
Zakat		(981)	(5,599)	(981)	(5,599)
Profit for the year		201,412	257,592	92,640	193,466
Other comprehensive income - AFS revaluation reserve, which may be reclassified subsequently to profit or loss		(21,376)	1,566	(21,376)	1,566
Total comprehensive income for the year, net of tax		180,036	259,158	71,264	195,032
Earnings per share (sen)					
Basic	33 (a)	4.90	9.24		
Diluted	33 (b)	4.90	9.22		

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2016

Group	Ordinary Shares RM'000	Non-Distributable					Capital Redemption Reserve – Redeemable Cumulative Preference Shares (Note 23) RM'000	Available-for-sale Reserves RM'000	(Accumulated Losses)/ Retained profits RM'000	Total RM'000
		Share Premium RM'000	Capital Reserve (Note 23) RM'000	Share Option Reserve (Note 23) RM'000	Warrants Reserve (Note 23) RM'000	Share Redemption Reserve – Redeemable Cumulative Preference Shares (Note 23) RM'000				
At 1 January 2015	2,709,623	1,278,873	17,838	2,853	3,633	12,486	–	657,107	4,682,413	
Profit for the year	–	–	–	–	–	–	–	257,592	257,592	
Other comprehensive income for the year	–	–	–	–	–	–	1,566	–	1,566	
Total comprehensive income for the year	–	–	–	–	–	–	1,566	257,592	259,158	
Dividends (Note 34)	–	–	–	–	–	–	–	(326,002)	(326,002)	
Share options granted under ESOS recognised in profit or loss (Note 29)	–	–	–	5,001	–	–	–	–	5,001	
Issuance of ordinary shares pursuant to exercise of ordinary shares pursuant to exercise of DRP	12,210	110,291	–	–	–	–	–	–	231,501	
Issuance of ordinary shares pursuant to exercise of ESOS	3,691	3,816	–	(2,065)	–	–	–	–	5,442	
Issuance of ordinary shares pursuant to exercise of warrants	4,027	–	–	–	–	–	–	–	4,027	
Transfer of share option reserve to accumulated losses upon expiry of share options	–	–	–	(579)	–	–	–	579	–	
At 31 December 2015	2,838,551	1,392,980	17,838	5,210	3,633	12,486	1,566	589,276	4,861,540	
Profit for the year	–	–	–	–	–	–	–	201,412	201,412	
Other comprehensive income for the year	–	–	–	–	–	–	(21,376)	–	(21,376)	
Total comprehensive income for the year	–	–	–	–	–	–	(21,376)	201,412	180,036	
Dividends (Note 34)	–	–	–	–	–	–	–	(85,278)	(85,278)	
Share options granted under ESOS recognised in profit or loss (Note 29)	–	–	–	2,058	–	–	–	–	2,058	
Issuance of ordinary shares pursuant to exercise of rights issue (Note 43)	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	–	
At 31 December 2016	5,798,774	198,449	17,838	6,810	3,633	12,486	(19,810)	705,868	6,724,048	

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

Company	Ordinary Shares RM'000	Non-Distributable					Capital Redemption Reserve – Redeemable Cumulative Preference Shares (Note 23) RM'000	Available-for-sale Reserves RM'000	(Accumulated Losses)/ Retained profits RM'000	Total RM'000
		Share Premium RM'000	Capital Reserve (Note 23) RM'000	Share Option Reserve (Note 23) RM'000	Warrants Reserve (Note 23) RM'000	Share Redemption Reserve – Redeemable Cumulative Preference Shares (Note 23) RM'000				
At 1 January 2015	2,709,623	1,278,873	17,838	2,853	3,633	12,486	–	662,627	4,687,933	
Profit for the year	–	–	–	–	–	–	–	193,466	193,466	
Other comprehensive income for the year	–	–	–	–	–	–	1,566	–	1,566	
Total comprehensive income for the year	–	–	–	–	–	–	1,566	193,466	195,032	
Dividends (Note 34)	–	–	–	–	–	–	–	(326,002)	(326,002)	
Share options granted under ESOS recognised in profit or loss (Note 29)	–	–	–	5,001	–	–	–	–	5,001	
Issuance of ordinary shares pursuant to exercise of ordinary shares pursuant to exercise of DRP	12,210	110,291	–	–	–	–	–	–	231,501	
Issuance of ordinary shares pursuant to exercise of ESOS	3,691	3,816	–	(2,065)	–	–	–	–	5,442	
Issuance of ordinary shares pursuant to exercise of warrants	4,027	–	–	–	–	–	–	–	4,027	
Transfer of share option reserve to retained profits upon expiry of share options	–	–	–	(579)	–	–	–	579	–	
At 31 December 2015	2,838,551	1,392,980	17,838	5,210	3,633	12,486	1,566	550,670	4,802,934	
Profit for the year	–	–	–	–	–	–	–	92,640	92,640	
Other comprehensive income for the year	–	–	–	–	–	–	(21,376)	–	(21,376)	
Total comprehensive income for the year	–	–	–	–	–	–	(21,376)	92,640	71,264	
Dividends (Note 34)	–	–	–	–	–	–	–	(85,278)	(85,278)	
Share options granted under ESOS recognised in profit or loss (Note 29)	–	–	–	2,058	–	–	–	–	2,058	
Issuance of ordinary shares pursuant to exercise of rights issue (Note 43)	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	–	
At 31 December 2016	5,798,774	198,449	17,838	6,810	3,633	12,486	(19,810)	538,490	6,556,670	

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

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities				
Profit before taxation	338,421	355,025	223,820	289,449
Adjustments for:				
Depreciation of property, plant and equipment	13,573	14,720	10,504	11,602
Amortisation:				
– land use rights	162	162	–	–
– intangible assets	13,500	13,408	13,451	13,363
Loss on disposal of property, plant and equipment and land use rights	456	24	457	24
Gain on disposal of foreclosed properties	–	(3,307)	–	(3,307)
Allowance/(write back of allowance) for impairment of:				
– investments in subsidiaries	–	–	1	2,309
– amount due from/loans to subsidiaries	–	–	18,776	30,803
– (reversal of)/additional provision for diminution from foreclosed properties	1,482	(12,020)	1,482	12,020
– provision for doubtful debts	–	–	–	(2,767)
– unsecured advances in respect of certain projects	36,515	33,589	–	–
Allowance for impairment losses on loans, advances and financing	777,265	701,943	777,265	685,205
Accruals during the year	6,507	3,342	5,873	3,342
Interest/profit income adjustment on:				
– loans, advances and financing	14,924	90,233	14,924	90,233
– profit payable on financial investments AFS	(20,186)	(8,884)	(20,186)	(8,884)
– Sukuk – MBSB SC Murabahah	(1,277)	(13,652)	(1,277)	(13,652)
– Sukuk Commodity Murabahah	–	–	(133,108)	(113,155)
Operating profit before working capital changes	1,181,342	1,174,583	911,982	996,586
(Increase)/decrease in deposits with financial institutions with maturity of more than one month	(669,549)	(323,111)	(460,079)	5,990
Increase in loans, advances and financing	(1,198,902)	(1,544,340)	(1,138,400)	(1,542,883)
Decrease/(increase) in inventories	86	(54)	–	–
Decrease/(increase) in trade receivables	277	(454)	–	–
Decrease/(increase) in other receivables	6,528	(20,444)	(24,859)	(30,238)
Increase in deposits from customers	2,025,937	1,054,529	2,025,937	1,054,529
(Decrease)/increase in trade payables	(27)	30	–	–
(Decrease)/increase in other payables	(28,489)	8,872	(328,867)	2,211,559
Decrease in loans to subsidiaries	–	–	(40,919)	(44,542)
Cash generated from operations	1,317,203	349,611	944,795	2,651,001
Tax paid	(203,547)	(258,750)	(198,429)	(258,750)
Zakat paid	(4,017)	(3,475)	(4,017)	(3,475)
Net cash generated from operating activities	1,109,639	87,386	742,349	2,388,776

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from investing activities				
Purchase of property, plant and equipment	(17,816)	(15,058)	(533)	(1,183)
Purchase of intangible assets	(236)	(6,313)	(230)	(6,276)
Investment in subsidiary	–	–	–	3
Proceeds from disposal of property, plant and equipment and land use rights	126	35	118	35
Proceeds from disposal of foreclosed properties	–	19,075	–	19,075
Increase in financial investments available-for-sale	(1,382,586)	(972,904)	(1,382,586)	(972,904)
Investment in Sukuk Commodity Murabahah	–	–	348,716	(2,306,031)
Net cash used in investing activities	(1,400,512)	(975,165)	(1,034,515)	(3,267,281)
Cash flows from financing activities				
Drawdown/(repayment) of bank borrowings	(1,070,316)	229,747	(1,070,316)	229,747
Repayment of other borrowings	(50,181)	(100,363)	(50,181)	(100,363)
(Repayment)/proceeds from recourse obligation on loans/financing sold	(347,067)	394,203	(347,067)	394,203
(Repayment)/proceeds from Sukuk – MBSB SC Murabahah	(210,871)	1,691,483	(210,871)	1,691,483
Dividends paid on ordinary shares	(85,278)	(326,002)	(85,278)	(326,002)
Net proceeds from issuance of ordinary shares	1,765,692	243,035	1,765,692	243,035
Net cash generated from financing activities	1,979	2,132,103	1,979	2,132,103
Net (decrease)/increase in cash and cash equivalents	(288,894)	1,244,324	(290,187)	1,253,597
Cash and cash equivalents at beginning of year	6,928,263	5,683,939	6,911,177	5,657,580
Cash and cash equivalents at end of year (Note 5(a))	6,639,369	6,928,263	6,620,990	6,911,177
Cash and cash equivalents is represented by:				
Cash and short-term funds	6,634,848	6,923,825	6,620,990	6,911,177
Cash held pursuant to Section 7A of the Housing Development Act (Note 5)	4,521	4,438	–	–
Cash and cash equivalents at end of year (Note 5(a))	6,639,369	6,928,263	6,620,990	6,911,177

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

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated under the Companies Act, 1965 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 11. 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 22 February 2017.

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, 1965 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 42.

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.

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.

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

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

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

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

(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.

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 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

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

(e) Employee benefits (cont'd.)

(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 premium 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 rentals or for capital appreciation or both.

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.

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

(h) Provisions (cont'd.)

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.

(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 losses 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.

(k) Financial assets

Financial assets 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.

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 and the Company determine the classification of their financial assets at initial recognition, and the categories include loans and receivables and available-for-sale investments.

(i) 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, 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 loans and receivables are derecognised or impaired, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

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

(k) Financial assets (cont'd.)

(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.

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 at 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 at FVTPL 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.

Reclassification 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 2016.

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

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

(m) Financial liabilities (cont'd.)

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) Warrants

Proceeds from the issuance of warrants, net of issue costs, are credited to the warrants reserve. The warrants reserve is non-distributable and will be transferred to the share premium account upon the exercise of warrants. Any remaining balance of the warrants reserve in relation to unexercised warrants at the expiry of the warrants period will be transferred to retained earnings.

(p) 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 drawdown, financial guarantee shall be recognised as loans, advances and financing.

(q) 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 methods 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.

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

(q) Revenue recognition (cont'd.)

(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.

(r) 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.

(ii) Deferred tax

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.

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

(r) Income tax (cont'd.)

(ii) Deferred tax (cont'd.)

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.

(s) 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.

3. CHANGES IN ACCOUNTING POLICIES

(a) Amendments to MFRSs effective for annual periods on or after 1 January 2016

On 1 January 2016, the Group and the Company adopted the following Amendments to MFRSs mandatory for annual financial periods beginning on or after 1 January 2016:

Amendments to MFRS 5: Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012 – 2014 Cycle)

Amendments to MFRS 7: Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012 – 2014 Cycle)

Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception

Amendments to MFRS 11: Accounting for Acquisitions of Interest in Joint Operations

MFRS 14 Regulatory Deferral Accounts

Amendments to MFRS 101: Disclosure Initiatives

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants

Amendments to MFRS 119: Employee Benefits (Annual Improvements to MFRSs 2012 – 2013 Cycle)

Amendments to MFRS 127: Equity Method in Separate Financial Statements

Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements to MFRSs 2012 – 2014 Cycle)

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

(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
Disclosure Initiative (Amendments to MFRS 107)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
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.

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

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

The main effects of the MFRSs and interpretations above are as follows:

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)

The amendments to MFRS 112 clarify the accounting treatment of deferred tax assets for unrealised losses on fixed-rate debt instruments measured at fair value. The adoption of these amendments will not have any financial impact on the Group and the Company as the Group and the Company already applied the principles under these amendments.

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 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 (2014)

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.

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

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

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.

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.

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 Company, and with assistance from consultants on the implementation of MFRS 9. During the financial year ended 31 December 2016, 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.

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 adoption of MFRS 15 is not expected to have any material impact on the financial statements of the Group and of the Company.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

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

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

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.

Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4)

The amendments address the issues arising from the transitional challenges of applying the temporary exemption from MFRS 9 for an insurer in view that the upcoming new insurance contracts standard MFRS 17 is expected to be issued soon. The expiration date of the temporary exemption from MFRS 9 coincide with the tentative effective date of MFRS 17, as decided by IASB in November 2016. In addition, to reduce the impact of temporary volatility in reported results of entity dealing with insurance contracts, the amendments introduce two additional voluntary options, namely an overlay approach and a deferral approach. 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.

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 10(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 sources of estimation uncertainty

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

(i) 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.

(ii) Impairment of Financial Investments AFS

Financial assets that are not classified as at fair value through profit or loss or as loans are classified as available-for-sale ("AFS"). A financial asset classified as AFS is initially recognised at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortisation of premiums and accretion of discount are recorded in net interest income. Financial assets classified as AFS are carried at fair value with the changes in fair value reported in other comprehensive income, unless the asset is subject to a fair value hedge, in which case changes in fair value resulting from the risk being hedged are recorded in other income.

In the case of equity investments classified as AFS, objective evidence includes a significant or prolonged decline in the fair value of the investment below cost. In the case of debt securities classified as AFS, impairment is assessed based on the same criteria as for loans.

If there is evidence of impairment, any amounts previously recognised in other comprehensive income are recognised in the profit or loss for the period, reported in net gains (losses) on financial assets available-for-sale. This impairment loss for the period is determined as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value of the asset less any impairment loss on that investment previously recognised in profit or loss.

Reversals of impairment losses on equity investments classified as AFS are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

Realised gains and losses are reported in net gains (losses) on financial assets available-for-sale. Generally, the weighted-average cost method is used to determine the cost of financial assets. Unrealised gains and losses recorded in other comprehensive income are transferred to profit or loss on disposal of an available-for-sale asset and reported in net gains (losses) on financial assets available for sale.

NOTES TO THE FINANCIAL STATEMENTS

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5. CASH AND SHORT TERM FUNDS AND DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(a) Cash and short-term funds:				
Cash at banks and on hand	228,298	326,838	213,603	313,325
Deposits and placements with financial institutions with maturity of less than one month	6,411,071	6,601,425	6,407,387	6,597,852
Total cash and short-term funds	6,639,369	6,928,263	6,620,990	6,911,177
(b) Deposits and placements with financial institutions with maturity of more than one month	1,076,078	406,529	462,206	2,127
Total cash and short-term funds and deposits and placements financial institutions	7,715,447	7,334,792	7,083,196	6,913,304

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 deposits rates. The weighted average effective interest rate as at 31 December 2016 for the Group was 3.56% (2015: 4.33%) and the Company was 3.60% (2015: 3.95%) per annum respectively. The average maturity as at 31 December 2016 for the Group was 71 days (2015: 84 days) and the Company was 37 days (2015: 19 days) respectively.

Included in cash and short-term funds of the Group as above are amounts of RM4.521 million (2015: RM4.438 million) held pursuant to Section 7A of the Housing Development (Control and Licensing) Act, 1966 and are restricted from use in other operations.

6. TRADE RECEIVABLES

	Group	
	2016 RM'000	2015 RM'000
Gross balance	25,351	25,628
Less: Allowance for impairment	(24,809)	(24,809)
Net balance	542	819

Movements in allowance for impairment are as follows:

	Group	
	2016 RM'000	2015 RM'000
Balance as at 1 January	24,809	24,810
Reversal of impairment losses (Note 28)	–	(1)
Balance as at 31 December	24,809	24,809

Trade receivables are non-interest bearing and credit terms provided are generally on 7 to 30 days (2015: 7 to 30 days) term.

7. OTHER RECEIVABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Advances in respect of certain projects	374,903	338,388	–	–
Loan commitment fees	8,740	8,740	8,740	8,740
Amount due from subsidiaries	–	–	58,228	48,770
Foreclosed properties	138,658	138,658	138,658	138,658
Prepayments and deposits	4,702	8,300	3,978	7,555
Sundry receivables	43,658	23,218	35,564	16,265
Public Low Cost Housing Payment (PLCHP)	23,277	23,335	23,277	23,335
Deferred expenses due to issuance of Sukuk Commodity Murabahah	155	168	–	–
Deferred expenses due to issuance of Sukuk – MBSB SC Murabahah	2,995	3,257	2,995	3,257
	597,088	544,064	271,440	246,580
Less: Allowance for impairment	(446,535)	(348,986)	(113,516)	(109,074)
	150,553	195,078	157,924	137,506

Movements in allowance for impairment are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance as at 1 January	348,986	315,597	109,074	106,529
Transfer from individual impairment allowance for loans, advances and financing (Note 9(vi))	–	8,370	–	8,370
Charge/(reversal) for the year:				
Reclassification of other receivables from loans, advances and financing	59,552	–	–	–
Provision for (write back of) impairment losses for foreclosed properties	1,482	(8,581)	1,482	(8,581)
Advances in respect of certain projects (Note 28)	36,515	33,588	–	–
Amount due from subsidiaries	–	–	2,960	2,744
Commission fees (Note 28)	–	12	–	12
Balance as at 31 December	446,535	348,986	113,516	109,074

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

7. OTHER RECEIVABLES (CONT'D.)

Details of allowance for impairment are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Advances in respect of certain projects	370,715	274,648	–	–
Loan commitment fees	8,740	8,740	8,740	8,740
Amount due from subsidiaries	–	–	41,885	38,925
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	31,469	29,987	31,469	29,987
	446,535	348,986	113,516	109,074

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% (2015: 10.50%) per annum.

The amount due from subsidiaries is unsecured, bears weighted average effective interest rate of 6.80% (2015: 7.42%) per annum and is repayable on demand.

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 RM107,189,000 (2015: RM108,671,000) 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 RM94,125 (2015: RM94,125).

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

8. INVENTORIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At cost:				
Hotel inventories	138	224	–	–
At net realisable value:				
Freehold land held for sale	103,063	103,063	900	900
Total inventories	103,201	103,287	900	900

9. LOANS, ADVANCES AND FINANCING

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
End finance:				
Normal housing programme	3,382,205	3,538,080	3,382,205	3,538,080
Low cost housing programme	17,414	17,842	17,414	17,842
Islamic:				
Property	2,080,177	1,884,525	2,080,177	1,884,525
Personal	22,822,210	23,159,664	22,822,210	23,159,664
Auto finance	334,524	376,630	334,524	376,630
Bridging, structured and term loans and financing	6,599,879	5,081,068	6,607,066	5,148,497
Staff loans	48,205	51,020	48,205	51,020
Gross loans, advances and financing	35,284,614	34,108,829	35,291,801	34,176,258
Allowance for impairment:				
– Collectively assessed	(2,809,131)	(2,045,943)	(2,809,131)	(2,045,943)
– Individually assessed	(282,005)	(277,916)	(282,005)	(277,916)
Net loans, advances and financing	32,193,478	31,784,970	32,200,665	31,852,399

Included in bridging, structured and term loans and financing granted by the Company in respect of joint venture projects are the following impaired amounts:

	Company	
	2016 RM'000	2015 RM'000
Loans to subsidiaries	–*	–*

* Denotes RMI

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

	Group and Company	
	2016 RM'000	2015 RM'000
Islamic financing facility granted by:		
EPF (Note 17)	–	161,452
Recourse obligation on loans/financing sold (Note 20)	1,933,321	2,081,435
Sukuk – MBSB SC Murabahah* (Note 10(a))	3,193,633	3,494,863

* The Islamic personal financing charged to Sukuk – MBSB SC Murabahah relate to Islamic personal financing sold to a subsidiary, JKSB, amounting to:

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

		Group and Company	
		2016 RM'000	2015 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Maturing within one year	843,533	575,232	843,533	575,232
One year to three years	1,410,298	1,037,731	1,410,298	1,037,731
Three years to five years	1,788,154	941,459	1,788,154	941,459
Over five years	31,242,629	31,554,407	31,249,816	31,621,836
	35,284,614	34,108,829	35,291,801	34,176,258

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Purchase of residential properties	5,194,235	5,173,290	5,194,235	5,173,290
Purchase of non-residential properties	309,683	293,858	309,683	293,858
Personal use	22,844,358	23,182,139	22,844,358	23,182,139
Property development	3,548,616	2,685,005	3,548,616	2,685,005
Working capital	2,402,615	1,706,762	2,402,615	1,706,762
Purchase of transport vehicles	336,457	378,473	336,457	378,473
Others	648,650	689,302	655,837	756,731
	35,284,614	34,108,829	35,291,801	34,176,258

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Domestic business enterprises:				
– Small medium enterprises	3,734,289	2,637,084	3,734,289	2,637,084
– Others	2,976,192	2,557,619	2,983,379	2,625,048
Individuals	28,574,133	28,914,126	28,574,133	28,914,126
	35,284,614	34,108,829	35,291,801	34,176,258

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Fixed rate:				
Personal financing	22,631,668	23,145,495	22,631,668	23,145,495
Auto finance	336,457	378,473	336,457	378,473
Mortgage and property Islamic	802,211	867,843	802,211	867,843
Bridging, structured and term loans and financing	921,733	413,920	921,733	413,920
Variable rate:				
Personal financing	212,690	36,644	212,690	36,644
Mortgage and property Islamic	4,701,707	4,599,305	4,701,707	4,599,305
Bridging, structured and term loans and financing	5,678,148	4,667,149	5,685,335	4,734,578
	35,284,614	34,108,829	35,291,801	34,176,258

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance as at 1 January	2,519,633	2,145,793	2,587,063	2,429,860
Classified as impaired during the year	2,353,095	2,370,388	2,292,853	2,388,012
Reclassified as non-impaired	(1,974,478)	(1,983,079)	(1,974,478)	(1,983,079)
Amount recovered	(68,610)	(22,482)	(68,610)	(22,482)
Amount (written off)/written back	(14)	9,013	(14)	(225,248)
Balance as at 31 December	2,829,626	2,519,633	2,836,814	2,587,063
Collective allowance*	(1,700,602)	(1,442,441)	(1,700,602)	(1,442,441)
Individual allowance	(205,951)	(183,679)	(205,951)	(183,679)
Allowance for impairment	(1,906,553)	(1,626,120)	(1,906,553)	(1,626,120)
Net impaired loans, advances and financing	923,073	893,513	930,261	960,943
Net impaired loans as a percentage of net loans, advances and financing	2.9%	2.8%	2.9%	3.0%

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

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

	Group and Company	
	2016 RM'000	2015 RM'000
Collective Impairment		
Balance as at 1 January	2,045,943	1,437,747
Impairment during the year (Note 31)	763,188	608,196
Balance as at 31 December	2,809,131	2,045,943

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Individual Impairment				
Balance as at 1 January	277,916	208,679	277,916	442,939
Impairment during the year (Note 31)	4,103	67,597	4,103	67,597
(Written off)/written back	(14)	10,010	(14)	(224,250)
Transfer to other receivables (Note 7)	–	(8,370)	–	(8,370)
Balance as at 31 December	282,005	277,916	282,005	277,916

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Purchase of residential properties	843,810	981,582	843,810	981,582
Purchase of non-residential properties	76,123	79,135	76,123	79,135
Personal use	1,401,579	1,181,594	1,401,579	1,181,594
Property development	268,719	3,533	268,719	3,533
Working capital	56,184	60,759	56,184	60,759
Purchase of transport vehicles	37,903	35,407	37,903	35,407
Others	145,308	177,623	152,496	245,053
	2,829,626	2,519,633	2,836,814	2,587,063

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Domestic business enterprises:				
– Small medium enterprises	371,034	40,016	371,034	40,016
– Others	128,428	234,873	135,616	302,303
Individuals	2,330,164	2,244,744	2,330,164	2,244,744
	2,829,626	2,519,633	2,836,814	2,587,063

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 RM158,569,000 (2015: RM138,754,000) without the mitigating effect of collateral held.

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10. SUKUK – MBSB SC MURABAHAH AND SUKUK COMMODITY MURABAHAH

(a) Sukuk – MBSB SC Murabahah

	Group and Company	
	2016 RM'000	2015 RM'000
Sukuk – MBSB SC Murabahah	2,615,807	2,827,955
Maturity of Sukuk – MBSB SC Murabahah:		
Within one year	433,933	385,239
More than one year	2,181,874	2,442,716
	2,615,807	2,827,955

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:

- 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;
- Each Tranche will consist of multiple series of Sukuk with different maturities;
- 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;
- 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;
- 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
- From time to time, additional Tranche Cover Assets will be purchased by JKSB in line with additional Tranches drawdown by MBSB.

As at the reporting date, the carrying amount of Financing Receivables identified to back the outstanding Sukuk MBSB SC-Murabahah amounted to RM3,193,633,000 (2015: RM3,494,863,000).

(b) Sukuk Commodity Murabahah

	Company	
	2016 RM'000	2015 RM'000
Sukuk Commodity Murabahah	3,577,143	3,792,751

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

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

As part of the Programme, 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:

- The Sukuk Commodity Murabahah will be issued in Tranches corresponding to each Tranche of Sukuk – MBSB SC Murabahah;
- 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;
- 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 RM1,510 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.

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.

11. INVESTMENTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2016 RM'000	2015 RM'000
Unquoted shares at cost	118,394	118,394
Less: Accumulated impairment losses	(96,063)	(96,062)
	22,331	22,332

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

(a) Investments in subsidiaries (cont'd.)

Details of the subsidiaries are as follows:

Name of subsidiaries	Effective interest held (%)		Principal activities
	2016	2015	
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	Dormant
Springtide Sdn. Bhd.#	–	–	In liquidation
Trimonds Sdn. Bhd.#	–	–	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
Raynergy Sdn. Bhd. #	–	–	In liquidation
Idaman Usahamas Sdn. Bhd.	100	100	Property development
Ombak Pesaka Sdn. Bhd.	100	100	Hotel operations
MBSB Tower Sdn. Bhd.	100	100	Property development
Home Approach Sdn. Bhd.	100	100	Dormant
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 liquidated subsidiaries did not give rise to significant impact to the results of the Company and Group.

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

(b) Loans to subsidiaries

	Company	
	2016 RM'000	2015 RM'000
Secured	206,837	180,850
Unsecured	220,445	205,513
	427,282	386,363
Less: Allowance for impairment	(146,779)	(130,963)
	280,503	255,400

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

(b) Loans to subsidiaries (cont'd.)

Movements in the allowance for impairment are as follows:

	Company	
	2016 RM'000	2015 RM'000
Balance as at 1 January	130,963	102,904
Charge for the year		
Secured	883	830
Unsecured	14,933	27,229
Total charge for the year (Note 28)	15,816	28,059
Balance as at 31 December	146,779	130,963

	Company	
	2016 RM'000	2015 RM'000
Details of the allowance for impairment are as follows:		
Secured	9,097	8,213
Unsecured	137,682	122,750
	146,779	130,963

The loans to subsidiaries are repayable on demand and certain loans to subsidiaries are secured against landed properties. The weighted average effective interest rates of loans to subsidiaries at the reporting date was 6.80% (2015: 7.42%) per annum.

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

	Group and Company	
	2016 RM'000	2015 RM'000
At fair value	2,364,750	983,354
Money Market Instruments		
Malaysian Government Investment Issues	972,180	584,787
Debt Securities:		
Private and Islamic debt securities	181,242	398,567
Government Guaranteed debt securities	1,211,328	–
	2,364,750	983,354

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12. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE (“AFS”) (CONT’D.)

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

	Group and Company	
	2016 RM’000	2015 RM’000
Within one year	140,309	99,655
One year to three years	384,203	177,549
Three years to five years	651,363	307,005
After five years	1,188,875	399,145
	2,364,750	983,354

13. 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 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 28)	–	–	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

13. 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 2015	6,217	42,415	103,718	35,618	31,913	839	34,172	254,892
Additions	–	13,718	–	559	531	163	87	15,058
Disposals	–	–	–	(340)	(14)	(134)	(186)	(674)
At 31 December 2015	6,217	56,133	103,718	35,837	32,430	868	34,073	269,276
Accumulated depreciation and impairment losses								
At 1 January 2015:								
Accumulated depreciation	–	–	11,539	23,360	25,480	676	21,406	82,461
Accumulated impairment losses	371	–	34,287	–	–	–	–	34,658
	371	–	45,826	23,360	25,480	676	21,406	117,119
Depreciation charge for the year (Note 28)	–	–	3,022	4,719	2,270	107	4,602	14,720
Disposals	–	–	–	(288)	(7)	(134)	(186)	(615)
At 31 December 2015	371	–	48,848	27,791	27,743	649	25,822	131,224
Analysed as:								
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
Net book value								
At 31 December 2015	5,846	56,133	54,870	8,046	4,687	219	8,251	138,052

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13. 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 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 28)	–	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
Cost							
At 1 January 2015	9,968	18,946	28,546	17,890	564	33,203	109,117
Additions	–	–	559	399	150	75	1,183
Disposals	–	–	(340)	(14)	(134)	(186)	(674)
At 31 December 2015	9,968	18,946	28,765	18,275	580	33,092	109,626
Accumulated depreciation							
At 1 January 2015:							
Accumulated depreciation	–	2,014	15,191	11,184	386	20,687	49,462
Depreciation charge for the year (Note 28)	–	474	4,422	2,061	66	4,579	11,602
Reversal/reclassification (Note 28)	–	–	(288)	(7)	(134)	(186)	(615)
At 31 December 2015	–	2,488	19,325	13,238	318	25,080	60,449
Net book value							
At 31 December 2015	9,968	16,458	9,440	5,037	262	8,012	49,177

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Pending subdivision of titles	793	628	–	–

14. LAND USE RIGHTS

	Group	
	2016 RM'000	2015 RM'000
Cost:		
At 1 January/31 December	8,428	8,428
Accumulated amortisation:		
At 1 January	2,682	2,520
Amortisation for the year (Note 28)	162	162
At 31 December	2,844	2,682
Net carrying amount	5,584	5,746
Amount to be amortised:		
– Not later than one year	162	162
– Later than one year but not later than five years	648	648
– Later than five years	4,774	4,936
	5,584	5,746

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15. INTANGIBLE ASSETS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Software licences				
Cost				
At 1 January	77,804	71,843	77,369	71,448
Additions	236	5,961	230	5,921
At 31 December	78,040	77,804	77,599	77,369
Accumulated depreciation and impairment losses				
At 1 January	49,125	35,714	48,779	35,416
Amortisation for the year (Note 28)	13,500	13,411	13,451	13,363
At 31 December	62,625	49,125	62,230	48,779
Net book value				
At 31 December	15,415	28,679	15,369	28,590

16. DEPOSITS FROM CUSTOMERS

	Group and Company	
	2016 RM'000	2015 RM'000
By type of Products:		
Savings	97,444	82,014
Fixed deposits	30,513,880	28,503,373
	30,611,324	28,585,387
By type of customers:		
Government and statutory bodies	12,690,543	18,558,905
Business enterprises	15,435,413	7,761,195
Individuals	2,485,368	2,265,287
	30,611,324	28,585,387
Maturity of deposits from customers:		
Within one year	28,639,144	25,610,754
More than one year	1,972,180	2,974,633
	30,611,324	28,585,387

17. BANK AND OTHER BORROWINGS

	Group and Company	
	2016 RM'000	2015 RM'000
Total borrowings		
Bank borrowings	575,275	1,645,591
Other borrowings	–	50,181
	575,275	1,695,772
Maturity of borrowings:		
Within one year	575,275	1,695,772

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

	Group and Company	
	2016 %	2015 %
Bank borrowings	4.35	4.53
Other borrowings	–	5.50

Bank borrowings represent unsecured revolving credit and interest charged on these borrowings from licensed commercial banks is based on the lenders' cost of funds plus 0.50% to 1.00% (2015: 0.50% to 1.00%) per annum. The bank borrowings are due within one year.

Other borrowings relate to Islamic financing facilities granted by EPF and secured on a portfolio of PFI advances have been fully repaid (2015: RM161,452,000) as disclosed in Note 9.

18. TRADE PAYABLES

Trade payables are unsecured and non-interest bearing. The normal trade credit terms granted to the Group range from 30 to 60 (2015: 30 to 60) days.

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19. OTHER PAYABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")	–	–	3,193,632	3,494,863
Due to other subsidiaries	–	–	30,712	29,890
Al-Mudharabah security deposit	109,058	101,947	109,058	101,947
Accruals	46,787	40,963	46,153	40,280
Deferred income	44,799	65,349	44,799	65,349
Others	103,342	117,709	100,987	116,006
	303,986	325,968	3,525,341	3,848,335

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.

20. RECOURSE OBLIGATION ON LOANS/FINANCING SOLD

	Group and Company	
	2016 RM'000	2015 RM'000
Repayments due within 12 months	1,436,699	940,078
Repayments due after 12 months	983,476	1,827,164
	2,420,175	2,767,242

These amounts relate to proceeds received from the sale of conventional and Islamic housing loan/financing and Islamic personal financing to intermediary banks which 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 has started its first sale of loan/financing portfolios with recourse directly with Cagamas Berhad without participation of intermediary banks.

Recourse obligation on loans or financing sold facilities granted by Cagamas and secured on a portfolio of mortgage loan and financing amounting to RM1,933,321,000 (2015: RM2,081,435,000).

21. DEFERRED TAX (ASSETS)/LIABILITIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	(496,970)	(354,149)	(496,548)	(354,375)
Recognised in profit or loss (Note 32)	478,285	(142,821)	477,838	(142,173)
At 31 December	(18,685)	(496,970)	(18,710)	(496,548)
Presented after appropriate offsetting as follows:				
Deferred tax liabilities	9,428	14,080	5,977	11,076
Deferred tax assets	(28,113)	(511,050)	(24,687)	(507,624)
	(18,685)	(496,970)	(18,710)	(496,548)

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	Property, plant and equipment RM'000	Collective allowances RM'000	Others RM'000	Total RM'000
At 1 January 2015	5,026	16,273	(359,437)	(16,011)	(354,149)
Recognised in profit or loss (Note 32)	–	–	(122,025)	(20,796)	(142,821)
At 1 January 2016	5,026	16,273	(481,462)	(36,807)	(496,970)
Recognised in profit or loss (Note 32)	–	(11,822)	484,462	5,645	478,285
At 31 December 2016	5,026	4,451	3,000	(31,162)	(18,685)

Company	Accelerated capital allowances RM'000	Collective allowances RM'000	Others RM'000	Total RM'000
At 1 January 2015	16,420	(359,437)	(11,358)	(354,375)
Recognised in profit or loss (Note 32)	–	(125,025)	(17,148)	(142,173)
At 1 January 2016	16,420	(484,462)	(28,506)	(496,548)
Recognised in profit or loss (Note 32)	–	484,462	(6,624)	477,838
At 31 December 2016	16,420	–	(35,130)	(18,710)

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unused tax losses	204,407	206,111	–	–
Unabsorbed capital allowances	42,431	39,584	–	–
Others	11,614	347,071	–	–

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.

22. SHARE CAPITAL AND SHARE PREMIUM

Group and Company	Number of Shares of RM1.00 Each		Amount	
	2016 Units '000	2015 Units '000	2016 RM'000	2015 RM'000
Share capital				
Authorised:				
– Ordinary Shares				
At 1 January/31 December	10,000,000	10,000,000	10,000,000	10,000,000
Ordinary shares Issued and fully paid:				
At 1 January	2,838,551	2,709,623	2,838,551	2,709,623
Issued during the year:				
Issue of ordinary shares pursuant to right issue	2,899,387	–	2,899,387	–
Issue of ordinary shares pursuant to DRP	50,169	121,210	50,169	121,210
Issue of ordinary shares pursuant to ESOS	–	3,691	–	3,691
Issue of ordinary shares pursuant to warrants	10,667	4,027	10,667	4,027
At 31 December	5,798,774	2,838,551	5,798,774	2,838,551

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

Group and Company	Amount	
	2016 RM'000	2015 RM'000
Share premium		
At 1 January	1,392,980	1,278,873
Issue of ordinary shares pursuant to right issue	(1,202,056)	–
Issue of ordinary shares pursuant to DRP	7,525	110,291
Issue of ordinary shares pursuant to ESOS	–	3,816
At 31 December	198,449	1,392,980

(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:

- Eligible persons are employees of the Group who are on the payroll of the Group other than a subsidiary which is dormant;
- 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;
- 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;
- 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
- 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.
- 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;

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22. 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			
	2016		2015	
	No. '000	WAEP (RM)	No. '000	WAEP (RM)
Outstanding at 1 January	21,533	–	27,610	–
– Adjusted*/granted	8,618	1.45	–	–
– Exercised	–	–	(3,691)	1.47
– Lapsed	(1,985)	1.50	(2,386)	2.13
Outstanding at 31 December	28,166	1.45	21,533	2.04
Exercisable at 31 December	28,166	1.45	21,533	2.04

- The weighted average fair value of options during the financial year was RM0.31 (2015: RM0.32).
- The weighted average exercise price for options outstanding at the end of the year was RM1.45 (2015: RM1.46). The weighted average remaining contractual life for these options is 3.60 years (2015: 4.60 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.

22. 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 nil (2015: 3,691,041) ordinary shares.

There were no ESOS exercised during the year.

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 09.03.2014	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, 10,667,001 (2015: 4,026,684) warrants were exercised by the warrant holders and 3,431,233 (2015: 14,098,234) warrants are still outstanding as at 31 December 2016.

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23. 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 2016	17,838	5,210	3,633	12,486	1,566	40,733
Share options granted under ESOS recognised in profit or loss (Note 29)	–	2,058	–	–	–	2,058
Transfer of share option reserve to retained profits upon lapsed of share options	–	(458)	–	–	–	(458)
Other comprehensive income for the year	–	–	–	–	(21,376)	(21,376)
At 31 December 2016	17,838	6,810	3,633	12,486	(19,810)	20,957
At 1 January 2015	17,838	2,853	3,633	12,486	–	36,810
Share options granted under ESOS recognised in profit or loss (Note 29)	–	5,001	–	–	–	5,001
Issue of ordinary shares pursuant to ESOS	–	(2,065)	–	–	–	(2,065)
Transfer of share option reserve to retained profits upon lapsed of share options	–	(579)	–	–	–	(579)
Other comprehensive income for the year	–	–	–	–	1,566	1,566
At 31 December 2015	17,838	5,210	3,633	12,486	1,566	40,733

23. OTHER RESERVES (CONT'D.)

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

24. REVENUE

Revenue of the Company comprises financing income, interest income, fee and commission income, and other income as disclosed in Notes 25, 27 and 42.

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.

25. INTEREST INCOME

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest income from:				
– Loans, advances and financing	398,857	435,535	365,014	425,635
– Deposits and placements with banks and other financial institutions	74,797	51,823	74,797	51,823
	473,654	487,358	439,811	477,458

26. INTEREST EXPENSE

	Group and Company	
	2016 RM'000	2015 RM'000
Bank borrowings	3,103	16,541
Deposits from customers	250,720	261,803
	253,823	278,344

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27. OTHER INCOME

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Rental income	168	38	8	38
Revenue from hotel operations	6,739	7,721	–	–
Loan processing fees	7,340	31,934	7,340	31,934
Insurance commission	4,772	1,727	4,772	1,727
Loan facility fees	17,334	9,348	17,334	9,348
Legal notice fees	1,696	1,960	1,696	1,960
Sundry income	19,285	6,531	19,086	6,251
(Loss)/gain from disposal of:				
Property, plant and equipment and land use rights	(456)	(24)	(457)	(24)
Foreclosed properties	–	3,307	–	3,307
	56,878	62,542	49,779	54,541

28. OTHER OPERATING EXPENSES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel expenses (Note 29)	132,783	141,717	128,697	137,667
Establishment related expenses	14,327	14,621	13,720	13,927
Promotion and marketing related expenses	11,631	13,224	11,489	13,057
General administrative expenses	67,353	71,731	60,079	63,938
Angkasa charges	29,190	29,759	29,190	29,759
Allowance/(write back of allowance) for impairment of:				
Investments in subsidiaries (Note 11(a))	–	–	1	2,309
Loans to subsidiaries (Note 11(b))	–	–	15,816	28,059
Amount due from subsidiaries (Note 7)	–	–	2,960	2,744
Foreclosed properties	1,482	3,652	1,482	3,652
Advances in respect of certain projects (Note 7)	36,515	33,588	–	–
Commission fees (Note 7)	–	12	–	12
Trade receivables (Note 6)	–	(1)	–	–
	293,281	308,303	263,434	295,124

28. OTHER OPERATING EXPENSES (CONT'D.)

Included in other operating expenses are the following:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Auditors' remuneration:				
– Audit				
– Parent auditors	626	584	533	495
– Other auditors	–	4	–	4
– Regulated related services				
– Parent auditors	5	5	5	5
– Other services				
– Parent auditors	458	1,311	458	1,311
Professional fees	1,783	2,108	1,783	2,108
Amortisation:				
– land use rights (Note 14)	162	162	–	–
– intangible assets (Note 15)	13,500	13,411	13,451	13,363
Depreciation:				
– property, plant and equipment (Note 13)	13,573	14,720	10,504	11,602
Directors' remuneration (Note 30)	2,077	1,644	2,077	1,644
Rental of buildings	6,433	6,894	7,437	7,898

29. PERSONNEL EXPENSES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Wages and salaries	102,769	107,974	99,435	104,572
Social security costs	893	839	856	797
Pension costs – Employees Provident Fund	16,427	16,932	16,133	16,625
Share options granted under ESOS	2,058	5,001	2,058	5,001
Mutual separation scheme	1,644	–	1,644	–
Other staff related expenses	8,992	10,971	8,571	10,672
	132,783	141,717	128,697	137,667

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30. DIRECTORS' REMUNERATION

	Group and Company	
	2016 RM'000	2015 RM'000
Directors of the Company		
Non-Executive:		
Fees	1,110	789
Other emoluments	967	855
Total	2,077	1,644

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

	Number of Directors	
	2016	2015
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	5	3
RM250,001 – RM300,000	2	–
RM300,001 – RM350,000	–	1
RM350,001 – RM400,000	1	–

Details of the directors' remuneration of each director during the financial year ended 31 December 2016 are as follows:

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

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

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Allowance for/(write back of) impairment on loans, advances and financing:				
– Collective impairment (Note 9(vi))	763,188	608,196	763,188	608,196
– Individual impairment	4,103	84,335	4,103	67,597
– Write off	11,577	4,706	11,577	4,706
– Write back	(1,603)	–	(1,603)	–
	777,265	697,237	777,265	680,499

32. TAXATION

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Malaysian income tax:				
Current income tax	79,872	239,972	74,372	237,729
Over provision in prior years	(422,129)	(5,317)	(422,011)	(5,172)
	(342,257)	234,655	(347,639)	232,557
Deferred tax (Note 21):				
Under/(over) provision in prior years	492,696	(10,986)	492,162	(10,986)
Relating to reduction in Malaysian income tax rate	–	14,614	–	14,614
Relating to origination and reversal of temporary differences	(14,411)	(146,449)	(14,324)	(145,801)
	478,285	(142,821)	477,838	(142,173)
Total income tax expense for the year	136,028	91,834	130,199	90,384

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

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32. 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:

	2016 RM'000	2015 RM'000
Group		
Profit before taxation and zakat	338,421	355,025
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	81,221	88,756
Effect on change in statutory tax rate on deferred tax	–	6,436
Effect on opening deferred tax of reduction in income tax rate	–	14,615
Effect of income not subject to tax	(29,698)	(33,945)
Effect of expenses not deductible for tax purposes	13,810	23,001
Effect of utilisation of previously unrecognised tax losses and unabsorbed capital allowances	1,431	676
Deferred tax assets not recognised	(1,229)	9,228
Reversal of deferred tax assets not previously recognised	–	(556)
Reversal of deferred tax liabilities	(74)	(74)
Over provision of income tax in prior years	(422,129)	(5,317)
Under/(over) provision of deferred tax in prior years	492,696	(10,986)
Tax expense for the year	136,028	91,834
Company		
Profit before taxation and zakat	223,820	289,449
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	53,717	72,362
Effect on change in statutory tax rate on deferred tax	–	6,099
Effect on opening deferred tax of reduction in income tax rate	–	14,614
Effect of income not subject to tax	110	–
Effect of expenses not deductible for tax purposes	6,107	13,348
Deferred tax assets not recognised	114	119
Over provision of income tax in prior years	(422,011)	(5,172)
Under/(over) provision of deferred tax in prior years	492,162	(10,986)
Tax expense for the year	130,199	90,384

33. 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.

	2016	2015
Net profit for the year (RM'000)	201,412	257,592
Weighted average number of ordinary shares in issue ('000)	4,107,971	2,787,607
Basic earnings per share (sen)	4.90	9.24

(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 and warrants.

	2016	2015
Net profit for the year (RM'000)	201,412	257,592
Weighted average number of ordinary shares in issue ('000)	4,107,971	2,787,607
Adjusted for assumed conversion of ESOS ('000)	–	581
Adjusted for assumed conversion of warrants ('000)	–	6,717
Adjusted weighted average number of ordinary shares in issue ('000)	4,107,971	2,794,905
Diluted earning per share (sen)	4.90	9.22

34. DIVIDENDS

	Group and Company	
	2016 RM'000	2015 RM'000

Recognised during the financial year:

Dividends on ordinary shares:

In respect of the financial year ended 31 December 2015/2014:

– Final taxable dividend of 3.0% (2014: Final 10%) per share	85,278	271,668
– Special taxable dividend of 2% per share	–	54,334
	85,278	326,002

Proposed but not recognised as a liability as at 31 December:

Dividend on ordinary shares, subject to shareholders' approval at the AGM:

In respect of financial year ended 31 December 2016/2015:

– Single-tier final taxable dividend of 3% per share	173,963	–
– Single-tier final taxable dividend of 3% per share	–	85,157
	173,963	85,157

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34. DIVIDENDS (CONT'D.)

The Board of Directors has recommended a Single-Tier Final Dividend of 3.0% (3.0 sen net per Ordinary Share) for the financial year ended 31 December 2016. Based on the issued and paid up share capital of 5,798,774,158 ordinary shares of RM1.00 each as at 10 February 2017, the Single-Tier Final Dividend payable would be RM173,963,225.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity in the financial year ending 31 December 2017.

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 3.0% for the financial year ended 31 December 2016. The approval for the proposed Single-Tier Final Dividend of 3.0% 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.

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

- 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
- 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%) to 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 5% 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.

35. SIGNIFICANT RELATED PARTY TRANSACTIONS/BALANCES

- 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 65.40% (2015: 65.10%) as at 31 December 2016. 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.

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.

- Individually significant transactions and balances with EPF are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Expenses				
Interest on loans	850	5,825	850	5,825
Rental expense	280	280	280	280
Balances				
Other borrowings (Note 17)	–	50,181	–	50,181
Rental deposit (Note 7)	94	94	94	94

- 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Expenses				
Sukuk facility agent fees	–	12,128	–	12,021
Balances				
Deposits and placements with financial institutions	1,392,479	1,300,622	669,202	1,300,622
Deposits from customers	306,054	–	306,054	–
Bank borrowings	250,098	450,126	250,098	450,126
Recourse obligation on loans/financing sold	432,378	869,805	432,378	869,805

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35. 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 2016, 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balances				
Deposits from customers	872,923	14,228	872,923	14,228

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

	Company	
	2016 RM'000	2015 RM'000
Income/(expenses)		
Interest charged on loans/advances	79,178	67,924
Rental paid	(1,004)	(1,004)
Balances		
Loans to subsidiaries	486,982	445,914
Amount due from subsidiaries	58,228	48,771
Amount due to subsidiaries	30,712	29,890
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")	3,193,633	3,494,863

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.

35. 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	
	2016 RM'000	2015 RM'000
Short-term employee benefits	5,871	5,862
Share-based payment	59	–
Pension costs: EPF	614	692
	6,544	6,554
Included in the total key management personnel are:		
Directors' remuneration comprising fees and allowances (Note 30)	2,077	1,644
Chief Executive Officer's remuneration comprising salary, bonus, allowances and other emoluments	2,976	3,446

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

	Group and Company	
	2016 RM'000	2015 RM'000
Expense		
Interest cost incurred on savings and deposits	(58)	(68)
Balance		
Amount due to in respect of savings and deposits	1,610	1,478

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	
	2016 '000	2015 '000
At 1 January	574	837
Adjustments	239	–
Exercised	–	(263)
At 31 December*	813	574

* Adjustment relates to 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.

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36. COMMITMENTS AND CONTINGENCIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
(i) Operational Commitments				
Loan commitments not yet recognised in the financial statements:				
End finance	115,127	251,351	115,127	251,351
Islamic properties	166,194	142,849	166,194	142,849
Islamic personal	483	1,323	483	1,323
Bridging, structured and terms loans and financing	4,019,883	7,614,958	4,019,883	7,614,958
Financial guarantees	307,314	104,076	307,314	104,076
	4,609,001	8,114,557	4,609,001	8,114,557
Approved and contracted for property development	421,528	421,528	1,667	1,667
	421,528	421,528	1,667	1,667
Total	5,030,529	8,536,085	4,610,668	8,116,224
(ii) Capital Commitments				
Property, plant and equipment:				
Approved and contracted for	165,914	183,105	–	–
Approved but not contracted for	–	46,702	8,455	60,616
	165,914	229,807	8,455	60,616

(iii) Lease Commitments

The Group and the Company has 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Future minimum rental payments:				
Not later than 1 year	5,242	5,618	6,246	6,622
Later than 1 year but less than 5 years	2,874	5,787	6,889	9,802
Later than 5 years	–	–	5,019	5,019
	8,116	11,405	18,154	21,443

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.

37. CONTINGENT LIABILITIES (UNSECURED)

- (i) A contractor appointed by one of the Company's borrowers had instituted civil suits against the Company for an alleged breach of contract, claiming damages amounting to RM2.54 million.

On conclusion of the Full Trial, the claim against the Company was dismissed with costs. The contractor's appeal to the Court of Appeal was allowed while the Company filed an application for leave to appeal to the Federal Court. The Deputy Registrar has fixed the matter for Hearing on 11 May 2017.

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

- (ii) A third party and its holding company (collectively "the Plaintiffs/the Appellant") have instituted a civil suit against the Company and its subsidiary for an alleged breach of facility agreement. On conclusion of the Full Trial, the Court dismissed the Plaintiffs' claim with costs and allowed the Company's counterclaim. The Plaintiffs filed an appeal to the Court of Appeal against the decision and the matter was fixed for Case Management on 9 October 2015 and thereafter on 4 March 2016 pending release of the grounds of judgement from the High Court. The matter was then fixed for Hearing on 17 August 2016 but was adjourned to 28 September 2016 where the hearing was then fixed for 1 November 2016. On 1 November 2016, the Court of Appeal allowed the appeal with no order as to costs and sent the matter back to the High Court for retrial before a different Judge as they were of the view that the Grounds of Judgement were wholly inadequate and in the circumstances they could not be certain as to the basis on which the decision was reached. The High Court has yet to inform parties of a new date for the matter.

Separately, the Plaintiffs had on 25 April 2013 served an originating summons on the Company seeking for an order from the Johor Bahru High Court that the charge created in favour of the Company be set aside and is of no effect and for a removal and cancellation of the same. On 13 December 2013 after the hearing, the Plaintiffs' application was allowed. The Court of Appeal dismissed the Company's appeal. The Company's application to the Federal Court for leave to appeal was allowed on 29 January 2015. The appeal was heard on 10 March 2016 by the Federal Court and Decision for the matter was fixed on 14 February 2017.

On 14 February 2017, the Federal Court allowed the Company's appeal with costs of RM75,000 and ordered the Land Administrator of the Johor Land Office to rectify the error on the charge from a first party charge to a third party charge. The Company's right as the chargee over the land is protected.

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.

38. 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.

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

- Identify and monitor the various risk exposures and risk requirements;
- 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
- Help create shareholder value through proper allocation of risk and the facilitation of independent risk assessments of new business and products.

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38. FINANCIAL RISK MANAGEMENT (CONT'D.)

(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.
- (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 granting credit facilities.

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

(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.

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 maximum exposure to credit risk for each class of financial assets is the carrying value of these assets as shown below:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Financial Assets:				
Loans, Advances and Financing:				
Without taking collateral into account:				
End finance and Islamic property	5,503,919	5,467,148	5,503,919	5,467,148
Personal financing	22,844,359	23,182,139	22,844,359	23,182,139
Bridging, structured and term loans and financing	6,599,879	5,081,069	6,607,066	5,148,498
Auto finance	336,457	378,473	336,457	378,473
	35,284,614	34,108,829	35,291,801	34,176,258

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– 31 December 2016

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net of Impairment:				
End finance and Islamic property	4,316,876	4,584,249	4,316,876	4,584,249
Personal financing	21,459,477	22,159,423	21,459,477	22,159,423
Bridging, structured and term loans and financing	6,144,071	4,700,648	6,151,258	4,768,077
Auto finance	273,054	340,650	273,054	340,650
	32,193,478	31,784,970	32,200,665	31,852,399
Deposits with Financial Institutions and Bank Balances:				
Cash and short-term funds	6,639,369	6,928,263	6,620,990	6,911,177
Deposits and placements with financial institutions	1,076,078	406,529	462,206	2,127
	7,715,447	7,334,792	7,083,196	6,913,304
Other Financial Assets:				
Loans to subsidiaries	–	–	280,503	255,400
Financial investments available-for-sale	2,364,750	983,354	2,364,750	983,354
Trade receivables	542	819	–	–
Other receivables*	38,662	78,107	46,757	21,280
Sukuk Commodity Murabahah	–	–	3,577,143	3,792,751
	2,403,954	1,062,280	6,269,153	5,052,785
Total financial assets	45,404,015	42,505,901	48,644,150	46,142,347

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

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality

The credit quality of financial assets are analysed as follows:

Group	2016							
	Neither Past Due Nor Impaired RM'000	<----- Past due but not impaired ----->			Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net 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				
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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38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Group	2015							
	Neither Past Due Nor Impaired RM'000	←----- Past due but not impaired -----→			Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net 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				
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	2,691,054	1,091,901	623,476	–	1,060,717	5,467,148	(882,899)	4,584,249
Personal financing	21,410,057	426,378	164,110	–	1,181,594	23,182,139	(1,022,716)	22,159,423
Auto finance	204,433	92,341	46,292	–	35,407	378,473	(37,823)	340,650
Bridging, structured and term loans and financing	4,439,863	–	399,290	–	241,916	5,081,069	(380,421)	4,700,648
	28,745,407	1,610,620	1,233,168	–	2,519,634	34,108,829	(2,323,859)	31,784,970
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	6,928,263	–	–	–	–	6,928,263	–	6,928,263
Deposits and placements with financial institutions	406,529	–	–	–	–	406,529	–	406,529
	7,334,792	–	–	–	–	7,334,792	–	7,334,792
Other Financial Assets:								
Financial investments available-for-sale	983,354	–	–	–	–	983,354	–	983,354
Trade receivables	–	667	133	19	24,809	25,628	(24,809)	819
Other receivables	77,939	168	–	–	318,999	397,106	(318,999)	78,107
	1,061,293	835	133	19	343,808	1,406,088	(343,808)	1,062,280

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Company	2016							
	Neither Past Due Nor Impaired RM'000	←----- Past due but not impaired -----→			Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net 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				
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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38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(ii) Credit quality (cont'd.)

Company	2015							
	Neither Past Due Nor Impaired RM'000	----- Past due but not impaired ----->			Impaired RM'000	Total Gross RM'000	Impairment Allowances RM'000	Total Net 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				
Financial Assets:								
Loans, Advances and Financing:								
End finance and Islamic property	2,691,054	1,091,901	623,476	–	1,060,717	5,467,148	(882,899)	4,584,249
Personal financing	21,410,057	426,378	164,110	–	1,181,594	23,182,139	(1,022,716)	22,159,423
Auto finance	204,433	92,341	46,292	–	35,407	378,473	(37,823)	340,650
Bridging, structured and term loans and financing	4,439,863	–	399,290	–	309,345	5,148,498	(380,421)	4,768,077
	28,745,407	1,610,620	1,233,168	–	2,587,063	34,176,258	(2,323,859)	31,852,399
Deposits with Financial Institutions and Bank Balance:								
Cash and short-term funds	6,911,177	–	–	–	–	6,911,177	–	6,911,177
Deposits and placements with financial institutions	2,127	–	–	–	–	2,127	–	2,127
	6,913,304	–	–	–	–	6,913,304	–	6,913,304
Other Financial Assets:								
Loans to subsidiaries	58,986	–	–	–	327,377	386,363	(130,963)	255,400
Financial investments available-for-sale	983,354	–	–	–	–	983,354	–	983,354
Other receivables	21,280	–	–	–	79,099	100,367	(79,087)	21,280
Sukuk Commodity Murabahah	3,792,751	–	–	–	–	3,792,751	–	3,792,751
	4,856,371	–	–	–	406,476	5,262,835	(210,050)	5,052,785

38. 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:

Group	2016			
	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
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 Asset:				
Financial investments available-for-sale	–	2,364,750	–	2,364,750
Other receivables	–	38,507	–	38,507
	–	2,403,257	–	2,403,257

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38. 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.):

Group	2015			
	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	–	2,019,741	671,313	2,691,054
Personal financing	–	21,034,252	375,805	21,410,057
Auto finance	–	117,204	87,229	204,433
Bridging, structured and term loans and financing	–	2,926,197	1,513,666	4,439,863
	–	26,097,394	2,648,013	28,745,407
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	326,838	–	–	326,838
Deposits and placements with financial institutions:				
– with maturity of less than one month	6,601,425	–	–	6,601,425
– with maturity of more than one month	406,529	–	–	406,529
	7,334,792	–	–	7,334,792
Other Financial Assets:				
Financial investments available-for-sale	–	983,354	–	983,354
Other receivables	–	77,939	–	77,939
	–	1,061,293	–	1,061,293

38. 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
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
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

NOTES TO THE FINANCIAL STATEMENTS

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38. 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	2015			Total RM'000
	High Grade RM'000	Standard Grade RM'000	New Loans During The Year RM'000	
Financial Assets:				
Loans, Advances and Financing:				
End finance and islamic property	–	2,019,741	671,313	2,691,054
Personal financing	–	21,034,252	375,805	21,410,057
Auto finance	–	117,204	87,229	204,433
Bridging, structured and term loans and financing	–	2,926,197	1,513,666	4,439,863
	–	26,097,394	2,648,013	28,745,407
Deposits with Financial Institutions and Bank Balance:				
Cash at banks and on hand	313,325	–	–	313,325
Deposits and placements with financial institutions:				
– with maturity of less than one month	6,597,852	–	–	6,597,852
– with maturity of more than one month	2,127	–	–	2,127
	6,913,304	–	–	6,913,304
Other Financial Assets:				
Loans to subsidiaries	–	58,986	–	58,986
Financial investments available-for-sale	–	983,354	–	983,354
Other receivables	–	21,280	–	21,280
Sukuk Commodity Murabahah	–	3,792,751	–	3,792,751
	–	4,856,371	–	4,856,371

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.

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(iii) Industry analysis

	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
Group							
31 December 2016							
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							
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.

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– 31 December 2016

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Credit risk (cont'd.)

(iii) Industry analysis (cont'd.)

	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
Group							
31 December 2015							
Financial Assets:							
Cash and short-term funds	12,369	6,911,177	-	-	1,548	3,169	6,928,263
Deposits and placements with financial institutions	-	2,127	-	-	-	404,402	406,529
Trade receivables	-	-	-	-	819	-	819
Other receivables	3,836	-	-	-	605	73,666	78,107
Loans, advances and financing:							
- End finance and Islamic property	-	-	4,584,249	-	-	-	4,584,249
- Personal financing	-	-	22,159,423	-	-	-	22,159,423
- Auto finance	-	-	340,650	-	-	-	340,650
- Bridging, structured and term loans and financing	2,978,364	-	30,396	-	949,052	742,836	4,700,648
Financial investments available-for-sale	-	983,354	-	-	-	-	983,354
	2,994,569	7,896,658	27,114,718	-	952,024	1,224,073	40,182,042

Company

31 December 2015

Financial Assets:

Cash and short-term funds	-	6,911,177	-	-	-	-	6,911,177
Deposits and placements with financial institutions	-	2,127	-	-	-	-	2,127
Other receivables	-	-	-	-	-	21,280	21,280
Sukuk Commodity Murabahah	-	-	-	-	-	3,792,751	3,792,751
Loans, advances and financing:							
- End finance and Islamic property	-	-	4,584,249	-	-	-	4,584,249
- Personal financing	-	-	22,159,423	-	-	-	22,159,423
- Auto finance	-	-	340,650	-	-	-	340,650
- Bridging, structured and term loans and financing	3,045,793	-	30,396	-	949,052	742,836	4,768,077
Loans to subsidiaries	-	172,637	-	-	82,763	-	255,400
Financial investments available-for-sale	-	983,354	-	-	-	-	983,354
	3,045,793	8,069,295	27,114,718	-	1,031,815	4,556,867	43,818,488

¹ Services includes hotel operation.

38. 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.

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.

	Tax rate	Group		Company	
		+100 basis points RM'000	-100 basis points RM'000	+100 basis points RM'000	-100 basis points RM'000
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
2015					
Impact to profit before tax		(214,854)	214,854	(218,224)	218,224
Impact to profit after tax and equity	25%	(161,141)	161,141	(163,668)	163,668

NOTES TO THE FINANCIAL STATEMENTS

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38. 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 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 interest 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	8,879,621	-	-	-	-	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	8,879,621	-	-	-	-	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	8,304,346	-	-	-	-	(8,304,346)	(0)	
Total interest/profit sensitivity gap	8,304,346	-	-	-	-	(8,304,346)	(0)	

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market risk (cont'd.)

Interest/profit rate risk (cont'd.)

Group 2015	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 interest rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	6,928,263	6,928,263	
Deposits and placements with financial institutions	-	-	-	-	-	406,529	406,529	4.05
Trade receivables	-	-	-	-	-	819	819	
Other receivables	-	-	-	-	-	195,078	195,078	
Loans, advances and financing:								
– non-impaired	7,905,784	-	-	-	-	22,985,673	30,891,457	7.42
– impaired	-	-	-	-	-	893,513	893,513	
Financial investments available-for-sale	-	-	-	-	-	983,354	983,354	4.11
Other assets	-	-	-	-	-	789,995	789,995	
Total assets	7,905,784	-	-	-	-	33,183,224	41,089,008	
Liabilities								
Deposits from customers	-	-	-	-	-	28,585,387	28,585,387	4.02
Bank borrowings	1,645,591	-	-	-	-	-	1,645,591	4.53
Other borrowings	-	-	-	-	-	50,181	50,181	5.50
Trade payables	-	-	-	-	-	214	214	
Other payables	-	-	-	-	-	325,968	325,968	
Recourse obligation on loans/ financing sold	-	-	-	-	-	2,767,242	2,767,242	4.72
Sukuk – MBSB SC Murabahah	-	-	-	-	-	2,827,955	2,827,955	4.92
Other liabilities	-	-	-	-	-	24,930	24,930	
Total liabilities	1,645,591	-	-	-	-	34,581,877	36,227,468	
Shareholders' equity	-	-	-	-	-	4,861,540	4,861,540	
Total liabilities and shareholders' equity	1,645,591	-	-	-	-	39,443,417	41,089,008	
On-balance sheet interest sensitivity gap	6,260,193	-	-	-	-	(6,260,193)	-	
Total interest/profit sensitivity gap	6,260,193	-	-	-	-	(6,260,193)	-	

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– 31 December 2016

38. 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 interest 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	8,879,621	-	-	-	-	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	8,879,621	-	-	-	-	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	8,304,346	-	-	-	-	(8,304,346)	0	
Total interest/profit sensitivity gap	8,304,346	-	-	-	-	(8,304,346)	0	

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Market risk (cont'd.)

Interest/profit rate risk (cont'd.)

Company 2015	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 interest rate % per annum
Assets								
Cash and short-term funds	-	-	-	-	-	6,911,177	6,911,177	
Deposits and placements with financial institutions	-	-	-	-	-	2,127	2,127	3.35
Other receivables (excluding amount due from subsidiaries)	-	-	-	-	-	127,661	127,661	
Amount due from subsidiaries	-	-	-	-	-	9,845	9,845	
Loans, advances and financing:								
– non-impaired	7,905,783	-	-	-	-	22,985,673	30,891,456	7.42
– impaired	-	-	-	-	-	960,943	960,943	
Sukuk Commodity Murabahah	-	-	-	-	-	3,792,751	3,792,751	3.27
Loans to subsidiaries	-	-	-	-	-	255,400	255,400	
Financial investments available-for-sale	-	-	-	-	-	983,354	983,354	
Other assets	-	-	-	-	-	600,728	600,728	
Total assets	7,905,783	-	-	-	-	36,629,659	44,535,442	
Liabilities								
Deposits from customers	-	-	-	-	-	28,585,387	28,585,387	4.02
Bank borrowings	1,645,591	-	-	-	-	-	1,645,591	4.53
Other borrowings	-	-	-	-	-	50,181	50,181	5.50
Recourse obligation on loans/ financing sold	-	-	-	-	-	2,767,242	2,767,242	4.72
Sukuk – MBSB SC Murabahah	-	-	-	-	-	2,827,955	2,827,955	4.70
Other liabilities	-	-	-	-	-	3,856,152	3,856,152	
Total liabilities	1,645,591	-	-	-	-	38,086,917	39,732,508	
Shareholders' equity	-	-	-	-	-	4,802,934	4,802,934	
Total liabilities and shareholders' equity	1,645,591	-	-	-	-	42,889,851	44,535,442	
On-balance sheet interest sensitivity gap	6,260,192	-	-	-	-	(6,260,192)	-	
Total interest/profit sensitivity gap	6,260,192	-	-	-	-	(6,260,192)	-	

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38. 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.

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	455,156	1,579,072	2,217,705	4,251,933
	31,410,447	4,533,844	2,218,589	38,162,880
Operational commitments:				
Financial guarantees	218,574	85,740	3,000	307,314
	31,629,021	4,619,584	2,221,589	38,470,194

38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity risk (cont'd.)

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

Group	2015 RM'000			
	On demand or within one year	One to five years	Over five years	Total
Financial liabilities:				
Deposits from customers	25,886,603	3,270,403	–	29,157,006
Bank borrowings	1,646,590	–	–	1,646,590
Other borrowings	51,213	–	–	51,213
Trade and other payables	326,182	–	–	326,182
Recourse obligation on loans/financing sold	1,003,717	1,842,412	–	2,846,129
Sukuk – MBSB SC Murabahah	349,087	1,670,467	2,581,464	4,601,018
	29,263,392	6,783,282	2,581,464	38,628,138
Operational commitments:				
Financial guarantees	62,204	41,872	–	104,076
	29,325,596	6,825,154	2,581,464	38,732,214

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	455,156	1,579,072	2,217,705	4,251,933
	34,631,615	4,533,844	2,218,589	41,384,048
Operational commitments:				
Financial guarantees	218,574	85,740	3,000	307,314
	34,850,189	4,619,584	2,221,589	41,691,362

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38. FINANCIAL RISK MANAGEMENT (CONT'D.)

Liquidity risk (cont'd.)

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

Company	2015 RM'000			
	On demand or within one year	One to five years	Over five years	Total
Financial liabilities:				
Deposits from customers	25,886,603	3,270,403	–	29,157,006
Bank borrowings	1,646,590	–	–	1,646,590
Other borrowings	51,213	–	–	51,213
Other payables	3,848,335	–	–	3,848,335
Recourse obligation on loans/financing sold	1,003,717	1,842,412	–	2,846,129
Sukuk – MBSB SC Murabahah	349,087	1,670,467	2,581,464	4,601,018
	32,785,545	6,783,282	2,581,464	42,150,291
Operational commitments:				
Financial guarantees	62,204	41,872	–	104,076
	32,847,749	6,825,154	2,581,464	42,254,367

39. 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 2016 and 2015.

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.

40. 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

	Note	Group		Company	
		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	10(b)	–	–	3,577,143	3,307,290
Financial liabilities					
Sukuk – MBSB SC Murabahah	10(a)	2,615,807	2,373,664	2,615,807	2,373,664
Deposits from customers	16	30,611,324	30,606,667	30,611,324	30,606,667
Recourse obligation on loans/financing sold	20	2,420,175	2,513,375	2,420,175	2,513,375
2015					
Financial assets					
Loans, advances and financing	9	31,784,970	29,098,361	31,852,399	29,098,361
Sukuk Commodity Murabahah	10(b)	–	–	3,792,751	3,656,006
Financial liabilities					
Sukuk – MBSB SC Murabahah	10(a)	2,827,955	2,717,921	2,827,955	2,717,921
Deposits from customers	16	28,585,387	28,209,704	28,585,387	28,209,704
Other borrowings	17	50,181	51,031	50,181	51,031
Recourse obligation on loans/financing sold	20	2,767,242	2,873,330	2,767,242	2,873,330

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 rates 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.

Deposits from customers

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying values due to the relatively short tenure of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using market rates currently offered for deposits and placements with similar remaining maturities.

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– 31 December 2016

40. 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.)

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.

Financial investments available-for-sale

Financial investments available-for-sale are valued using valuation techniques or pricing models primarily consist of debt securities.

- (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
Loans to subsidiaries	11(b)
Bank borrowings	17
Trade payables	18
Other payables	19

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.

40. 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:

Group	Fair value measurement using			
	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 2016

Assets carried at fair values

Financial investments available-for-sale	2,364,750	–	2,364,750	–
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Assets for which fair values are disclosed

Loans, advances and financing	30,252,799	–	24,066,976	6,185,823
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Liabilities for which fair values are disclosed

Sukuk – MBSB SC Murabahah	2,373,664	–	2,373,664	–
Deposits from customers	30,606,667	–	30,606,667	–
Recourse obligation on loans/financing sold	2,513,375	–	–	2,513,375

Total	35,493,706	–	32,980,331	2,513,375
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31 December 2015

Assets carried at fair values

Financial investments available-for-sale	983,354	–	983,354	–
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Assets for which fair values are disclosed

Loans, advances and financing	29,098,361	–	24,294,034	4,804,327
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Liabilities for which fair values are disclosed

Sukuk – MBSB SC Murabahah	2,717,921	–	2,717,921	–
Deposits from customers	28,209,704	–	28,209,704	–
Other borrowings	51,031	–	–	51,031
Recourse obligation on loans/financing sold	2,873,330	–	–	2,873,330

Total	33,851,986	–	30,927,625	2,924,361
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NOTES TO THE FINANCIAL STATEMENTS

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40. FAIR VALUES (CONT'D.)

Determination of fair value and fair value hierarchy (cont'd.)

Quantitative disclosures fair value measurement hierarchy for assets and liabilities (cont'd.):

Company	Fair value measurement using			
	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 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	–
Deposits from customers	30,606,667	–	30,606,667	–
Recourse obligation on loans/financing sold	2,513,375	–	–	2,513,375
Total	35,493,706	–	32,980,331	2,513,375
31 December 2015				
Assets carried at fair values				
Financial investments available-for-sale	983,354	–	983,354	–
Assets for which fair values are disclosed				
Loans, advances and financing	29,098,361	–	24,294,034	4,804,327
Sukuk Commodity Murabahah	3,656,006	–	3,656,006	–
Total	32,754,367	–	27,950,040	4,804,327
Liabilities for which fair values are disclosed				
Sukuk – MBSB SC Murabahah	2,717,921	–	2,717,921	–
Deposits from customers	28,209,704	–	28,209,704	–
Other borrowings	51,031	–	–	51,031
Recourse obligation on loans/financing sold	2,873,330	–	–	2,873,330
Total	33,851,986	–	30,927,625	2,924,361

40. FAIR VALUES (CONT'D.)

Determination of fair value and fair value hierarchy (cont'd.)

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant unobservable inputs	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.

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40. 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	Repayments 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

Company	At 1 January RM'000	Repayments 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

40. 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	Repayments 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
2015										
Financial assets										
Bridging, structured and term loans and financing	3,423,855	-	-	-	2,426,425	309,512	(1,326,664)	(222,503)	193,702	4,804,327
	3,423,855	-	-	-	2,426,425	309,512	(1,326,664)	(222,503)	193,702	4,804,327
Financial liabilities										
Other borrowings	157,219	(106,188)	-	-	-	-	-	-	-	51,031
Recourse obligation on loans/ financing sold	2,500,518	(228,399)	500,000	101,211	-	-	-	-	-	2,873,330
	2,657,737	(334,587)	500,000	101,211	-	-	-	-	-	2,924,361

Company	At 1 January RM'000	Repayments 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
2015										
Financial assets										
Bridging, structured and term loans and financing	3,461,629	-	-	-	2,426,425	309,512	(1,326,664)	(222,503)	155,928	4,804,327
	3,461,629	-	-	-	2,426,425	309,512	(1,326,664)	(222,503)	155,928	4,804,327
Financial liabilities										
Other borrowings	157,219	(106,188)	-	-	-	-	-	-	-	51,031
Recourse obligation on loans/ financing sold	2,500,518	(228,399)	500,000	101,211	-	-	-	-	-	2,873,330
	2,657,737	(334,587)	500,000	101,211	-	-	-	-	-	2,924,361

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41. SEGMENT INFORMATION (CONT'D.)

(a) Business segments (cont'd.)

	Financing		Property development		Letting of real property		Hotel operations		Investment holding		Others		Eliminations		Consolidated	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	
Other information																
Capital expenditure	533	1,183	17,191	13,778	-	-	92	157	-	-	-	-	-	-	17,816	15,058
Depreciation investment properties and property, plant and equipment	10,504	11,602	-	-	186	185	2,655	2,705	-	-	-	-	228	228	13,573	14,720
Amortisation of land used rights and intangible assets	13,451	13,363	-	-	20	20	191	190	-	-	-	-	-	-	13,662	13,573
Impairment for investments in subsidiaries	2	2,309	-	-	-	-	-	-	-	-	-	-	(2)	(2,309)	-	-
Non-cash expenses other than depreciation, amortisation and impairment losses	797,333	714,965	36,544	33,888	-	-	-	25	-	-	-	-	(18,776)	(14,065)	815,261	734,513

(b) Geographical Segments:

The Group's activities are in Malaysia, therefore segmental reporting is not analysed by geographical locations.

42. THE OPERATIONS OF ISLAMIC BUSINESS

Statements of financial position as at 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets					
Cash and short-term funds	(a)	4,398,300	6,026,443	4,394,353	6,023,275
Deposits and placements with financial institutions	(a)	763,329	404,402	149,457	-
Financing	(b)	28,106,938	27,152,155	28,106,938	27,152,155
Other receivables	(c)	262,532	672,837	258,018	667,182
Sukuk Commodity Murabahah		-	-	3,577,143	3,792,751
Financial Investment AFS		2,364,750	983,354	2,364,750	983,354
Financing to subsidiaries		-	-	280,503	-
Amount due from a subsidiary		-	-	10,893	4,753
Total assets		35,895,849	35,239,191	39,142,055	38,623,470
Liabilities					
Deposits from customers	(d)	24,149,761	22,491,784	24,149,761	22,491,784
Other payables	(e)	4,337,318	4,865,787	4,595,380	4,865,459
Bank borrowings		400,211	750,419	400,211	750,419
Other borrowings		-	50,181	-	50,181
Recourse obligation on financing sold		1,385,248	1,433,445	1,385,248	1,433,445
Amount due to a subsidiary, Jana Kapital Sdn. Bhd. ("JKSB")		-	-	3,193,633	3,494,863
Sukuk – MBSB SC Murabahah		2,615,807	2,827,955	2,615,807	2,827,955
Provision for taxation		81,398	220,906	81,067	218,663
Provision for zakat		4,780	7,816	4,780	7,816
Total liabilities		32,974,523	32,648,293	36,425,887	36,140,585
Islamic fund		4,000	4,000	4,000	4,000
AFS reserve		(19,810)	1,566	(19,810)	1,566
Retained profits		2,937,136	2,585,332	2,731,978	2,477,319
		2,921,326	2,590,898	2,716,168	2,482,885
Total liabilities and Islamic fund		35,895,849	35,239,191	39,142,055	38,623,470

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42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

Statements of comprehensive income for the year ended 31 December 2016

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income derived from investment of general investment deposits and Islamic capital funds	(f)	2,630,086	2,395,635	2,526,580	2,318,043
Income attributable to depositors		(1,001,417)	(902,984)	(1,001,417)	(902,984)
Income attributable to securitisation		(125,748)	(132,260)	(125,748)	(132,260)
Income attributable to sukuk		(370,663)	(271,382)	(370,663)	(271,382)
Net income from financing operations		1,132,258	1,089,009	1,028,752	1,011,417
Other income		36,053	54,358	36,053	54,358
Profit expenses		(462)	(180)	-	-
Other expenses	(g)	(171,489)	(187,827)	(170,903)	(187,242)
Allowance for losses on financing		(557,194)	(583,417)	(557,194)	(583,417)
Profit before taxation and zakat		439,166	371,943	336,708	295,116
Taxation	(i)	(86,381)	(78,620)	(81,068)	(76,522)
Zakat		(981)	(5,599)	(981)	(5,599)
Profit for the year		351,804	287,724	254,659	212,995
Other comprehensive income – AFS revaluation reserve which may be reclassified subsequently to profit or loss		(21,376)	1,566	(21,376)	1,566
Total comprehensive income for the year, net of tax		330,428	289,290	233,283	214,561

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

Statements of changes in equity for the year ended 31 December 2016

	Islamic fund RM'000	Retained profits RM'000	AFS reserve RM'000	Total RM'000
Group				
At 1 January 2015	4,000	2,297,608	-	2,301,608
Profit for the year	-	287,724	-	287,724
Other comprehensive income for the year	-	-	1,566	1,566
At 31 December 2015	4,000	2,585,332	1,566	2,590,898
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
Company				
At 1 January 2015	4,000	2,264,324	-	2,268,324
Profit for the year	-	212,995	-	212,995
Other comprehensive income for the year	-	-	1,566	1,566
At 31 December 2015	4,000	2,477,319	1,566	2,482,885
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

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42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

Statements of cash flows for the year ended 31 December 2016

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities				
Profit before taxation and zakat	439,166	371,943	336,708	295,116
Adjustments for:				
Profit income adjustments on:				
– Financing	15,614	90,233	15,614	90,233
– Sukuk Commodity Murabahah	–	–	(133,108)	(113,155)
– Sukuk – MBSB SC Murabahah	(1,277)	(13,651)	(1,277)	(13,651)
– Profit payable on Financial Investment AFS	(20,186)	(8,884)	(20,186)	(8,884)
– Profit on subsidiaries	–	–	15,816	–
Allowance for impairment losses on financing	557,194	583,417	557,194	583,417
Operating profit before working capital changes	990,511	1,023,058	770,761	833,076
Increase in deposits with financial institutions	(358,927)	(321,260)	(149,457)	7,841
Increase in financing	(1,527,592)	(1,863,251)	(1,527,592)	(1,863,251)
Decrease in other receivables	410,305	246,403	409,164	233,325
Increase in Sukuk Commodity Murabahah	–	–	348,716	(2,306,031)
Investment in financial instrument available-for-sale	(1,382,587)	(972,905)	(1,382,587)	(972,905)
Increase/(decrease) in deposits from customers	1,657,977	1,437,698	1,657,977	1,437,698
Increase in bank borrowings	(350,208)	149,909	(350,208)	149,909
Decrease in other borrowings	(50,181)	(100,363)	(50,181)	(100,363)
Amount due to SPV	–	–	(301,230)	2,192,084
Amount due from subsidiary	–	–	(6,140)	(2,947)
Financing to subsidiaries	–	–	(296,319)	–
Increase/(decrease) in other payables	(530,575)	537,264	(270,078)	537,358
Increase in Sukuk – MBSB SC Murabahah	(210,871)	1,691,482	(210,871)	1,691,482
(Decrease)/increase in recourse obligation on financing sold	(48,197)	(43,675)	(48,197)	(43,675)
Cash generated from operations	(1,400,345)	1,784,360	(1,406,242)	1,793,601
Taxation paid	(223,781)	(201,552)	(218,663)	(201,552)
Zakat paid	(4,017)	(3,475)	(4,017)	(3,475)
Net cash generated from operating activities	(1,628,143)	1,579,333	(1,628,922)	1,588,574
Net increase in cash and cash equivalents	(1,628,143)	1,579,333	(1,628,922)	1,588,574
Cash and cash equivalents at beginning of financial year	6,026,443	4,447,110	6,023,275	4,434,701
Cash and cash equivalents at end of financial year	4,398,300	6,026,443	4,394,353	6,023,275

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(a) Cash and short-term funds and deposits and placements with financial institutions

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash and short-term funds: Cash at banks	1,191,496	1,255,382	1,187,549	1,252,214
Deposits and placements with financial institutions with maturity less than one month	3,206,804	4,771,061	3,206,804	4,771,061
	4,398,300	6,026,443	4,394,353	6,023,275
Deposits and placements with financial institutions with maturity of more than one month	763,329	404,402	149,457	–
	5,161,629	6,430,845	4,543,810	6,023,275

The weighted average effective yield rates of deposits with financial institutions at the reporting date was 3.40% (2015: 4.51%).

(b) Financing

	Group and Company	
	2016 RM'000	2015 RM'000
(i) By type:		
Term financing		
Corporate financing	9,625,862	6,933,062
Property financing	5,936,416	5,182,894
Personal financing	35,398,821	37,283,850
Auto financing	359,625	277,847
Staff financing	19,960	19,528
Less: Unearned income	(21,362,958)	(21,221,960)
	29,977,726	28,475,221
Allowance for impaired financing:		
– Collective allowance	(1,870,623)	(1,323,066)
– Individual allowance	(165)	–
Net financing	28,106,938	27,152,155

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(b) Financing (cont'd.)

	Group and Company	
	2016 RM'000	2015 RM'000
(ii) By contract:		
Bai Bithaman Ajil (deferred payment sale)	2,080,179	1,884,525
Bai Al-Inah (cost-plus)	13,640,302	14,055,842
Tawarruq	9,513,046	9,357,064
Contract financing	4,744,199	3,177,790
	29,977,726	28,475,221
(iii) Impaired financing:		
Balance as at 1 January	1,426,173	1,158,286
Classified as impaired during the year	1,428,996	1,222,724
Reclassified as non-impaired during the year	(1,183,101)	(954,837)
Amount recovered	(14,073)	–
Balance as at 31 December	1,657,995	1,426,173
Collective allowance	(1,139,713)	(952,458)
Individual allowance	(165)	–
Allowance for impairment	(1,139,878)	(952,458)
Net impaired financing	518,117	473,715
Net impaired financing as a percentage of net financing	1.8%	1.7%
(iv) Movements in allowance for impairment are as follows:		
Collective impairment		
Balance as at 1 January	1,323,066	743,719
Impairment during the year	547,557	578,858
Reclassification*	–	489
Balance as at 31 December	1,870,623	1,323,066
Individual Impairment		
Balance as at 1 January	–	–
Impairment during the year	165	–
Balance as at 31 December	165	–

* Reclassification of collective allowance (out of)/into the Islamic fund.

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(c) Other receivables

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deferred expenses due to issuance of Sukuk Commodity Murabahah	169	169	–	–
Deferred expenses due to issuance of Sukuk – MBSB SC Murabahah	2,995	3,257	2,995	3,257
Deferred tax asset	–	319,779	–	317,536
Others	259,368	349,632	255,023	346,389
	262,532	672,837	258,018	667,182

(d) Deposits from customers

	Group and Company	
	2016 RM'000	2015 RM'000
(i) By type of deposit:		
Al-Wadiah savings account	51,895	36,634
Mudharabah Fund	24,097,866	22,455,150
	24,149,761	22,491,784
(ii) By type of customer:		
Business enterprises	23,545,255	22,024,227
Individuals	604,506	467,557
	24,149,761	22,491,784
(iii) By maturity of deposits from customers:		
Within one year	23,205,596	20,749,239
More than one year	944,165	1,742,545
	24,149,761	22,491,784

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(e) Other payables

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interbranch balances	2,295,658	2,932,930	2,295,658	2,932,930
Al-Mudharabah security deposits	109,058	101,947	109,058	101,947
Disbursement payable	86,073	82,496	86,073	82,496
Proportionate operating expenses	803,021	666,348	803,021	666,348
Deferred income	9,153	41,210	9,153	41,210
Others	1,034,355	1,040,856	1,292,417	1,040,528
	4,337,318	4,865,787	4,595,380	4,865,459

(f) Income derived from investment of general investment deposits and Islamic capital funds

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Financing	2,122,741	2,021,890	2,122,741	2,021,890
Profit income from Sukuk Commodity Murabahah	236,113	181,747	133,108	113,127
Financial investment AFS	69,381	7,322	69,381	7,322
Deposits with financial institutions	197,605	184,676	174,862	175,704
Profit on subsidiaries	4,246	–	26,488	–
	2,630,086	2,395,635	2,526,580	2,318,043

(g) Other expenses

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel expenses (Note 42(h))	83,493	87,343	83,493	87,343
Promotion and marketing related expenses	7,453	8,284	7,453	8,284
General administrative expenses	80,543	92,200	79,957	91,615
	171,489	187,827	170,903	187,242

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(h) Personnel expenses

	Group and Company	
	2016 RM'000	2015 RM'000
Wages and salaries	72,472	76,290
Social security costs	555	505
Pension costs – Employees Provident Fund	10,466	10,548
	83,493	87,343

(i) Taxation

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Malaysian income tax:				
Current income tax	86,381	220,761	81,068	218,663
Over provision in prior years	317,536	(10,535)	317,536	(10,535)
	403,917	210,226	398,604	208,128
Deferred tax:				
Over provision in prior years	(317,536)	–	(317,536)	–
Relating to reduction in Malaysian income tax rate	–	7,437	–	7,437
Relating to origination and reversal of temporary differences	–	(139,043)	–	(139,043)
	(317,536)	(131,606)	(317,536)	(131,606)
Total income tax expense for the year	86,381	78,620	81,068	76,522

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

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42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(i) 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before taxation and zakat	439,166	371,943	336,708	295,116
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	86,123	92,986	80,810	73,779
Effect of change in statutory tax rate on deferred tax	–	5,793	–	5,793
Effect on opening deferred tax of reduction in Malaysian income tax rate	–	7,437	–	7,437
Income not subject to tax	–	(16,964)	–	–
Expenses not deductible for tax purposes	258	48	258	48
Under/(over) provision of deferred tax in prior years	317,536	(10,535)	317,536	(10,535)
Over provision of income tax expense in prior years	(317,536)	(145)	(317,536)	–
Tax expense for the year	86,381	78,620	81,068	76,522

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(j) 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 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	5,353,617	–	–	–	–	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	5,353,617	–	–	–	–	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	–	–	–	–	–	4,823,707	4,823,707	
Total liabilities	–	–	–	–	–	32,974,523	32,974,523	
Equity	–	–	–	–	–	2,921,326	2,921,326	
Total liabilities and equity	–	–	–	–	–	35,895,849	35,895,849	
On-balance sheet yield/profit sensitivity gap	5,353,617	–	–	–	–	(5,353,617)	–	
Total yield/profit sensitivity gap	5,353,617	–	–	–	–	(5,353,617)	–	

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2016

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(j) 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	5,353,617	-	-	-	-	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	5,353,617	-	-	-	-	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	5,353,617	-	-	-	-	(5,353,617)	-	
Total yield/profit sensitivity gap	5,353,617	-	-	-	-	(5,353,617)	-	

42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(j) Yield/profit rate risk (cont'd.)

Group 2015	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	-	-	-	-	-	6,026,443	6,026,443	
Deposits and placements with financial institutions	-	-	-	-	-	404,402	404,402	
Financing:								
– non-impaired	4,041,164	-	-	-	-	22,637,276	26,678,440	7.38
– impaired	-	-	-	-	-	473,715	473,715	
Other receivables	-	-	-	-	-	672,837	672,837	
Financial investments available-for-sale	-	-	-	-	-	983,354	983,354	
Total assets	4,041,164	-	-	-	-	31,198,027	35,239,191	
Liabilities								
Deposits from customers	-	-	-	-	-	22,491,784	22,491,784	
Recourse obligation on financing sold	-	-	-	-	-	1,433,445	1,433,445	
Sukuk – MBSB SC Murabahah	-	-	-	-	-	2,827,955	2,827,955	
Other liabilities	-	-	-	-	-	5,895,109	5,895,109	
Total liabilities	-	-	-	-	-	32,648,293	32,648,293	
Equity	-	-	-	-	-	2,590,898	2,590,898	
Total liabilities and equity	-	-	-	-	-	35,239,191	35,239,191	
On-balance sheet yield/ profit sensitivity gap	4,041,164	-	-	-	-	(4,041,164)	-	
Total yield/profit sensitivity gap	4,041,164	-	-	-	-	(4,041,164)	-	

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42. THE OPERATIONS OF ISLAMIC BUSINESS (CONT'D.)

(j) Yield/profit rate risk (cont'd.)

Company 2015	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	-	-	-	-	-	6,023,275	6,023,275	
Financing:								
– non-impaired	4,041,164	-	-	-	-	22,637,276	26,678,440	7.38
– impaired	-	-	-	-	-	473,715	473,715	
Sukuk Commodity								
– Murabahah	-	-	-	-	-	3,792,751	3,792,751	
Other receivables	-	-	-	-	-	671,935	671,935	
Financial investments available-for-sale	-	-	-	-	-	983,354	983,354	
Total assets	4,041,164	-	-	-	-	34,582,306	38,623,470	
Liabilities								
Deposits from customers	-	-	-	-	-	22,491,784	22,491,784	
Recourse obligation on financing sold	-	-	-	-	-	1,433,445	1,433,445	
Sukuk – MBSB SC Murabahah	-	-	-	-	-	2,827,955	2,827,955	
Amount due to SPV	-	-	-	-	-	3,494,863	3,494,863	
Other liabilities	-	-	-	-	-	5,892,538	5,892,538	
Total liabilities	-	-	-	-	-	36,140,585	36,140,585	
Equity	-	-	-	-	-	2,482,885	2,482,885	
Total liabilities and equity	-	-	-	-	-	38,623,470	38,623,470	
On-balance sheet yield/ profit sensitivity gap	4,041,164	-	-	-	-	(4,041,164)	-	
Total yield/profit sensitivity gap	4,041,164	-	-	-	-	(4,041,164)	-	

43. SIGNIFICANT EVENTS

The shareholders of the Company approved the Proposed Rights Issue at the Extraordinary General Meeting held on 5 May 2016. The Prospectus for the Rights Issue was issued on 24 June 2016. The Rights Issue was completed on 29 July 2016 upon the listing of and quotation for 2,899,387,079 Rights shares on Bursa Securities. Based on the first cash call of RM0.59 per share, the gross proceeds raised was approximately RM1.71 billion. The amount of share premium capitalised from the second call of RM0.41 per share was approximately RM1.19 billion.

The Rights Issue is in line with the Company's strategy to strengthen its core capital. Pursuant to the Rights Issue, the Company will also be able to capitalised on its stronger capital base to grow and expand its business.

The Companies Act 2016 ("New Act") was enacted to replace the Companies Act 1965 in Malaysia and The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Group and of the Company upon the commencement of the New Act on 31 January 2017 are:

- Removal of the authorised share capital;
- Shares of the Company will cease to have par or nominal value; and
- The Company's share premium and capital redemption reserves will become part of the share capital.

The adoption of the New Act is not expected to have any financial impact on the Group and of the Company for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual report and financial statements of the Group and of the Company for the financial year ending 31 December 2017.

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44. SUPPLEMENTARY INFORMATION – REALISED AND UNREALISED PROFITS AND LOSSES

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Malaysia”) issued a directive to all issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits and losses. On 20 December 2010, Bursa Malaysia issued further guidance on the disclosure and format required.

The breakdown of accumulated losses of the Group and the Company as at the reporting date, into realised and unrealised losses, pursuant to the directive, is as follows:

	Group	
	2016 RM'000	2015 RM'000
Total retained earnings/(accumulated losses) of the Group:		
– Realised	901,795	306,918
– Unrealised	30,652	508,937
	932,447	815,855
Add: Consolidation adjustments	(226,579)	(226,579)
Group retained earnings	705,868	589,276

	Company	
	2016 RM'000	2015 RM'000
Total retained earnings/(accumulated losses) of the Company:		
– Realised	519,664	34,006
– Unrealised	18,826	496,664
Company retained earnings	538,490	530,670

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

ANALYSIS OF SHAREHOLDINGS

As at 17 March 2017

Total number of Issued Shares : 5,798,774,158 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	617	2.338	17,853	0.000
100 – 1,000	4,342	16.453	3,840,460	0.066
1,001 – 10,000	12,124	45.943	62,702,700	1.081
10,001 – 100,000	7,840	29.709	252,678,394	4.357
100,001 – 289,938,706	1,465	5.551	1,694,203,553	29.216
289,938,707 and Above	1	0.003	3,785,331,198	65.278
TOTAL	26,389	100.000	5,798,774,158	100.000

DIRECTORS' DIRECT AND INDIRECT INTERESTS IN SHARES IN THE COMPANY

Name	Direct Interest		Indirect Interest		Total Shareholdings	
	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	232,600	0.004	–	–	232,606	0.004

Note:

Tan Sri Abdul Halim bin Ali, by virtue of his total direct interests of 232,600 shares in MBSB, is deemed interested in the shares in all MBSB's subsidiaries to the extent that MBSB has interest.

PRESIDENT AND CHIEF EXECUTIVE OFFICERS' DIRECT AND INDIRECT INTEREST IN SHARES IN THE COMPANY

Name	Direct Interest		Indirect Interest		Total Shareholdings	
	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	497,248	0.0086	–	–	497,248	0.0086

Note:

Datuk Seri Ahmad Zaini bin Othman, by virtue of his total direct interest of 497,248 shares in MBSB, is deemed interested in the shares in all MBSB's subsidiaries to the extent that MBSB has interest.

SUBSTANTIAL SHAREHOLDERS

	No. of Shares Held	% of Issued Shares
Employees Provident Fund Board	3,785,331,198	65.278
Tan Sri Dato' Chua Ma Yu	519,863,650	8.97

Notes:

- (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 Accounts for CMY Incubator Sdn Bhd, CMY Equity Sdn Bhd and CMY Capital Markets Sdn Bhd.

ANALYSIS OF SHAREHOLDINGS

As at 17 March 2017

THIRTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	% of Shares
1.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	3,785,331,198	65.278
2.	CIMSEC NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR CIMB SECURITIES (SINGAPORE) PTE LTD (RETAIL CLIENTS)	183,480,900	3.164
3.	MAYBANK SECURITIES NOMINEES (ASING) SDN BHD MAYBANK KIM ENG SECURITIES PTE LTD FOR CMY GLOBAL LTD	130,452,400	2.249
4.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HAWANG KIM LIAN	106,578,000	1.837
5.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY INCUBATOR SDN BHD	91,566,350	1.579
6.	PERMODALAN NASIONAL BERHAD	86,356,052	1.489
7.	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD YAYASAN HASANAH (AUR-VCAM)	73,071,600	1.260
8.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEAN SIEW SEE	51,058,350	0.880
9.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY EQUITY SDN BHD	45,500,000	0.784
10.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUA MA YU	35,000,000	0.603
11.	MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CMY CAPITAL MARKETS SDN BHD	34,000,000	0.586
12.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (VCAM EQUITY FD)	27,508,360	0.474
13.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR OCBC SECURITIES PRIVATE LIMITED (CLIENT A/C-R ES)	26,570,808	0.458
14.	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	26,476,400	0.456
15.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A)	22,286,654	0.384
16.	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	15,550,118	0.268
17.	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	14,830,906	0.255
18.	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FONG SILING (CEB)	13,300,000	0.229
19.	AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR CHUNG CHEE YANG (CHU0328C)	12,939,362	0.223
20.	HONG LEONG ASSURANCE BERHAD AS BENEFICIAL OWNER (LIFE PAR)	12,561,293	0.216
21.	B-OK SDN BHD	12,200,000	0.210
22.	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAIN LEW LOI	11,277,500	0.194
23.	CIMB COMMERCE TRUSTEE BERHAD PUBLIC FOCUS SELECT FUND	10,300,000	0.177
24.	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 9)	9,592,869	0.165
25.	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	8,705,162	0.150
26.	HLB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LOW KANG HAI RICHARD (SIN 9131-9)	8,223,540	0.141
27.	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HENG TENG KUANG	7,653,180	0.131
28.	POSEIDON SENDIRIAN BERHAD	6,990,048	0.120
29.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD DEUTSCHE TRUSTEES MALAYSIA BERHAD FOR HONG LEONG PENNY STOCKFUND	6,800,000	0.117
30.	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND ZVY5 FOR STATE STREET EMERGING MARKETS SMALL CAP ACTIVE NON-LENDING QIB COMMON TRUST FUND	6,504,000	0.112
TOTAL		4,882,665,050	84.189

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	17	48,212
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	35,000
5.	No. 48, Jalan Dungun, Damansara Heights, Kuala Lumpur	Freehold	Nil	Nil	1,595.28	Office Building	29	28,535
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	19	18,625
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	1	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	4,643
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 47th ANNUAL GENERAL MEETING (“AGM”) of the Company will be held at **Grand Nexus, Level 3A, Connexion@Nexus, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur** on **Friday, 12 May 2017 at 3.30 p.m.** for the following purposes:

ORDINARY BUSINESS:

- | | |
|--|--|
| 1. To receive the Audited Financial Statements of the Company and of the Group for the financial year ended 31 December 2016 and Reports of the Directors and Auditors thereon. | (Please refer to Explanatory Note 1) |
| 2. To declare a Single-Tier Final Dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2016. | Ordinary Resolution 1 |
| 3. To approve the payment of Directors' Fees amounting to RMI,110,000 for the financial year ended 31 December 2016. | Ordinary Resolution 2 |
| 4. To approve the payment of Directors' Allowances from January 2017 until the next AGM of the Company. | Ordinary Resolution 3 |
| 5. To re-elect the following Directors who retire in accordance with Article 86 of the Company's Articles of Association and who being eligible offer themselves for re-election:-
(i) Encik Lim Tian Huat
(ii) Tan Sri Abdul Halim bin Ali | Ordinary Resolution 4
Ordinary Resolution 5 |
| 6. To re-elect the following Directors who retire in accordance with Article 78 of the Company's Articles of Association and who being eligible offer themselves for re-election:-
(i) Encik Sazaliza bin Zainuddin
(ii) Datuk Johar bin Che Mat
(iii) Puan Lynette Yeow Su-Yin | Ordinary Resolution 6
Ordinary Resolution 7
Ordinary Resolution 8 |
| 7. To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. | Ordinary Resolution 9 |

SPECIAL BUSINESS:

To consider and if thought fit, to pass the following resolutions:-

- | | |
|---|-------------------------------|
| 8. Pursuant to Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012 to retain the following director, who has served the Company as board member for a cumulative term of more than nine years, in the capacity as independent director:-

Continuing in Office as Independent Non-Executive Director | Ordinary Resolution 10 |
| (i) That approval be and is hereby given for Encik Aw Hong Boo to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next AGM. | |

- | | |
|--|-------------------------------|
| 9. Authority to issue and allot shares | Ordinary Resolution 11 |
| “THAT subject always to the Companies Act, 2016 (“the Act”), the Articles of Association 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 issue and allot 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 for 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.” | |

- | | |
|---|-------------------------------|
| 10. 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 12 |
| “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.”

- | | |
|---|-----------------------------|
| 11. Proposed Amendment to the Articles of Association (“Proposed Amendments”) | Special Resolution 1 |
| “THAT approval be and is hereby given for the Articles of Association of the Company to be altered, modified, varied and deleted as set out in Appendix I attached with the Annual Report 2016 and that any Director be and is hereby authorised to give effect to the Proposed Amendments and to take all steps and do all acts and things in any manner as they may deem necessary to complete, finalise, implement and give full effect to the Proposed Amendments.” | |
| 12. 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
20 April 2017

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) 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 2016 are as follows:-

Board members	Total
Tan Sri Abdul Halim bin Ali	170,000
Datuk Syed Zaid bin Syed Jaffar Albar	130,000
Encik Aw Hong Boo	155,000
Dato' Jasmy bin Ismail	130,000
Encik Lim Tian Huat	150,000
Datuk Shahril Ridza bin Ridzuan	135,000*
Cik Ravinder Kaur a/p Mahan Singh	120,000
Ir. Moslim bin Othman	120,000
	1,110,000

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

The proposed Directors' fees is determined based on the Directors' role and contributions. The Chairman and Members of different Board Committees will receive additional fees in recognition at their additional role and responsibilities.

3. Item 4 of the Agenda

The details of the Directors' Allowances are as follows:-

Board 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

Note: The meeting allowances will be paid to the Directors after the conclusion of each meeting. If approved by Shareholders, the total payment of Directors' Allowances is estimated at RM2,706,000 based on the estimated number of 160 meetings for the period from January 2017 to June 2018.

4. Item 8 of the Agenda

The Nominating & Remuneration Committee has assessed the independence of Encik Aw Hong Boo, who served as an Independent Non-Executive Director of the Company for a

cumulative term of more than nine years, and recommended him to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next AGM, based on the following justifications:-

- He has fulfilled the criteria under definition of Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and therefore would be able to function as a check and balance and bring an element of objectivity to the Board of Directors;
- He has vast experience in accounting and finance fields and was able to provide constructive and independent judgement for the benefits of the business;
- He constantly challenges the Management in an effective and constructive manner; and
- He actively participated in board discussions and provided an independent voice on the Board.

5. Item 9 of the Agenda

The proposed Ordinary Resolution 11, if passed, will give powers to the Directors to 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.

6. Item 10 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 12, 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.

7. Item 11 of the Agenda

The proposed amendment to Article 77 of the Company's Articles of Association is to enable the Company to increase the number of Directors up to 12 and to allow the Company to have Board and Board Committees of a size that promote effective deliberation.

The proposed amendment to Article 65 of the Company's Articles of Association to update the Articles of Association of the Company to be consistent with the prevailing laws, guidelines and requirements of the relevant authorities.

Notes:-

- 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 Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 4 May 2017. Only a depositor whose name appears on the Record of Depositors as at 4 May 2017 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.
- 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 twenty-four (24) 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

- Directors who are standing for re-election at the 47th AGM of the Company to be held at Grand Nexus, Level 3A, Connexion@Nexus, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur on Friday, 12 May 2017 at 3.30 p.m. are as follows:-
 - Encik Lim Tian Huat
 - Tan Sri Abdul Halim bin Ali
 - Encik Szalizi bin Zainuddin
 - Datuk Johar bin Che Mat
 - Puan Lynette Yeow Su-Yin
- The details of the above Directors who are standing for re-election at the 47th AGM are disclosed under the Directors' Profile on pages 20 to 29 of this Annual Report.

APPENDIX I

Proposed amendments to the Articles of Association of the Company

The Articles of Association of the Company are proposed to be amended in the following manner:-

Article No.	Existing Articles	Amended Articles
Article 77	Unless otherwise determined by a general meeting the number of Directors shall not be less than two or more than ten . The first Directors of the Company shall be Yap Pheng Geck, Chong Hon Nyan and G.H.N. Horsfield.	Unless otherwise determined by a general meeting the number of Directors shall not be less than two or more than twelve . The first Directors of the Company shall be Yap Pheng Geck, Chong Hon Nyan and G.H.N. Horsfield.
Article 65	At any general meeting (unless a poll is demanded by a person or persons present, holding or representing as proxy more than one-half of the nominal amount of the capital represented at the meeting) a declaration by the Chairman that a resolution has been carried, or carried by a particular majority, or lost or not carried by a particular majority, and an entry to that effect in the book of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution.	At any general meeting (unless a poll is demanded by the Chairman; or by at least three members present in person or by proxy; or by any member present in person or by proxy and representing not less than ten per centum of the total voting rights of all the members having the right to vote at the meeting; or by a member holding shares in the company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than ten per centum of the total paid up shares conferring that right) a declaration by the Chairman that a resolution has been carried, or carried by a particular majority, or lost or not carried by a particular majority, and an entry to that effect in the book of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution.



PROXY FORM

I/We _____ NRIC/Company 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@Nexus, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur** on **Friday, 12 May 2017** at **3.30 p.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 3.0 sen per ordinary share for the financial year ended 31 December 2016. Ordinary Resolution 1		
2.	To approve the payment of Directors' Fees amounting to RM1,110,000 for the financial year ended 31 December 2016. Ordinary Resolution 2		
3.	To approve the payment of Directors' Allowances from January 2017 until the next Annual General Meeting of the Company. Ordinary Resolution 3		
4.	To re-elect Encik Lim Tian Huat who retire in accordance with Article 86 of the Company's Articles of Association and who being eligible offer himself for re-election. Ordinary Resolution 4		
5.	To re-elect Tan Sri Abdul Halim bin Ali who retire in accordance with Article 86 of the Company's Articles of Association and who being eligible offer himself for re-election. Ordinary Resolution 5		
6.	To re-elect Encik Szalaza bin Zainuddin who retire in accordance with Article 78 of the Company's Articles of Association and who being eligible offer himself for re-election. Ordinary Resolution 6		
7.	To re-elect Datuk Johar bin Che Mat who retire in accordance with Article 78 of the Company's Articles of Association and who being eligible offer himself for re-election. Ordinary Resolution 7		
8.	To re-elect Puan Lynette Yeow Su-Yin who retire in accordance with Article 78 of the Company's Articles of Association and who being eligible offer herself for re-election. Ordinary Resolution 8		
9.	To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. Ordinary Resolution 9		
Special Business:-			
10.	To approve and allow Encik Aw Hong Boo to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next AGM. Ordinary Resolution 10		
11.	Authority to allot shares. Ordinary Resolution 11		
12.	To allot and issue shares in relation to the Dividend Reinvestment Plan. Ordinary Resolution 12		
13.	To amend the Articles of Association. Special Resolution 1		

CDS Account No. _____

Number of Shares Held _____

Signed _____

Date: _____

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 Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 4 May 2017. Only a depositor whose name appears on the Record of Depositors as at 4 May 2017 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 twenty-four (24) hours before the time for holding the meeting or any adjournment thereof.

PLEASE FOLD HERE

STAMP

The Share Registrar
Tricor Investor & Issuing
House Services Sdn Bhd (11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite
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No. 8, Jalan Kerinchi
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PLEASE FOLD HERE



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